

FREDDIE MAC
FINANCIAL REPORT FOR THE THREE AND NINE MONTHS
ENDED SEPTEMBER 30, 2007

**Information Statement Supplement to the 2006 Information Statement
and Annual Report to Stockholders, dated March 23, 2007**

This Information Statement Supplement contains important financial and other information about Freddie Mac and supplements our Information Statement and Annual Report to Stockholders for the fiscal year ended December 31, 2006, dated March 23, 2007, or 2006 Information Statement. Our 2006 Information Statement is supplemented periodically. All available supplements, including this Information Statement Supplement, should be read together with our 2006 Information Statement. We also provide information about the securities we issue in the offering circular for each securities program and any supplement for each particular offering. You can obtain copies of our 2006 Information Statement, offering circulars, available supplements, financial reports and other similar information by visiting our website (www.freddiemac.com) or by writing or calling us at:

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THIS INFORMATION STATEMENT SUPPLEMENT IS DATED NOVEMBER 20, 2007

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This Information Statement Supplement includes forward-looking statements, which may include expectations and objectives related to our operating results, financial condition, business, capital management, remediation of weaknesses in internal controls, credit losses, market share and trends and other matters. You should not rely unduly on our forward-looking statements. Actual results might differ significantly from those described or implied in such forward-looking statements due to various factors and uncertainties, including those described in (i) "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS," or MD&A, "FORWARD-LOOKING STATEMENTS" and "RISK FACTORS" in this Information Statement Supplement and in the comparably captioned sections of the 2006 Information Statement and (ii) the "BUSINESS" section of the 2006 Information Statement. These forward-looking statements are made as of the date of this Information Statement Supplement and we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date of this Information Statement Supplement, or to reflect the occurrence of unanticipated events.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS
EXECUTIVE SUMMARY**

Freddie Mac is a stockholder-owned company chartered by Congress in 1970 to stabilize the nation's residential mortgage markets and expand opportunities for homeownership and affordable rental housing. Our mission is to provide liquidity, stability and affordability to the U.S. housing market. We fulfill our mission by purchasing single-family and multifamily residential mortgage loans and mortgage-related securities in the secondary mortgage market. We are one of the largest purchasers of mortgage loans in the U.S. We purchase mortgage loans and bundle them into mortgage-related securities that can be sold to investors. We can use the proceeds to purchase additional mortgage loans from primary market mortgage lenders, providing these lenders with a continuous flow of funds. We also purchase mortgage loans and mortgage-related securities for our investments portfolio. We finance our purchases for our investments portfolio and manage associated interest-rate and other market risks primarily by issuing a variety of debt instruments and entering into derivative contracts in the capital markets.

Though we are chartered by Congress, our business is funded completely with private capital. We alone are responsible for making payments on our securities. Neither the U.S. government nor any other agency or instrumentality of the U.S. government is obligated to fund our mortgage purchase or financing activities or to guarantee our securities or other obligations.

Market Overview

The U.S. residential mortgage market continued to weaken during the nine months ended September 30, 2007. The various factors that have resulted in this decline have adversely affected our financial condition and results of operations and we expect that this will continue into 2008.

The national rate of home price appreciation has weakened sharply, with significant variation across regions and metropolitan areas. Forecasts of nationwide home prices indicate a continued overall decline through 2008. Changes in home prices are an important market indicator for us. When home prices decline, the risk of borrower defaults and the severity of credit losses generally increase.

Other trends in the residential mortgage market also reflect the weakening in the housing market. Since early 2006, the volume of new and existing home sales continued to decline and increased inventories of unsold homes have undermined property values. In addition, demand for investor properties and second homes also declined dramatically. Annual total single-family mortgage originations have been declining since 2005 and are forecasted to continue to decline into 2009.

Credit concerns and resulting liquidity issues have also affected the financial markets. Recently, the market for mortgage-related securities has been characterized by high levels of volatility and uncertainty, reduced demand and liquidity, significantly wider credit spreads and a lack of price transparency. Mortgage-related securities, particularly those backed by non-traditional mortgage products, have been subject to various rating agency downgrades and impairments.

The credit performance of subprime and Alt-A loans, as well as other non-traditional mortgage products, deteriorated sharply during 2007. See "QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK — Credit Risks — *Mortgage Credit Risk*" for additional information regarding mortgage-related securities backed by subprime and Alt-A loans. Concerns about the potential for higher delinquency rates and more severe credit losses have resulted in increases in mortgage rates in the non-conforming and subprime portions of the market. Many lenders have tightened credit standards in the second half of 2007 or elected to stop originating certain

types of mortgages. This has adversely affected many borrowers seeking alternative financing to refinance out of adjustable-rate mortgages, or ARMs, resetting to higher rates.

Our Business

We generate income primarily through investment activities and credit guarantee activities. To achieve our objective for long-term growth of the fair value of our net assets, we focus on three long-term business drivers: the profitability of new investment and guarantee business, growth in our investment and credit guarantee portfolios and market share. Purchases of mortgage loans benefiting low- and moderate-income families and neighborhoods are also an integral part of our mission and business. We are committed to fulfilling the needs of these borrowers and markets. Our requirements and responsibilities are outlined under the Federal Home Loan Mortgage Corporation Act, which we refer to as our charter. Affordable housing goals and subgoals are set for us by the U.S. Department of Housing and Urban Development, or HUD. At times, we make trade-offs in our long-term business drivers to fulfill our responsibilities under our charter, meet the affordable housing goals and subgoals set for us by HUD and maintain adequate capital.

Investment Activities

Through our investment activities, we seek to maximize long-term growth in the fair value of our net assets while maintaining a disciplined approach to interest-rate risk and capital management. We seek to accomplish this objective primarily by opportunistically purchasing and, to a lesser extent, selling mortgage assets to improve investment returns. We estimate our expected investment returns using a mortgage-to-debt option-adjusted spread, or OAS, approach. We make investment decisions primarily based on these expected returns and our market expertise.

In response to a request by the Office of Federal Housing Enterprise Oversight, or OFHEO, on August 1, 2006, we announced that we would voluntarily and temporarily limit the growth of our retained portfolio to 2.0% annually. On September 19, 2007, OFHEO provided an interpretation regarding the methodology for calculating the voluntary temporary growth limit. This interpretation changed the methodology for measuring the growth limit of our retained portfolio, as calculated in conformity with U.S. generally accepted accounting principles, or GAAP, to the portfolio's unpaid principal balance, as adjusted in accordance with OFHEO's interpretation. Quarterly compliance with the growth limit is determined based on an average of month-end retained portfolio unpaid principal balances beginning July 2007 compared to the applicable quarterly growth limit. The average unpaid principal balance of the retained portfolio for the three months ended September 30, 2007 was \$11.5 billion below our voluntary temporary growth limit of \$735 billion.

At September 30, 2007, the unpaid principal balance of our retained portfolio was \$713 billion, which represents a 1.7% increase on an annualized basis for the nine months ended September 30, 2007. Continued lower demand for mortgage-related securities from depository institutions and foreign investors, along with heightened market uncertainty regarding mortgage-related securities, resulted in wider mortgage-to-debt OAS. During the third quarter of 2007, we reduced the balance of our cash and investments portfolio by \$30 billion, which helped us manage our capital and invest in mortgage-related securities with wider OAS. While market conditions provided favorable investment opportunities during the three months ended September 30, 2007, by the end of September 2007, we did not take full advantage of these opportunities given our capital position. During September 2007, we sold approximately \$20 billion in unpaid principal balance of our Mortgage Participation Certificates, or PCs, and Structured Securities, resulting in a lower capital requirement, in order to manage to the 30% mandatory target capital surplus. These sales generated net gains of approximately \$290 million that are included in gains (losses) on investment activity.

At October 31, 2007, the unpaid principal balance of our retained portfolio was approximately \$703 billion, relatively unchanged from the unpaid principal balance as of December 31, 2006. During the month of October 2007, in order to manage to the 30% mandatory target capital surplus, we sold retained portfolio assets of approximately \$25 billion in unpaid principal balance primarily consisting of our PCs and Structured Securities, resulting in a lower capital requirement. These sales generated net gains of approximately \$210 million. During the remainder of 2007, the unpaid principal balance of our retained portfolio may continue to decline given our need to manage to the 30% mandatory target capital surplus and the volatility in the market environment.

We fund our investment activities, including the purchase of mortgage-related securities into the retained portfolio, primarily by issuing short-term and long-term debt. During the nine months ended September 30, 2007, demand for our debt securities remained strong, allowing us to maintain an average cost of funds below the London Interbank Offered Rate, or LIBOR.

We use derivatives primarily to: (a) regularly adjust or rebalance our funding mix in order to more closely match changes in the interest-rate characteristics of our mortgage-related assets; (b) hedge forecasted issuances of debt and synthetically create callable and non-callable funding; and (c) hedge foreign currency exposure. For the nine months

ended September 30, 2007, we experienced increased losses on our derivatives portfolio not in hedge accounting relationships compared to the nine months ended September 30, 2006 due in part to decreases in interest rates during the three months ended September 30, 2007. For the three and nine months ended September 30, 2007, we recognized net foreign currency translation losses primarily related to our foreign currency denominated debt of \$1.2 billion and \$1.7 billion, respectively. These losses offset increases of \$1.2 billion and \$1.7 billion for the three and nine months ended September 30, 2007, respectively, in the fair value of foreign currency-related derivatives, which is recorded in derivative gains (losses).

Derivatives that are not in qualifying hedge accounting relationships generally increase the volatility of GAAP earnings because they are marked to fair value through earnings without the offsetting change in value of the economically hedged exposures also being recognized in earnings.

Credit Guarantee Activities

We seek to grow our credit guarantee portfolio by issuing guarantees that we believe offer attractive long-term returns relative to anticipated credit costs. During the nine months ended September 30, 2007 and 2006, the annualized growth rates of our credit guarantee portfolio were 17% and 11%, respectively. These rates compare to our forecast of annual growth in total U.S. residential mortgage debt outstanding of approximately 6% in 2007 and growth of approximately 9% in 2006.

Our mortgage purchase volumes are impacted by several factors, including origination volumes, mortgage product and underwriting trends, competition, customer-specific behavior and contract terms. For example, many of our larger customers have contracts that require them to sell or securitize a specified minimum share of their eligible loan originations to us, subject to certain conditions and exclusions. Purchases of mortgage loans from customers under these longer-term contracts, which have fixed pricing schedules for our guarantee fees, are executed over time as loans are delivered to us. We call these transactions “flow” activity and they represent the majority of our purchase volumes. The remainder of our purchases and securitizations of mortgage loans occurs in “bulk” transactions for which purchase prices and guarantee fees are negotiated on an individual transaction basis. Mortgage purchase volumes from individual customers can fluctuate significantly. Despite these fluctuations, we expect our share of the overall mortgage securitization market to increase as mortgage originators have generally tightened their credit standards in the second half of 2007, causing conforming mortgages to be the predominant product in the market.

As a result of competitive pricing pressure on our guarantee fees and our practice of securing long-term fee contracts with major customers, some of our credit guarantees were issued during the nine months ended September 30, 2007 with contractual fee rates that resulted in investment returns below our normal expected return thresholds. See “CONSOLIDATED RESULTS OF OPERATIONS — Non-Interest Expense — *Losses on Certain Credit Guarantees*,” for additional information.

For securitization issuances through bulk purchase channels, we negotiated increases in our contractual fee rates throughout 2007 in response to increases in market pricing of mortgage credit risk. We will continue to pursue increases to our guarantee fees as contracts are renewed.

During the nine months ended September 30, 2007, more than 78% of our guaranteed securitization volume originated from our ten largest customers. Our largest customer, which accounted for more than 10% of our mortgage purchase volume for the nine months ended September 30, 2007, reduced its minimum mortgage volume commitments to us upon renewal of its contract at July 1, 2007. In addition, ABN Amro Mortgage Group, Inc., which accounted for more than 8% of our guaranteed securitization volume for the six months ended June 30, 2007, was acquired and its contract was not renewed when it expired during the third quarter of 2007.

The delinquency rate on our single-family guaranteed PC and Structured Securities portfolio, representing those loans which are 90 days or more past due and excluding loans underlying Structured Transactions, increased to 51 basis points as of September 30, 2007 from 42 basis points as of December 31, 2006. We manage our mortgage credit risk on delinquent loans through the use of credit enhancements and loss mitigation activities. Our single-family loss mitigation strategy emphasizes early intervention for delinquent mortgage loans and provides alternatives to foreclosure. Other single-family loss mitigation activities include providing our single-family servicers with default management tools designed to help them manage non-performing loans more effectively and to assist borrowers in retaining their homes. See “MD&A — RISK MANAGEMENT — Credit Risks — *Mortgage Credit Risk — Loss Mitigation Activities*” in our 2006 Information Statement for more information regarding our loss mitigation activities. Although we believe that our delinquency rates remain low relative to conforming loan delinquency rates of other industry participants, we expect our delinquency rates will continue to rise over the remainder of 2007 and into 2008.

The impact of the weakening housing market has been most evident in areas of the country where unemployment rates continue to be high, such as the North Central region. However, the East and West coastal areas of the country have also experienced home price declines during 2007 and, as a result, we experienced increases in delinquency rates and real estate owned, or REO, activity in the Northeast, Southeast and West regions during the three and nine months ended September 30, 2007, compared to similar periods in 2006.

For the nine months ended September 30, 2007, our single-family credit guarantee portfolio continued to experience increases in the rate at which loans transitioned from delinquency to foreclosure. The increase in these delinquency transition rates, compared to our historical experience, has been progressively worse for mortgage loans originated in 2005 through 2007. We believe this trend is, in part, due to the increase of non-traditional mortgage loans, such as interest-only mortgages, as well as an increase in total loan-to-value, or LTV, ratios for mortgage loans originated during these years. In addition, the average size of the unpaid principal balance related to REO properties in our portfolio rose significantly in 2007, especially those REO properties in major metropolitan areas, as well as the East and West coastal regions.

Declines in home prices have contributed to the increase in the weighted average current LTV ratio of our guaranteed PCs and Structured Securities portfolio to 60% at September 30, 2007, as compared to 57% at December 31, 2006. Five percent of loans in our single-family mortgage portfolio had current LTV ratios above 90% at September 30, 2007, compared to 2% at December 31, 2006. However, as home prices increased during 2006 and prior years, many borrowers used second liens at the time of purchase which may reduce the original LTV ratio for the first lien to below 80%, thus avoiding requirements under our charter and underwriting standards for private mortgage insurance or other credit enhancements. Including this secondary financing, we estimate that the percentage of loans underlying our single-family portfolio with total LTV ratios above 90% has risen to approximately 14% at September 30, 2007. In general, higher total LTV ratios indicate that the borrower has less equity in the home at the time of origination and would thus be more susceptible to foreclosure in the event of a financial downturn.

Deteriorating conditions in the mortgage market during the nine months ended September 30, 2007 compared to the same period in 2006 led to an increase in credit risk pricing in the market, which increases our guarantee obligation at the time of issuance. These conditions have negatively impacted the value of our guarantee obligation. We may experience further increases in the value of our guarantee obligation in the remainder of the fourth quarter of 2007 and into 2008 if market conditions continue to deteriorate. For the three and nine months ended September 30, 2007 and 2006, credit-related expenses and other credit losses related to our guarantee were reflected in the following line items within our consolidated income statements.

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
	(in millions)			
Provision for credit losses	\$1,197	\$ 93	\$1,696	\$113
REO operations expense	51	19	81	38
Credit-related expenses	<u>\$1,248</u>	<u>\$112</u>	<u>\$1,777</u>	<u>\$151</u>
Losses (gains) on PC residuals	\$1,136	\$230	\$1,202	\$(59)
Losses on certain credit guarantees	396	103	727	201
Losses on loans purchased	483	30	858	72
Other credit losses related to our guarantee	<u>\$2,015</u>	<u>\$363</u>	<u>\$2,787</u>	<u>\$214</u>

We believe our provision for credit losses and REO operations expense together provide a reasonable measure of the increased exposure to mortgage credit losses for our guarantee activities during each period. As a result of observed credit deterioration, higher foreclosure transition rates and higher losses per property, our provision for credit losses increased to \$1,197 million for the three months ended September 30, 2007 as compared to \$93 million for the three months ended September 30, 2006. Our provision is based on our estimate of incurred credit losses inherent in both our retained mortgage loan and guaranteed PCs and Structured Securities portfolios using recent historical performance, such as the trends in delinquency rates, recent charge-off experience and recoveries from credit enhancements and other loss mitigation. If these conditions do not improve, we may further increase our loan loss reserves in future periods, particularly related to mortgages originated in 2006 and 2007.

Other credit losses related to our guarantee are impacted by market valuations of mortgage credit risk. Market valuations of mortgage-related assets and obligations have declined significantly during the third quarter of 2007 and were primarily reflected in the increase in losses on PC residuals and market-based valuation losses related to our guarantee for the three months ended September 30, 2007 as compared to the three months ended September 30, 2006. We believe the other credit losses related to our credit guarantees generally imply future credit losses higher than we expect to incur.

These credit losses are based on market valuations of our mortgage credit exposure and do not consider credit enhancements, among other things, which may partially offset our losses. Ultimate realization of credit losses will be based on the actual losses, net of recoveries from credit enhancements, we experience on the underlying mortgage loans.

We realize credit losses, equal to REO operations expense plus charge-offs, net, from the point of foreclosure through the time we dispose of the property. For the three months ended September 30, 2007 and 2006, our realized credit losses were 3.0 basis points and 1.6 basis points, respectively, of the average total mortgage portfolio, excluding non-Freddie Mac securities. Realized credit losses for the nine months ended September 30, 2007 and 2006 were 2.2 basis points and 1.4 basis points, respectively. We expect our credit losses to continue to increase in the remainder of 2007 and in 2008, especially if conditions, such as home prices and the rate of home sales, continue to deteriorate.

Summary of Financial Results for the Three and Nine Months Ended September 30, 2007

GAAP Results

For the three months ended September 30, 2007, we reported net income (loss) of \$(2.0) billion, or \$(3.29) per diluted share, compared to \$(715) million, or \$(1.17) per diluted share, for the three months ended September 30, 2006. Increased losses were primarily due to a higher provision for credit losses, losses on our derivative portfolio and other credit-related items. For the nine months ended September 30, 2007, we reported net income (loss) of \$(1.5) billion, or \$(2.70) per diluted share, compared to \$2.7 billion, or \$3.63 per diluted share, for the nine months ended September 30, 2006. Net losses during the nine months ended September 30, 2007 were primarily due to higher credit-related expenses, valuation losses on credit guarantee activities and lower net interest income than for the nine months ended September 30, 2006.

Net interest income was \$987 million for the three months ended September 30, 2007, compared to \$959 million for the three months ended September 30, 2006. Net interest income decreased to \$2.9 billion for the nine months ended September 30, 2007 from \$3.3 billion for the nine months ended September 30, 2006. The decline in net interest income for the nine month period reflected higher replacement costs associated with the funding of our retained portfolio. Our long-term debt interest costs increased because our lower rate debt matured and was replaced with higher rate debt.

Management and guarantee income increased to \$520 million for the three months ended September 30, 2007 from \$427 million for the three months ended September 30, 2006, as the average balance of our outstanding guaranteed securities increased 19% on an annualized basis, and the total management and guarantee fee rate increased to 16.6 basis points from 16.1 basis points. For the nine months ended September 30, 2007, management and guarantee income increased to \$1.5 billion from \$1.2 billion for the nine months ended September 30, 2006 and the total management and guarantee fee rate increased to 16.1 basis points from 16.0 basis points, respectively.

For the three months ended September 30, 2007, other components of non-interest income (loss) totaled \$(2.2) billion compared to \$(1.3) billion for the three months ended September 30, 2006. These amounts include \$(2.7) billion of valuation gains (losses) for the three months ended September 30, 2007, compared to \$(1.5) billion for the three months ended September 30, 2006. These valuation gains (losses) also include derivative gains (losses), gains (losses) on guarantee asset, gains (losses) on PC residuals as well as security impairments. The changes in valuation gains (losses) were primarily attributable to the impact of decreasing long-term interest rates on our derivatives portfolio and the widening of credit spreads resulting in losses on our PC residuals.

For the nine months ended September 30, 2007, other components of non-interest income (loss) totaled \$(2.4) billion compared to \$229 million for the nine months ended September 30, 2006. These amounts include \$(2.9) billion of valuation gains (losses) for the nine months ended September 30, 2007, primarily due to derivatives and PC residuals, compared to \$(239) million for the nine months ended September 30, 2006. The change in valuation gains (losses) was primarily attributable to the impact of decreasing long-term interest rates and the widening of credit spreads.

For the three months ended September 30, 2007 and 2006, credit-related expenses, which consist of the total of provision for credit losses and REO operations expense, were \$1.2 billion and \$112 million, respectively. For the nine months ended September 30, 2007 and 2006, credit-related expenses were \$1.8 billion and \$151 million, respectively. For the three and nine months ended September 30, 2007, our provision for credit losses increased due to continued credit deterioration in our single-family credit guarantee portfolio, primarily due to 2006 and 2007 loan originations, as more loans transitioned from delinquency to foreclosure, delinquency rates increased and the expected severity of losses on a per-property basis increased. The provision for credit losses for the nine months ended September 30, 2006 included the reversal of \$83 million of reserves previously recorded for properties affected by Hurricane Katrina because related

payment and delinquency experience on affected properties was better than expected. The credit deterioration in our guaranteed PC and Structured Security portfolio during 2007 has been largely driven by a decline in house prices, increasing volumes of non-traditional mortgage loans and other declines in regional economic conditions. If these conditions do not improve, we expect credit losses will continue to rise from the current level and we will have further increases in our provision for credit losses in future periods.

Other non-interest expense includes losses on certain credit guarantees and losses on loans purchased, which totaled \$879 million for the three months ended September 30, 2007, compared to \$133 million for the three months ended September 30, 2006. Losses on certain credit guarantees and losses on loans purchased totaled \$1.6 billion for the nine months ended September 30, 2007, compared to \$273 million for the nine months ended September 30, 2006. These increases were primarily due to market-based valuation losses on certain newly-issued guarantees, a decline in the fair values of non-performing loans purchased out of PC pools and an increase in the volume of non-performing loan purchases. See “CONSOLIDATED RESULTS OF OPERATION — Non-Interest Expense — *Losses on Certain Credit Guarantees*,” for additional information.

For the three months ended September 30, 2007 and 2006, we recognized effective tax rates of 40% and 3%, respectively. For the nine months ended September 30, 2007 and 2006, we recognized effective tax rates of 54% and (4)%, respectively. While tax benefits recognized related to our investments in low-income housing tax credit, or LIHTC, partnerships and interest earned on tax-exempt housing-related securities continue to have a favorable impact on our effective tax rate, the nine months ended September 30, 2006 also benefited from the allocation of tax benefits on pre-tax losses incurred in the last three months of 2006 to the first nine months of 2006. See “NOTE 12: INCOME TAXES” to our consolidated financial statements for additional information about how our effective tax rate is determined.

Capital Management

Our primary objective in managing capital is preserving our safety and soundness. We also seek to have sufficient capital to support our business and mission. As appropriate, we make investment decisions based on our capital levels. In September 2007, we reduced the balance of our retained portfolio in order to manage to the 30% mandatory target capital surplus. At September 30, 2007, our estimated regulatory core capital was \$34.6 billion, which is an estimated \$8.5 billion in excess of our regulatory minimum capital requirement and \$0.6 billion in excess of the 30% mandatory target capital surplus.

The sharp decline in the housing market and volatility in financial markets are adversely affecting our capital, including our ability to manage to the 30% mandatory target capital surplus. Factors that could adversely affect the adequacy of our capital in future periods include GAAP net losses; continued declines in home prices; increases in our credit and interest-rate risk profiles; adverse changes in interest-rate or implied volatility; adverse OAS changes; legislative or regulatory actions that increase capital requirements; or changes in accounting practices or standards.

As a result of the impact of these items on our GAAP net income and in order to manage to the 30% mandatory target capital surplus and respond to regulatory concerns, as well as to have the flexibility to effectively manage our business, we are planning on taking several actions. First, we have engaged Goldman, Sachs & Co. and Lehman Brothers as financial advisors to help us consider very near term capital raising alternatives. Second, we are seriously considering reducing our fourth quarter common stock dividend by 50%. If these measures are not sufficient to help us manage to the 30% mandatory target capital surplus, then we may consider additional measures in the future such as limiting growth or reducing the size of our retained portfolio, slowing purchases into our credit guarantee portfolio, issuing additional preferred or convertible preferred stock and issuing common stock. When market conditions improve and we return to sustainable profitability, we will consider increasing the common stock dividend and returning capital to our stockholders through, among other things, calling preferred stock.

Our ability to execute any of these actions or their effectiveness may be limited and we might not be able to manage to the 30% mandatory target capital surplus. If we are not able to manage to the 30% mandatory target capital surplus, OFHEO may, among other things, seek to require us to (a) submit a plan for remediation or (b) take other remedial steps. In addition, OFHEO has discretion to reduce our capital classification by one level if OFHEO determines that we are engaging in conduct OFHEO did not approve that could result in a rapid depletion of core capital or determines that the value of property subject to mortgage loans we hold or guarantee has decreased significantly. See “RISK FACTORS” in this Information Statement Supplement and “REGULATION AND SUPERVISION — Office of Federal Housing Enterprise Oversight — *Capital Standards*” and “NOTE 10: REGULATORY CAPITAL — Classification” to our consolidated financial statements in our 2006 Information Statement for information regarding additional potential actions OFHEO may seek to take against us.

We completed four offerings of non-cumulative, perpetual preferred stock with aggregate proceeds of \$2.6 billion during the nine months ended September 30, 2007. We also redeemed \$0.6 billion of non-cumulative, perpetual preferred stock and repurchased \$1.0 billion (approximately 16.1 million shares) of outstanding common stock.

We paid a quarterly dividend per common share of \$0.50 for each of the first three quarters of 2007.

Fair Value Results

We use estimates of fair value on a routine basis to make decisions about our business activities. Our consolidated fair value measurements are a component of our risk management processes, as we use daily estimates of the changes in fair value to calculate our Portfolio Market Value Sensitivity, or PMVS, and duration gap measures. In addition, we use fair value-derived performance measures to establish corporate objectives and as a factor in determining management compensation.

During the three months ended September 30, 2007, the fair value of net assets attributable to common stockholders, before capital transactions, decreased by \$8.1 billion, compared to a \$0.3 billion increase during the three months ended September 30, 2006.

Our attribution of changes in the fair value of net assets relies on models, assumptions and other measurement techniques that evolve over time. The following attribution of changes in fair value reflects our current estimate of the items presented (on a pre-tax basis) and excludes the effect of returns on capital and administrative expenses.

During the three months ended September 30, 2007, our credit guarantee activities decreased fair value by an estimated \$6.4 billion. This estimate includes an increase in the single-family guarantee obligation of approximately \$7.6 billion, primarily attributable to the market's pricing of mortgage credit, which implies credit losses higher than we expect to ultimately incur. This increase in the single-family guarantee obligation was partially offset by a fair value increase in the single-family guarantee asset of approximately \$0.6 billion and cash receipts primarily related to management and guarantee fees and other up-front fees related to new business.

During the three months ended September 30, 2006, our credit guarantee activities decreased fair value by an estimated \$0.4 billion. This estimate includes a fair value decrease related to the single-family guarantee asset of approximately \$0.5 billion and an increase in the single-family guarantee obligation of approximately \$0.8 billion. These fair value losses were partially offset by cash receipts related primarily to management and guarantee fees and other up-front fees related to new business.

During the three months ended September 30, 2007, our investment activities decreased fair value by approximately \$5.9 billion. This estimate includes declines in fair value of approximately \$8.0 billion attributable to net mortgage-to-debt OAS widening. Of this amount, approximately \$3.5 billion was related to the impact of the net mortgage-to-debt OAS widening on our portfolio of non-agency mortgage-related securities.

During the three months ended September 30, 2006, our investment activities increased fair value by an estimated \$0.5 billion. This increase in fair value was primarily attributable to the core spread earned on our retained portfolio.

The impact of mortgage-to-debt OAS widening during the third quarter of 2007 increases the likelihood that, in future periods, we will be able to recognize core spread income from our investment activities at a higher spread level. We estimate that, in the third quarter of 2007, we recognized core spread income at a net mortgage-to-debt OAS level of approximately 60 to 70 basis points, as compared to approximately 25 to 30 basis points estimated in the third quarter of 2006. As market conditions change, our estimate of expected fair value gains from OAS may also change, leading to significantly different fair value results.

See "CONSOLIDATED FAIR VALUE BALANCE SHEETS ANALYSIS" for additional information regarding attribution of changes in the fair value of net assets for the nine months ended September 30, 2007.

Business Outlook — Fair Value Returns

Due to the significant challenges that exist in the current market, we will not, in the near-term, achieve our objective of long-term returns, before capital transactions, on the average fair value of net assets attributable to common stockholders in the low-to mid-teens. Our long-term objective remains the same, however, given the current level of uncertainty in the residential mortgage credit market, volatility in interest rates and our current capital constraints, we will not achieve our long-term objective until market conditions improve.

Risk Management

Our retained portfolio investment and credit guarantee activities expose us to three broad categories of risk: (a) interest-rate risk and other market risks; (b) credit risks; and (c) operational risks. Risk management is a critical

aspect of our business. We must effectively manage risk to accomplish our mission and generate revenue and long-term value. We continued to make progress on initiatives to improve our financial reporting infrastructure and remediate material weaknesses and other deficiencies in our internal controls. However, we continue to have a significant number of material weaknesses and other internal control deficiencies that have not been fully remediated and considerable challenges remain. See “CONTROLS AND PROCEDURES” for additional information regarding our remediation activities.

Our interest-rate risk remains low. For the three months ended September 30, 2007 and 2006, PMVS-Level, or PMVS-L, and duration gap averaged 1% and zero months, respectively.

See “QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK — Credit Risks” for additional information regarding our credit risk exposures.

Legislative and Regulatory Matters

GSE Oversight Legislation

We face a highly uncertain regulatory environment in light of government-sponsored enterprise, or GSE, regulatory oversight legislation currently under consideration in Congress. We generate a significant portion of our net income through our retained portfolio. Currently, we have in place a voluntary, temporary growth limit on our retained portfolio. The House of Representatives passed GSE regulatory oversight legislation on May 22, 2007. This legislation would give our regulator substantial authority to assess our safety and soundness and to regulate our portfolio investments, including requiring reductions in those investments, consistent with our mission and safe and sound operations. This legislation includes provisions that would increase the regulator’s authority to require us to maintain higher minimum and risk-based capital levels and, for 2007 through 2011, require us to make an annual contribution to an affordable housing fund in an amount equal to 1.2 basis points of the average aggregate unpaid principal balance of our total mortgage portfolio. This legislation also includes provisions that would give our regulator enhanced authority to regulate our business activities, which could constrain our ability to respond quickly to a changing marketplace. See “REGULATION AND SUPERVISION — GSE Regulatory Oversight Legislation” in our 2006 Information Statement for more information regarding this bill. We cannot predict the prospects for the enactment, timing or content of any final legislation. The provisions of this legislation could have a material adverse effect on our ability to fulfill our mission, future earnings, stock price and stockholder returns, rate of growth of fair value of net assets attributable to common stockholders and our ability to recruit and retain qualified officers and directors.

Guidance on Non-traditional Mortgage Product Risks and Subprime Mortgage Lending

OFHEO has directed us to adopt practices consistent with the risk management, underwriting and consumer protection principles of the “Interagency Guidance on Non-traditional Mortgage Product Risks,” or Interagency Guidance, and the “Statement on Subprime Mortgage Lending,” or Subprime Statement, jointly issued by five federal financial institution regulatory agencies, for non-traditional mortgages and subprime short-term hybrid ARMs that we purchase or which back non-agency mortgage-backed securities in which we invest. In response, in July 2007, we informed our customers of new underwriting and disclosure requirements for non-traditional mortgages. Recently, we informed our customers and other counterparties of similar new requirements for subprime short-term hybrid ARMs we purchase and for both subprime short-term hybrid ARMs and non-traditional mortgages backing non-agency mortgage-backed securities in which we invest. These new requirements are also consistent with our announcement in February 2007 that we would implement stricter investment standards for certain subprime ARMs originated after September 1, 2007, and develop new mortgage products providing lenders with more choices to offer subprime borrowers. These changes could reduce the number of non-traditional and subprime mortgages available to us for purchase, potentially affecting our profitability or our ability to achieve our housing goals and subgoals.

Mission and Affordable Housing Goals

Declining market conditions and regulatory changes during 2007 have made meeting our affordable housing goals and subgoals even more challenging than in previous years. The increased difficulty we are experiencing has been driven by a combination of factors, including the decreased affordability of single-family homes that began in 2005; deteriorating conditions in the mortgage credit markets, particularly with respect to greatly reduced origination of subprime mortgages; and increases in the levels of subgoals. These factors make it substantially more difficult for us to meet all of the HUD goals and, especially, the home purchase subgoals for 2007 compared to previous years. We anticipate that these market conditions will continue to affect our affordable housing activities in 2008.

SELECTED FINANCIAL DATA AND OTHER OPERATING MEASURES

	At or for the Nine Months Ended September 30,		At or for the Year Ended December 31,				
	2007	2006	2006	2005	2004	2003	2002
	(dollars in millions, except share-related amounts)						
Income Statement Data							
Net interest income	\$ 2,938	\$ 3,262	\$ 4,235	\$ 5,370	\$ 9,137	\$ 9,498	\$ 9,525
Non-interest income (loss)	(937)	1,458	915	199	(3,039)	(244)	7,154
Net income (loss) before cumulative effect of changes in accounting principles	(1,476)	2,691	2,211	2,189	2,937	4,816	10,090
Cumulative effect of changes in accounting principles, net of taxes	—	—	—	(59)	—	—	—
Net income (loss)	(1,476)	2,691	2,211	2,130	2,937	4,816	10,090
Net income (loss) available to common stockholders	\$ (1,768)	\$ 2,496	\$ 1,936	\$ 1,907	\$ 2,727	\$ 4,600	\$ 9,851
Earnings (loss) per common share before cumulative effect of changes in accounting principles:							
Basic	\$ (2.70)	\$ 3.63	\$ 2.84	\$ 2.84	\$ 3.96	\$ 6.69	\$ 14.22
Diluted	(2.70)	3.63	2.84	2.83	3.94	6.68	14.17
Earnings (loss) per common share after cumulative effect of changes in accounting principles:							
Basic	\$ (2.70)	\$ 3.63	\$ 2.84	\$ 2.76	\$ 3.96	\$ 6.69	\$ 14.22
Diluted	(2.70)	3.63	2.84	2.75	3.94	6.68	14.17
Dividends per common share	\$ 1.50	\$ 1.41	\$ 1.91	\$ 1.52	\$ 1.20	\$ 1.04	\$ 0.88
Weighted average common shares outstanding (in thousands):							
Basic	653,825	686,651	680,856	691,582	689,282	687,094	692,727
Diluted	653,825	688,130	682,664	693,511	691,521	688,675	695,116
Balance Sheet Data							
Total assets	\$ 792,873	\$ 827,197	\$ 813,081	\$ 806,222	\$ 795,284	\$ 803,449	\$ 752,249
Senior debt due within one year	261,127	299,654	294,861	288,532	282,303	295,262	244,429
Senior debt due after one year	468,903	464,367	452,677	454,627	443,772	438,738	415,662
Subordinated debt due after one year	5,232	5,886	6,400	5,633	5,622	5,613	5,605
Miscellaneous liabilities ⁽¹⁾	31,510	27,640	30,326	29,290	30,662	30,420	52,914
Minority interests in consolidated subsidiaries	281	621	516	949	1,509	1,929	2,309
Stockholders' equity	25,820	29,031	28,301	27,191	31,416	31,487	31,330
Portfolio Balances⁽²⁾							
Retained portfolio (unpaid principal balances) ⁽³⁾	\$ 713,164	\$ 702,778	\$ 703,959	\$ 710,346	\$ 653,261	\$ 645,767	\$ 567,366
Total guaranteed PCs and Structured Securities issued (unpaid principal balances) ⁽⁴⁾	1,664,776	1,441,254	1,477,023	1,335,524	1,208,968	1,162,068	1,090,624
Total mortgage portfolio (unpaid principal balances)	2,021,935	1,786,754	1,826,720	1,684,546	1,505,531	1,414,700	1,316,703
Ratios							
Return on average assets ⁽⁵⁾	(0.2)%	0.4%	0.3%	0.3%	0.4%	0.6%	1.4%
Return on common equity ⁽⁶⁾	(11.8)	14.5	8.6	7.7	10.2	17.2	47.2
Return on total equity ⁽⁷⁾	(7.3)	12.8	8.0	7.3	9.3	15.3	39.6
Dividend payout ratio on common stock ⁽⁸⁾	N/A	39.1	67.7	56.4	30.7	15.6	6.2
Equity to assets ratio ⁽⁹⁾	3.4	3.4	3.4	3.7	3.9	4.0	3.7
Preferred stock to core capital ratio ⁽¹⁰⁾	23.4	15.1	16.9	12.8	13.2	14.0	15.9

- (1) Includes: (a) Due to PC investors; (b) Accrued interest payable; (c) Guarantee obligation; (d) Derivative liabilities, net at fair value; (e) Reserve for guarantee losses on PCs; and (f) Other liabilities, as presented on our consolidated balance sheets.
- (2) Excludes mortgage loans and mortgage-related securities traded, but not yet settled.
- (3) The retained portfolio presented on our consolidated balance sheets differs from the retained portfolio in this table because the consolidated balance sheet caption includes valuation adjustments and deferred balances. See "CONSOLIDATED BALANCE SHEETS ANALYSIS — Table 10 — Characteristics of Mortgage Loans and Mortgage-Related Securities in the Retained Portfolio" for more information.
- (4) Excludes Structured Securities for which we have resecured PCs and other previously issued Structured Securities. These excluded Structured Securities do not increase our credit-related exposure and consist of single-class Structured Securities backed by PCs, Real Estate Mortgage Investment Conduits, or REMICs, and principal-only strips. The notional balances of interest-only strips are excluded because this line item is based on unpaid principal balance. Also excluded from this line item are modifiable and combinable REMIC tranches and interest and principal classes where the holder has the option to exchange the security tranches for other pre-defined security tranches.
- (5) Year-to-date computations are computed as annualized year-to-date net income (loss) divided by the simple average of the beginning and ending balances of total assets.
- (6) Year-to-date computations are computed as annualized year-to-date net income (loss) available to common stockholders divided by the simple average of the beginning and ending balances of stockholders' equity, net of preferred stock (at redemption value).
- (7) Year-to-date computations are computed as annualized year-to-date net income (loss) divided by the simple average of the beginning and ending balances of stockholders' equity.
- (8) Year-to-date computations are computed as year-to-date common stock dividends declared divided by year-to-date net income available to common stockholders. For the nine months ended September 30, 2007, net income (loss) available to common stockholders was a loss, thus this calculation is not applicable.
- (9) Year-to-date computations are calculated as the simple average of the beginning and ending balances of stockholders' equity divided by the simple average of the beginning and ending balances of total assets.
- (10) Ratio computed as preferred stock, at redemption value divided by core capital. See "NOTE 10: REGULATORY CAPITAL" in our 2006 Information Statement for more information regarding core capital.

CONSOLIDATED RESULTS OF OPERATIONS

The following discussion of our consolidated results of operations should be read in conjunction with our consolidated financial statements including the accompanying notes. Also see “CRITICAL ACCOUNTING POLICIES AND ESTIMATES” for more information concerning our more significant accounting policies and estimates applied in determining our reported financial position and results of operations.

Table 1 — Summary Consolidated Statements of Income

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
	(in millions)			
Net interest income	\$ 987	\$ 959	\$ 2,938	\$ 3,262
Non-interest income (loss):				
Management and guarantee income	520	427	1,454	1,229
Gains (losses) on guarantee asset	(420)	(690)	(91)	(469)
Income on guarantee obligation	231	217	724	629
Derivative gains (losses)	(150)	(783)	(397)	(155)
Gains (losses) on investment activity	(932)	(257)	(1,483)	(403)
Foreign currency gains (losses), net	(1,162)	8	(1,692)	(25)
Other	248	210	548	652
Non-interest income (loss)	(1,665)	(868)	(937)	1,458
Non-interest expense	(2,731)	(827)	(5,183)	(2,125)
Income (loss) before income tax benefit	(3,409)	(736)	(3,182)	2,595
Income tax benefit	1,380	21	1,706	96
Net income (loss)	<u>\$ (2,029)</u>	<u>\$ (715)</u>	<u>\$ (1,476)</u>	<u>\$ 2,691</u>

Net Interest Income

Table 2 presents an analysis of net interest income, including average balances and related yields earned on assets and incurred on liabilities.

Table 2 — Net Interest Income/Yield and Average Balance Analysis

	Three Months Ended September 30,					
	2007			2006		
	Average Balance ⁽¹⁾⁽²⁾	Interest Income (Expense)	Average Rate	Average Balance ⁽¹⁾⁽²⁾	Interest Income (Expense)	Average Rate
	(dollars in millions)					
Interest-earning assets:						
Mortgage loans ⁽³⁾	\$ 71,163	\$ 1,102	6.20%	\$ 64,129	\$ 1,012	6.31%
Mortgage-related securities	654,109	9,170	5.61	649,310	8,782	5.41
Total retained portfolio	725,272	10,272	5.67	713,439	9,794	5.49
Investments ⁽⁴⁾	44,135	592	5.25	60,020	761	4.96
Securities purchased under agreements to resell and Federal funds sold	27,046	367	5.42	37,305	502	5.38
Total interest-earning assets	<u>796,453</u>	<u>11,231</u>	5.63	<u>810,764</u>	<u>11,057</u>	5.45
Interest-bearing liabilities:						
Short-term debt	175,407	(2,292)	(5.12)	171,331	(2,183)	(4.99)
Long-term debt ⁽⁵⁾	588,936	(7,521)	(5.10)	607,538	(7,418)	(4.87)
Total debt securities	764,343	(9,813)	(5.10)	778,869	(9,601)	(4.90)
Due to PC investors	7,401	(98)	(5.31)	7,170	(91)	(5.10)
Total interest-bearing liabilities	771,744	(9,911)	(5.10)	786,039	(9,692)	(4.90)
Expense related to derivatives	—	(333)	(0.17)	—	(406)	(0.21)
Impact of net non-interest-bearing funding	24,709	—	0.16	24,725	—	0.16
Total funding of interest-earning assets	<u>\$796,453</u>	<u>(10,244)</u>	(5.11)	<u>\$810,764</u>	<u>(10,098)</u>	(4.95)
Net interest income/yield		987	0.52		959	0.50
Fully taxable-equivalent adjustments ⁽⁶⁾		98	0.05		105	0.05
Net interest income/yield (fully taxable-equivalent basis)		<u>\$ 1,085</u>	0.57		<u>\$ 1,064</u>	0.55

Nine Months Ended September 30,

	2007			2006		
	Average Balance ⁽¹⁾⁽²⁾	Interest Income (Expense)	Average Rate	Average Balance ⁽¹⁾⁽²⁾	Interest Income (Expense)	Average Rate
	(dollars in millions)					
Interest-earning assets:						
Mortgage loans ⁽³⁾	\$ 68,580	\$ 3,242	6.30%	\$ 63,373	\$ 3,092	6.51%
Mortgage-related securities	648,043	26,893	5.53	652,929	25,905	5.29
Total retained portfolio	716,623	30,135	5.61	716,302	28,997	5.40
Investments ⁽⁴⁾	47,327	1,849	5.15	58,122	2,060	4.67
Securities purchased under agreements to resell and Federal funds sold	26,138	1,048	5.34	28,784	1,096	5.08
Total interest-earning assets	790,088	33,032	5.57	803,208	32,153	5.33
Interest-bearing liabilities:						
Short-term debt	173,083	(6,749)	(5.14)	183,069	(6,439)	(4.64)
Long-term debt ⁽⁵⁾	583,521	(22,028)	(5.03)	587,604	(20,961)	(4.75)
Total debt securities	756,604	(28,777)	(5.05)	770,673	(27,400)	(4.72)
Due to PC investors	8,043	(322)	(5.33)	7,411	(286)	(5.14)
Total interest-bearing liabilities	764,647	(29,099)	(5.06)	778,084	(27,686)	(4.73)
Expense related to derivatives	—	(995)	(0.17)	—	(1,205)	(0.21)
Impact of net non-interest-bearing funding	25,441	—	0.17	25,124	—	0.16
Total funding of interest-earning assets	\$790,088	(30,094)	(5.06)	\$803,208	(28,891)	(4.78)
Net interest income/yield		2,938	0.51		3,262	0.55
Fully taxable-equivalent adjustments ⁽⁶⁾		292	0.05		295	0.05
Net interest income/yield (fully taxable-equivalent basis)		\$ 3,230	0.56		\$ 3,557	0.60

(1) Excludes mortgage loans and mortgage-related securities traded, but not yet settled.

(2) For securities classified as available-for-sale, we calculated average balances based on their unpaid principal balance plus their associated deferred fees and costs (e.g., premiums and discounts), but excluded the effects of mark-to-fair-value changes. For securities in the retained portfolio classified as trading, we calculated average balances excluding the effects of mark-to-fair-value adjustments.

(3) Non-performing loans, where interest income is recognized when collected, are included in average balances.

(4) Consist of cash and cash equivalents and non-mortgage-related securities.

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

(6) The determination of Net interest income/yield (fully taxable-equivalent basis), which reflects fully taxable-equivalent adjustments to interest income, involves the conversion of tax-exempt sources of interest income to the equivalent amounts of interest income that would be necessary to derive the same net return if the investments had been subject to income taxes using our statutory tax rate of 35%.

Net interest income and net interest yield on a fully taxable-equivalent basis increased for the three months ended September 30, 2007, compared to the three months ended September 30, 2006. The increases are attributable to recent purchases acquired at wider OAS levels. In addition, our mortgage-related securities premium amortization expense decreased as a greater percentage of our retained portfolio consisted of securities purchased at a discount. Our closed hedge amortization expense also decreased as certain hedged positions fully amortized. This decrease was partially offset by higher funding costs for our retained portfolio as our long-term debt interest expense increased, reflecting the replacement of maturing debt that we issued at lower interest rates during the past few years to fund our investments in fixed-rate mortgage-related investments.

Net interest income and net interest yield on a fully taxable-equivalent basis decreased for the nine months ended September 30, 2007, compared to the nine months ended September 30, 2006. During the nine months ended September 30, 2007, we experienced higher funding costs for our retained portfolio as our long-term debt interest expense increased, reflecting the replacement of maturing debt that we issued at lower interest rates during the past few years to fund our investments in fixed-rate mortgage-related investments. The decrease in net interest income and net interest yield on a fully taxable-equivalent basis was partially offset by a decrease in our mortgage-related securities premium amortization expense as a greater percentage of our retained portfolio consisted of securities purchased at a discount. In addition, our closed hedge amortization expense declined as certain hedge positions fully amortized.

Effective January 1, 2006, we enhanced our process for forecasting interest rates and estimating prepayments used to amortize discounts, premiums and deferred fees for assets held in our retained portfolio. This change in estimate resulted in a \$93 million pre-tax reduction in net interest income on mortgage-related securities for the nine months ended September 30, 2006.

Non-Interest Income

Management and Guarantee Income

Table 3 provides summary information about management and guarantee income. Management and guarantee income consists of contractual amounts due to us related to our management and guarantee fees as well as amortization of certain pre-2003 deferred fees, including credit and buy-down fees. Other guarantee-related revenue is deferred and recognized over time as a component of income on guarantee obligation.

Table 3 — Management and Guarantee Income⁽¹⁾

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2007		2006		2007		2006	
	Amount	Rate	Amount	Rate	Amount	Rate	Amount	Rate
	(dollars in millions, rates in basis points)							
Contractual management and guarantee fees	\$503	16.0	\$406	15.3	\$1,437	15.9	\$1,186	15.4
Amortization of credit and buy-down fees included in other liabilities ⁽²⁾	17	0.6	21	0.8	17	0.2	43	0.6
Total management and guarantee income	<u>\$520</u>	<u>16.6</u>	<u>\$427</u>	<u>16.1</u>	<u>\$1,454</u>	<u>16.1</u>	<u>\$1,229</u>	<u>16.0</u>
Unamortized balance of credit and buy-down fees included in other liabilities, at period end	<u>\$121</u>		<u>\$151</u>		<u>\$ 121</u>		<u>\$ 151</u>	

(1) Excludes amounts related to PCs we held in our retained portfolio, which are reported in net interest income.

(2) A change in estimate resulted in a net pre-tax increase in the amortization of credit and buy-down fees of \$18 million during the nine months ended September 30, 2006.

The primary drivers affecting management and guarantee income are the average outstanding balance of our PCs and Structured Securities and changes in guarantee fee rates. Contractual management and guarantee fees include adjustments to the contractual rates for buy-ups and buy-downs, whereby the guarantee fee rate is adjusted for up-front cash payments we make (buy-up) or receive (buy-down) at guarantee issuance. Our average rates of management and guarantee income are also affected by the mix of products we issue, competition in market pricing and customer preference for buy-up and buy-down fees.

The majority of our guarantees are issued under customer “flow” channel contracts, which have fixed pricing schedules for our guarantee fees for periods of up to one year. The remainder of our purchase and guarantee securitization of mortgage loans occurs through “bulk” purchasing with guarantee fees negotiated on an individual transaction basis. For securitization issuances through bulk purchase channels, we negotiated increases in our contractual fee rates throughout 2007 in response to increases in market pricing of mortgage credit risk. In addition, we will continue to pursue increases to our flow channel guarantee fees as contracts are renewed.

Management and guarantee income increased for the three and nine months ended September 30, 2007 compared to the three and nine months ended September 30, 2006, primarily reflecting an increase in the average outstanding PCs and Structured Securities balances of 19% and 17%, respectively. The average contractual management and guarantee fee rate increased for the three and nine months ended September 30, 2007, primarily due to an increase in buy-up activity during each period compared to the three and nine months ended September 30, 2006.

Gains (Losses) on Guarantee Asset

Upon issuance of a guarantee of securitized assets to third parties, we record a guarantee asset on our consolidated balance sheets representing the fair value of the guarantee fees we expect to receive over the life of the related PCs or Structured Securities. Subsequent changes in the fair value of the guarantee asset are reported in current period income as gains (losses) on guarantee asset.

The change in fair value of the guarantee asset reflects:

- reductions related to the management and guarantee fees received that are considered a return of our recorded investment in the guarantee asset; and
- changes in the future management and guarantee fees we expect to receive over the life of the related PC or Structured Security.

Table 4 — Attribution of Change — Gains (Losses) on Guarantee Asset

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
	(in millions)			
Management and guarantee fees due	\$(468)	\$(372)	\$(1,335)	\$(1,082)
Portion of management and guarantee fees due related to imputed interest income	115	115	333	347
Return of investment on guarantee asset	(353)	(257)	(1,002)	(735)
Change in fair value of future management and guarantee fees	(67)	(433)	881	226
Change in estimate ⁽¹⁾	—	—	30	40
Gains (losses) on guarantee asset	<u>\$(420)</u>	<u>\$(690)</u>	<u>\$ (91)</u>	<u>\$ (469)</u>

(1) Represents a change in estimate resulting from enhancing our approach for determining the fair value of the guarantee asset.

The fair value of future management and guarantee fees is driven by expected changes in interest rates that affect the estimated life of the mortgages underlying the outstanding PCs and Structured Securities and related discount rates used to determine the net present value of the cash flows. For example, an increase in interest rates extends the life of the

guarantee asset and increases the fair value of future management and guarantee fees. Our valuation methodology for the guarantee asset uses market-based information, including market values of excess servicing, interest-only securities, to determine the fair value of future cash flows associated with the guarantee asset. Fair value gains on the guarantee asset increased for the nine months ended September 30, 2007, compared to the nine months ended September 30, 2006, primarily due to increases in interest rates in the second quarter of 2007, which extended the expected life of the guarantee asset. The decrease in fair value losses on our guarantee asset for the three months ended September 30, 2007, compared to the three months ended September 30, 2006, was due to less significant declines in market valuations of excess servicing, interest-only securities during the three months ended September 30, 2007.

Management and guarantee fees due represents income receipts in the current period related to PCs and Structured Securities held by third parties with an established guarantee asset. A portion of management and guarantee fees due is attributed to imputed interest income on the guarantee asset. Management and guarantee fees due increased for the three and nine months ended September 30, 2007 compared to the three and nine months ended September 30, 2006, respectively. These increases are primarily a result of increases in the average outstanding balance of our PCs and Structured Securities.

Income on Guarantee Obligation

Upon issuance of a guarantee of securitized assets to third parties, we record a guarantee obligation on our consolidated balance sheets representing the fair value of our obligation to perform under the terms of the guarantee. Our guarantee obligation is amortized into income based upon the decline in the unpaid principal balance of the mortgage loans underlying the related PCs and Structured Securities. Our guarantee obligation consists of:

- performance and other related costs, which consist of: estimated default costs, including unrecoverable principal and interest over the expected life of the underlying mortgages; estimated foreclosure-related costs; and estimated administrative and other costs related to our guarantee; and
- deferred guarantee income on newly-issued guarantor swap transactions, which represents the excess of compensation, if any, received on issued guarantees and the fair value of our related guarantee asset, compared to the fair value of our corresponding guarantee obligation. Compensation received includes credit and buy-down fees received at the time of securitization. Credit fees vary with the relative credit quality of the underlying mortgages and buy-down fees vary based on customer compensation payment preferences.

In November 2007, we informed our customers of a change in our schedule for delivery fees payable upon our purchase of a mortgage. Under the new schedule, delivery fees will be based, in part, on certain risk characteristics of the mortgages, and the impact on each customer will depend on the mix of mortgages the customer sells to us.

Table 5 provides information about the components of income on guarantee obligation.

Table 5 — Income on Guarantee Obligation

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
	(dollars in millions)			
Amortization income:				
Performance and other related costs	\$ 157	\$ 148	\$ 489	\$ 424
Deferred guarantee income	74	69	235	205
Total income on guarantee obligation	<u>\$ 231</u>	<u>\$ 217</u>	<u>\$ 724</u>	<u>\$ 629</u>
Ending guarantee obligation	<u>\$9,573</u>	<u>\$6,664</u>	<u>\$9,573</u>	<u>\$6,664</u>
Liquidation rate for outstanding PCs and Structured Securities	13%	17%	15%	16%

Amortization income increased for the three and nine months ended September 30, 2007, compared to the three and nine months ended September 30, 2006. These increases reflect the growth of the guarantee obligation associated with newly-issued guarantees, which have higher associated performance costs than issuances in previous years, as well as higher related average outstanding balances of our PCs and Structured Securities. The impact of higher average balances for the three months ended September 30, 2007 was partially offset by a decrease in liquidation rates on the outstanding guaranteed securities.

Derivative Overview

Table 6 presents the effect of derivatives on our consolidated financial statements, including notional or contractual amounts of our derivatives and our hedge accounting classifications.

Table 6 — Summary of the Effect of Derivatives on Selected Consolidated Financial Statement Captions

Description	Consolidated Balance Sheets					
	September 30, 2007			December 31, 2006		
	Notional or Contractual Amount ⁽¹⁾	Fair Value (Pre-Tax) ⁽²⁾	AOCI (Net of Tax) ⁽³⁾	Notional or Contractual Amount ⁽¹⁾	Fair Value (Pre-Tax) ⁽²⁾	AOCI (Net of Tax) ⁽³⁾
	(in millions)					
Cash flow hedges-open	\$ 1,138	\$ 1	\$ —	\$ 70	\$ —	\$ —
No hedge designation	1,202,291	6,933	—	757,127	7,729	—
Subtotal	1,203,429	6,934	—	757,197	7,729	—
Balance related to closed cash flow hedges	—	—	(4,309)	—	—	(5,033)
Total	<u>\$1,203,429</u>	<u>\$6,934</u>	<u>\$(4,309)</u>	<u>\$757,197</u>	<u>\$7,729</u>	<u>\$(5,033)</u>

Description	Consolidated Statements of Income			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
	Derivative Gains (Losses)	Derivative Gains (Losses)	Derivative Gains (Losses)	Derivative Gains (Losses)
	(in millions)			
No hedge designation	\$(150)	\$(783)	\$(397)	\$(155)

- (1) Notional or contractual amounts are used to calculate the periodic settlement amounts to be received or paid and generally do not represent actual amounts to be exchanged. Notional or contractual amounts are not recorded as assets or liabilities on our consolidated balance sheets.
- (2) The fair values of derivatives (netted by counterparty) are presented as derivative assets, net at fair value and derivative liabilities, net at fair value on our consolidated balance sheets. Fair value does not include accrued interest payable or receivable.
- (3) Derivatives that meet specific criteria may be accounted for as cash flow hedges. Changes in the fair value of the effective portion of open cash flow hedges are recorded in accumulated other comprehensive income (loss), or AOCI, net of taxes. Net deferred gains and losses on closed cash flow hedges (*i.e.*, where the derivative is either terminated or redesignated) are also included in AOCI, net of taxes, until the related forecasted transaction affects earnings or is determined to be probable of not occurring.

As discussed in our 2006 Information Statement, by the end of 2006 we had discontinued nearly all of our cash flow hedge accounting relationships and all of our fair value hedge accounting relationships. At September 30, 2007, the only derivatives in cash flow hedge accounting relationships were certain commitments to forward sell mortgage-related securities. We record changes in the fair value of derivatives not in hedge accounting relationships as derivative gains (losses) on our consolidated statements of income. See “NOTE 10: DERIVATIVES” to our consolidated financial statements for additional information about our derivatives designated as cash flow hedges.

Derivative Gains (Losses)

Table 7 provides a summary of the period-end notional or contractual amounts and the gains and losses related to derivatives that were not accounted for in hedge accounting relationships. Derivative gains (losses) reflect the change in the fair value and the accrual of periodic settlements of all derivatives not in hedge accounting relationships.

Table 7 — Derivatives Not in Hedge Accounting Relationships

	Notional or Contractual Amount		Derivative Gains (Losses)			
			Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006	2007	2006
			(in millions)			
Call swaptions						
Purchased	\$ 262,802	\$178,700	\$ 1,657	\$ 1,376	\$ (64)	\$ (604)
Written	1,000	—	(16)	—	34	—
Put swaptions						
Purchased	18,325	33,225	(70)	(398)	166	46
Written	1,000	—	27	—	(119)	—
Receive-fixed swaps	282,070	179,689	3,183	2,545	(58)	55
Pay-fixed swaps	380,370	200,297	(6,513)	(4,551)	(2,460)	596
Futures	109,848	90,000	105	189	54	(289)
Foreign currency swaps	23,842	774	1,155	(7)	1,685	27
Other ⁽¹⁾	123,034	43,547	210	17	120	(59)
Subtotal	1,202,291	726,232	(262)	(829)	(642)	(228)
Accrual of periodic settlements:						
Receive-fixed swaps ⁽²⁾			(66)	(189)	(161)	(268)
Pay-fixed swaps			182	238	485	347
Foreign currency swaps			(5)	(4)	(82)	(8)
Other			1	1	3	2
Total accrual of periodic settlements			112	46	245	73
Total	<u>\$1,202,291</u>	<u>\$726,232</u>	<u>\$ (150)</u>	<u>\$ (783)</u>	<u>\$ (397)</u>	<u>\$ (155)</u>

(1) Consists of basis swaps, certain option-based contracts (including written options), interest-rate caps, forward purchase and sale commitments, credit derivatives and swap guarantee derivatives not accounted for in hedge accounting relationships.

(2) Includes imputed interest on zero-coupon swaps.

We use receive- and pay-fixed swaps to adjust the interest-rate characteristics of our debt funding in order to more closely match changes in the interest-rate characteristics of our mortgage-related assets. During the three months ended September 30, 2007, fair value losses on our pay-fixed swaps were partially offset by gains on our receive-fixed swaps as swap interest rates decreased. We use swaptions and other option-based derivatives to adjust the characteristics of our debt in response to changes in the expected lives of mortgage-related assets in our retained portfolio. The increased gains on our purchased call swaptions during the three months ended September 30, 2007, compared to the three months ended September 30, 2006, were primarily attributable to decreasing swap interest rates and an increase in implied volatility during the three months ended September 30, 2007 as compared to the three months ended September 30, 2006.

Derivative gains (losses) on foreign currency swaps increased from \$(7) million and \$27 million for the three and nine months ended September 30, 2006, respectively, to \$1.2 billion and \$1.7 billion for the three and nine months ended September 30, 2007, respectively. These gains were largely the result of our voluntary discontinuation of hedge accounting for \$28.6 billion notional amount of foreign currency swaps in December 2006. Also contributing to the increase in derivative gains on foreign currency swaps was the weakening of the U.S. dollar against the Euro. These gains were offset by net foreign currency translation losses, which we report as foreign currency gains (losses), net on our consolidated statements of income, primarily related to our foreign currency denominated debt of \$1.2 billion and \$1.7 billion for the three and nine months ended September 30, 2007, respectively.

While interest rates fluctuated during the first half of 2007, the fair value changes of our receive- and pay-fixed swaps were primarily driven by a decline in interest rates during the third quarter of 2007 that contributed to an overall loss recorded for derivatives during the nine months ended September 30, 2007. During 2006, we also voluntarily discontinued hedge accounting for our receive-fixed swaps which results in any associated change in fair value being reflected in derivative gains (losses). See “NOTE 12: DERIVATIVES” to our consolidated financial statements in our 2006 Information Statement for additional information about our derivatives.

Gains (Losses) on Investment Activity

Table 8 summarizes the components of gains (losses) on investment activity.

Table 8 — Gains (Losses) on Investment Activity

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
	(in millions)			
Gains (losses) on trading securities	\$ 233	\$ 31	\$ 326	\$ (41)
Gains (losses) on PC residuals, at fair value	(1,136)	(230)	(1,202)	59
Gains on sale of mortgage loans ⁽¹⁾	16	36	38	70
Gains (losses) on sale of available-for-sale securities	294	(29)	144	(63)
Security impairments	(314)	(68)	(742)	(419)
Lower-of-cost-or-market adjustments	(25)	3	(47)	(9)
Total gains (losses) on investment activity	<u>\$ (932)</u>	<u>\$ (257)</u>	<u>\$ (1,483)</u>	<u>\$ (403)</u>

(1) Represents mortgage loans sold in connection with securitization transactions.

Gains (Losses) on Trading Securities

For the three months ended September 30, 2007, declines in interest rates resulted in gains recognized on REMIC securities classified as trading, which were purchased during the second and third quarters of 2007. These gains were partially offset by losses recognized on interest-only mortgage-related securities classified as trading. Gains for the three months ended September 30, 2006 reflect the impact of declines in interest rates on non-interest-only mortgage-related securities classified as trading.

A shift in the composition of our trading securities toward interest-only mortgage-related securities, combined with increases in interest rates during the first half of 2007, resulted in gains recognized on these securities. These gains, together with gains resulting from the effect of declining interest rates on REMIC securities classified as trading during the three months ended September 30, 2007, combined to result in \$326 million of gains for the nine months ended September 30, 2007. Losses for the nine months ended September 30, 2006 reflected the impact of increases in interest rates on non-interest-only mortgage-related securities classified as trading.

Gains (Losses) on PC Residuals, at Fair Value

Gains (losses) on PC residuals relate to certain PCs and Structured Securities we hold in our retained portfolio and represent the net fair value of the future cash inflows and outflows related to our guarantee of these securities. The fair value of PC residuals is affected by several factors including: (a) changes in interest rates, which affect the expected lives of the related PCs and Structured Securities; (b) default experience and loss severity trends related to our guarantees; and (c) risk premiums implied by third-party information with respect to fair value.

The significant increases in losses on PC residuals for the three and nine months ended September 30, 2007 were due to higher expected default costs implied by third-party valuations in the 2007 periods as compared to the three and nine months ended September 30, 2006. Losses on PC residuals reflect the increased uncertainty in the mortgage market during 2007, which has negatively impacted market values for mortgage assets and credit guarantees. If deterioration in the mortgage credit market continues, as evidenced by higher default rates and higher risk premiums on mortgage assets, we can expect to experience additional losses on PC residuals in future periods.

Gains (Losses) on Sale of Available-For-Sale Securities

Net gains on the sale of available-for-sale securities increased for the three and nine months ended September 30, 2007, compared to net losses for the three and nine months ended September 30, 2006. During September 2007, we sold approximately \$20 billion of PCs and Structured Securities to manage to the 30% mandatory target capital surplus. These sales generated net gains of approximately \$290 million included in gains (losses) on sale of available-for-sale securities for the three months ended September 30, 2007. For the nine months ended September 30, 2007, these gains were partially offset by losses generated by the sale of securities during the second quarter of 2007.

The losses for the three and nine months ended September 30, 2006 reflect the effect of rising interest rates on our sales activities. These losses were partially offset by net gains of approximately \$14 million and \$188 million for the three and nine months ended September 30, 2006, respectively, related to the sale of certain commercial mortgage-backed securities, or CMBS, that OFHEO had directed us to divest.

Security Impairments

Security impairments on mortgage-related securities increased for the three and nine months ended September 30, 2007, compared to the three and nine months ended September 30, 2006, primarily due to the impact of the deterioration of the credit quality on the value of the underlying mortgage loans and increased interest rates in circumstances where we did not have the intent to hold until the loss would be recovered. During the three months ended September 30, 2007,

security impairments included \$299 million related to the impact of the deterioration of the credit quality on the value of the underlying mortgage loans. During the nine months ended September 30, 2007, security impairments included \$278 million of impairments recognized at June 30, 2007 related to securities that we planned to sell in the third quarter of 2007 and thus did not have the intent to hold for a period of time sufficient to recover all unrealized losses. Our non-agency mortgage-related securities backed by subprime loans contributed \$— million and less than \$1 million to our security impairments during the three months and nine months ended September 30, 2007, respectively.

For the three months ended September 30, 2006, total security impairments included \$48 million related to the impairment of interest-only securities due to decreased interest rates. In addition, for the nine months ended September 30, 2006, total security impairments included \$303 million related to declines in fair value below amortized cost due to increased interest rates and \$61 million related to impairments of certain CMBS.

Foreign Currency Gains (Losses), Net

We actively manage the foreign currency exposure associated with our foreign currency denominated debt through the use of derivatives. For the three months ended September 30, 2007, we recognized net foreign currency translation losses of \$1.2 billion primarily due to the weakening of the U.S. dollar relative to the Euro. These losses offset an increase of \$1.2 billion in the fair value of foreign currency-related derivatives during the period, which is recorded in derivative gains (losses).

For the nine months ended September 30, 2007, we recognized net foreign currency translation losses primarily related to our foreign currency denominated debt of \$1.7 billion. These losses offset an increase of \$1.7 billion in the fair value of foreign currency-related derivatives during the period, which is recorded in derivative gains (losses).

In December 2006, we voluntarily discontinued hedge accounting for our foreign currency swaps. See “*Derivative Gains (Losses)*” and “NOTE 12: DERIVATIVES” to our consolidated financial statements in our 2006 Information Statement for additional information about our derivatives.

Non-Interest Expense

Table 9 summarizes the components of non-interest expense.

Table 9 — Non-Interest Expense

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
	(in millions)			
Administrative expenses:				
Salaries and employee benefits	\$ 234	\$207	\$ 705	\$ 601
Professional services	113	120	338	338
Occupancy expense	17	15	47	44
Other administrative expenses	64	76	183	213
Total administrative expenses	428	418	1,273	1,196
Provision for credit losses	1,197	93	1,696	113
REO operations expense	51	19	81	38
Losses on certain credit guarantees	396	103	727	201
Losses on loans purchased	483	30	858	72
Low-income housing tax credit partnerships	111	98	354	317
Minority interests in earnings of consolidated subsidiaries	4	13	21	47
Other expenses	61	53	173	141
Total non-interest expense	<u>\$2,731</u>	<u>\$827</u>	<u>\$5,183</u>	<u>\$2,125</u>

Administrative Expenses

Administrative expenses increased for the three and nine months ended September 30, 2007, compared to the three and nine months ended September 30, 2006. The increase is primarily due to an increase in the number of full-time employees and certain long-term compensation incentives. Administrative expenses incurred in 2006 included certain non-recurring Hurricane Katrina related expenses. As a percentage of the average total mortgage portfolio, administrative expenses declined to 8.7 basis points for the three months ended September 30, 2007, from 9.4 basis points for the three months ended September 30, 2006.

Provision for Credit Losses

The provision for credit losses increased significantly for the three and nine months ended September 30, 2007, compared to the three and nine months ended September 30, 2006, as continued weakening in the housing market

affected our single-family portfolio. For the three and nine months ended September 30, 2007, we recorded additional reserves for credit losses on our single-family portfolio as a result of:

- increased estimates of incurred losses on mortgage loans that are expected to experience higher default rates based on their year of origination, particularly those originated during 2006 and 2007, which do not have the benefit of significant home price appreciation;
- an observed increase in the delinquency rates and the rates at which loans transition through delinquency to foreclosure; and
- increases in the expected severity of losses on a per-property basis, driven in part by the expectation of declines in home sales and home prices, particularly in the North Central, East and West regions of the U.S.

In addition, for the nine months ended September 30, 2006, we reversed \$83 million of our provision for credit losses recorded in 2005 associated with Hurricane Katrina because the related payment and delinquency experience on affected properties was more favorable than expected. Absent the adjustment related to Hurricane Katrina, our provision for credit losses would have been \$196 million for the nine months ended September 30, 2006.

We expect that credit losses, which include net charge-offs and REO expenses, will continue to rise from the current level. We expect to further increase our loan loss reserves in future periods, particularly related to mortgages originated in 2006 and 2007, which had a higher composition of interest-only mortgage products, lower amounts of third-party insurance coverage and higher loan balances at the time of origination than our historical experience.

Losses on Certain Credit Guarantees

Losses on certain credit guarantees consists of losses recognized upon the issuance of PCs in guarantor swap transactions. Our recognition of losses on certain guarantee contracts can occur due to any one or combination of several factors, including long-term contract pricing for our flow business, the difference in overall transaction pricing versus pool-level accounting measurements and less significantly, efforts to support our affordable housing mission.

We negotiate contracts with our customers in guarantor swap transactions based upon our view of the overall economics of the transaction, considering the volume and types of mortgage loans to be delivered to us and our estimates of the net present value of related future guarantee fees, credit costs and other associated cash flows. However, the accounting for our guarantee-related assets and liabilities is not determined at the level at which we negotiate contracts; rather, it is determined separately for each PC-related pool of loans. We determine the initial fair value of the pool-level guarantee-related assets and liabilities using methodologies that employ direct market-based information that may differ from the estimates we use to negotiate the guarantee fees we charge customers. This accounting based on pool-level measurement and our use of market-based information results in the recognition of losses on certain credit guarantees.

Our guarantee fees with larger customers are periodically negotiated with contracts that remain in effect for up to one year. Although we expect most of our guarantor swap transactions under these contracts will generate positive economic returns over the lives of the related PCs, during periods in which conditions in the mortgage credit market deteriorate, we may continue to incur initial losses on certain transactions until such time as contract terms are changed or business conditions improve. While we continue to believe the fair value of the guarantee obligation recorded exceeds the losses that we ultimately expect to incur, our expectation of losses has increased.

For the three months ended September 30, 2007 and 2006, we recognized losses of \$396 million and \$103 million, respectively, on certain guarantor swap transactions entered into during those periods. For the nine months ended September 30, 2007 and 2006, we recognized losses of \$727 million and \$201 million, respectively, on certain guarantor swap transactions and we deferred gains on newly-issued guarantees of \$749 million and \$668 million, respectively, entered into during those periods. The increases in losses on certain credit guarantees were driven by a combination of higher expected future credit costs implied by fair market values, higher volume of flow channel purchases from certain customers and competitive pressure impacting fair values of newly-issued guarantee-related assets. These losses have also increased for interest-only mortgage products acquired during 2007 as our volume of these mortgage products increased and these products have greater than expected future credit costs implied by the market's fair values. Losses on certain credit guarantees are expected to increase until such time as we are able to increase guarantee fee rates or the fair values of our newly-issued obligations return closer to historical levels.

Losses on Loans Purchased

Losses on non-performing loans purchased from the mortgage loan pools underlying PCs and Structured Securities held by third parties occur when the acquisition basis of the purchased loan exceeds the estimated fair value of the loan on the date of purchase.

In the three and nine months ended September 30, 2007, the market-based valuation of non-performing loans was adversely affected by the expectation of higher default costs and increased uncertainty in the mortgage market. The

decrease in fair values of these loans, combined with an increase in the volume of purchases of non-performing loans as well as an increase in the average size of the unpaid principal balance of those loans, resulted in losses of \$483 million for the three months ended September 30, 2007 compared to losses of \$30 million for the same period in 2006. Similarly, losses increased to \$858 million for the nine months ended September 30, 2007, compared to \$72 million for the nine months ended September 30, 2006. We expect to recover a portion of the losses on loans purchased over time as these market-based valuations imply future credit losses that are higher than we expect to ultimately incur. For loans purchased out of mortgage loan pools during 2006, we have subsequently recaptured approximately 53% of the purchase discount recorded on those loans as of September 30, 2007. See “QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK — Credit Risks — Table 26 — Changes in Loans Purchased Under Financial Guarantees” for additional information about our purchases of non-performing loans.

Income Tax Benefit

For the three months ended September 30, 2007 and 2006, we reported an income tax benefit of \$1.4 billion and \$21 million, respectively. For the nine months ended September 30, 2007 and 2006, we reported an income tax benefit of \$1.7 billion and \$96 million, respectively. While both nine month periods benefited from our investments in LIHTC partnerships and interest earned on tax-exempt housing-related securities, the nine months ended September 30, 2006 also benefited from the allocation of tax benefits on pre-tax losses incurred in the last three months of 2006 to the first nine months of 2006. See “NOTE 12: INCOME TAXES” to our consolidated financial statements for additional information.

CONSOLIDATED BALANCE SHEETS ANALYSIS

The following discussion of our consolidated balance sheets should be read in conjunction with our consolidated financial statements, including the accompanying notes. Also see “CRITICAL ACCOUNTING POLICIES AND ESTIMATES” for more information concerning our more significant accounting policies and estimates applied in determining our reported financial position.

Retained Portfolio

In response to a request by OFHEO, on August 1, 2006, we announced that we would voluntarily and temporarily limit the growth of our retained portfolio to 2.0% annually. On September 19, 2007, OFHEO provided an interpretation regarding the methodology for calculating the voluntary temporary growth limit. The interpretation changed the methodology for measuring the growth limit of our retained portfolio, as calculated in conformity with GAAP, to the portfolio’s unpaid principal balance as adjusted in accordance with OFHEO’s interpretation. Quarterly compliance with the growth limit is determined based on an average of month-end retained portfolio unpaid principal balances beginning July 2007 compared to the applicable quarterly growth limit. For purposes of this calculation, OFHEO’s interpretation sets the beginning value for the month of July 2007 at \$725.0 billion. For the fourth quarter of 2007, the quarterly growth limit of 0.5% is doubled to 1.0%, and the 2.0% annual limit remains in place. Any net increase in delinquent loan balances in the retained portfolio after September 30, 2007 will not be counted for purposes of determining our compliance with the growth limit.

The average unpaid principal balance of the retained portfolio for the three months ended September 30, 2007, calculated using cumulative average month-end portfolio balances, was \$11.5 billion below our voluntary growth limit of \$735.0 billion.

Table 10 provides detail regarding the mortgage loans and mortgage-related securities in our retained portfolio.

Table 10 — Characteristics of Mortgage Loans and Mortgage-Related Securities in the Retained Portfolio

	September 30, 2007			December 31, 2006		
	Fixed-Rate	Variable-Rate	Total	Fixed-Rate	Variable-Rate	Total
	(in millions)					
Mortgage loans:						
Single-family ⁽¹⁾	\$ 21,162	\$ 2,215	\$ 23,377	\$ 19,407	\$ 1,233	\$ 20,640
Multifamily ⁽²⁾	46,860	2,790	49,650	41,866	3,341	45,207
Total mortgage loans	68,022	5,005	73,027	61,273	4,574	65,847
Guaranteed PCs and Structured Securities: ⁽¹⁾⁽³⁾						
Single-family	270,629	84,999	355,628	282,052	71,828	353,880
Multifamily	240	137	377	241	141	382
Total guaranteed PCs and Structured Securities	270,869	85,136	356,005	282,293	71,969	354,262
Non-Freddie Mac mortgage-related securities: ⁽¹⁾						
Agency mortgage-related securities: ⁽⁴⁾						
Federal National Mortgage Association, or Fannie Mae:						
Single-family	23,873	22,658	46,531	25,805	17,640	43,445
Multifamily	808	166	974	987	2	989
Government National Mortgage Association, or Ginnie Mae:						
Single-family	572	191	763	707	231	938
Multifamily	13	—	13	13	—	13
Total agency mortgage-related securities	25,266	23,015	48,281	27,512	17,873	45,385
Non-agency mortgage-related securities:						
Single-family ⁽⁵⁾	4,056	153,649	157,705	4,280	174,081	178,361
CMBS	26,102	35,953	62,055	23,768	20,992	44,760
Mortgage revenue bonds ⁽⁶⁾	14,640	68	14,708	13,760	74	13,834
Manufactured housing ⁽⁷⁾	1,280	103	1,383	1,381	129	1,510
Total non-agency mortgage-related securities ⁽⁸⁾	46,078	189,773	235,851	43,189	195,276	238,465
Total unpaid principal balance of retained portfolio	\$410,235	\$302,929	713,164	\$414,267	\$289,692	703,959
Premiums, discounts, deferred fees, impairments of unpaid principal balances and other basis adjustments			(1,262)			103
Net unrealized gains (losses) on mortgage-related securities, pre-tax						(4,046)
PC residuals, at fair value						597
Reserve for losses on mortgage loans held-for-investment						(70)
Total retained portfolio per consolidated balance sheets			\$704,899			\$700,543

(1) Variable-rate single-family mortgage loans and mortgage-related securities include those with a contractual coupon rate that, prior to contractual maturity, is either scheduled to change or is subject to change based on changes in the composition of the underlying collateral. Single-family mortgage loans also include mortgages with balloon/reset provisions.

(2) Variable-rate multifamily mortgage loans include only those loans that, as of the reporting date, have a contractual coupon rate that is subject to change.

(3) For guaranteed PCs and Structured Securities we issue, we are subject to the credit risk associated with the underlying mortgage loan collateral.

- (4) Agency mortgage-related securities are generally not separately rated by nationally recognized statistical rating organizations, but are viewed as having a level of credit quality at least equivalent to non-agency mortgage-related securities AAA-rated or equivalent.
- (5) At September 30, 2007 and December 31, 2006, we held investments of approximately \$105 billion and \$124 billion, respectively, of single-family non-agency mortgage-related securities backed by subprime loans. These securities backed by subprime loans include significant credit enhancements, particularly through subordination, and approximately 97.6% of these securities held at September 30, 2007 were AAA-rated at November 15, 2007. At September 30, 2007 and December 31, 2006, we believe that \$53 billion and \$54 billion, respectively, of our single-family non-agency mortgage-related securities that are not backed by subprime loans are generally backed by Alt-A mortgage loans. These securities backed by Alt-A mortgage loans include significant credit enhancements, particularly through subordination, and approximately 99.9% of these securities held at September 30, 2007 were AAA-rated at November 15, 2007.
- (6) Consist of obligations of states and political subdivisions. Approximately 67% of these securities were AAA-rated at both September 30, 2007 and December 31, 2006.
- (7) At September 30, 2007 and December 31, 2006, 36% and 38%, respectively, of mortgage-related securities backed by manufactured housing were rated BBB– or above. For the same dates, 97% of these securities were supported by third-party credit enhancements (e.g., bond insurance) and other credit enhancements (e.g., deal structure through subordination). Approximately 28% and 30% of these securities were AAA-rated at September 30, 2007 and December 31, 2006, respectively.
- (8) Credit ratings for most non-agency mortgage-related securities are designated by at least two nationally recognized statistical rating organizations. At September 30, 2007 and December 31, 2006, approximately 97% and 96%, respectively, of total non-agency mortgage-related securities were AAA-rated.

Derivative Assets and Liabilities, Net at Fair Value

Table 11 shows the notional or contractual amounts and fair value for each derivative type and the maturity profile of the derivative positions. The fair values of the derivative positions are presented on a product-by-product basis, without netting by counterparty.

Table 11 — Derivative Fair Values and Maturities

	September 30, 2007					
	Notional or Contractual Amount	Total Fair Value	Fair Value ⁽¹⁾			
			Less than 1 Year	1 to 3 Years	Greater than 3 and up to 5 Years	In Excess of 5 Years
			(dollars in millions)			
Interest-rate swaps:						
Receive-fixed:						
Swaps	\$ 264,552	\$ 414	\$ (89)	\$ 400	\$ 521	\$ (418)
Weighted average fixed rate ⁽²⁾			4.66%	4.96%	5.13%	5.59%
Forward-starting swaps ⁽³⁾	17,518	109	—	1	(3)	111
Weighted average fixed rate ⁽²⁾			—	4.78%	5.04%	5.56%
Total receive-fixed	282,070	523	(89)	401	518	(307)
Basis (floating to floating)	1,093	(2)	—	—	—	(2)
Pay-fixed:						
Swaps	291,822	(2,772)	(21)	(834)	(904)	(1,013)
Weighted average fixed rate ⁽²⁾			5.04%	5.02%	5.15%	5.34%
Forward-starting swaps ⁽³⁾	88,548	(1,268)	—	—	(27)	(1,241)
Weighted average fixed rate ⁽²⁾			—	—	5.61%	5.70%
Total pay-fixed	380,370	(4,040)	(21)	(834)	(931)	(2,254)
Total interest-rate swaps	663,533	(3,519)	(110)	(433)	(413)	(2,563)
Option-based:						
Call swaptions						
Purchased	262,802	4,525	109	916	1,409	2,091
Written	1,000	(33)	(15)	—	(18)	—
Put swaptions						
Purchased	18,325	796	—	88	153	555
Written	1,000	(28)	(2)	—	(26)	—
Other option-based derivatives ⁽⁴⁾	53,543	(32)	(18)	—	(1)	(13)
Total option-based	336,670	5,228	74	1,004	1,517	2,633
Futures	109,848	(5)	(16)	11	—	—
Foreign-currency swaps	23,842	5,049	972	2,469	550	1,058
Forward purchase and sale commitments	62,938	182	182	—	—	—
Swap guarantee derivatives	1,153	(3)	—	—	—	(3)
Subtotal	1,197,984	6,932	\$1,102	\$3,051	\$1,654	\$ 1,125
Credit derivatives	5,445	2	—	—	—	—
Total	\$1,203,429	\$ 6,934				

(1) Fair value is categorized based on the years from September 30, 2007, until the contractual maturity of the derivative.

(2) Represents the notional weighted average rate for the fixed leg of the swaps.

(3) Represent interest-rate swap agreements that are scheduled to begin on future dates ranging from less than one year to ten years.

(4) Primarily represent written options, including guarantees of stated final maturity of issued Structured Securities and written call options on PCs we issued.

Table 12 summarizes the change in derivative fair values.

Table 12 — Changes in Derivative Fair Values

	Nine Months Ended September 30,	
	2007	2006
	(in millions)	
Beginning balance — net asset (liability)	\$7,729	\$ 6,507
Net change in:		
Forward purchase and sale commitments	167	40
Credit derivatives	3	—
Other derivatives: ⁽¹⁾		
Changes in fair value	(757)	1,910
Fair value of new contracts entered into during the period ⁽²⁾	881	2,207
Contracts realized or otherwise settled during the period	(1,089)	(2,401)
Ending balance — net asset (liability)	<u>\$6,934</u>	<u>\$ 8,263</u>

(1) Include fair value changes for interest-rate swaps, option-based derivatives, futures, foreign currency swaps and interest-rate caps.

(2) Consists primarily of cash premiums paid or received on options.

Table 13 provides information on our outstanding written and purchased swaption and option premiums at September 30, 2007 and December 31, 2006, based on the original premium receipts or payments.

Table 13 — Outstanding Written and Purchased Swaption and Option Premiums

	Original Premium Amount (Paid) Received	Original Weighted Average Life to Expiration	Remaining Weighted Average Life
		(dollars in millions)	
Purchased: ⁽¹⁾			
At September 30, 2007	\$(5,431)	7.6 years	5.9 years
At December 31, 2006	\$(5,316)	7.5 years	6.1 years
Written: ⁽²⁾			
At September 30, 2007	\$ 75	2.1 years	1.7 years
At December 31, 2006	\$ 21	0.2 years	0.1 years

(1) Purchased options exclude callable swaps.

(2) Excludes written options on guarantees of stated final maturity of Structured Securities.

Guarantee Asset

See “CONSOLIDATED RESULTS OF OPERATIONS — Non-Interest Income — *Gains (Losses) on Guarantee Asset*” for a description and an attribution of other changes in the guarantee asset. Table 14 summarizes the changes in the guarantee asset balance.

Table 14 — Changes in Guarantee Asset

	Nine Months Ended September 30,	
	2007	2006
	(in millions)	
Beginning balance	\$6,070	\$5,083
Additions, net of repurchases	2,264	1,246
Return of investment on guarantee asset	(1,002)	(735)
Changes in fair value of future management and guarantee fees	881	226
Change in estimate	30	40
Gains (losses) on guarantee asset	(91)	(469)
Ending balance	<u>\$8,243</u>	<u>\$5,860</u>

Guarantee Obligation

See “CONSOLIDATED RESULTS OF OPERATIONS — Non-Interest Income — *Income on Guarantee Obligation*” for a description of the components of the guarantee obligation. Table 15 summarizes the changes in the guarantee obligation balance.

Table 15 — Changes in Guarantee Obligation

	Nine Months Ended September 30,	
	2007	2006
	(in millions)	
Beginning balance	\$7,117	\$5,541
Transfer-out to the loan loss reserve ⁽¹⁾	(34)	(5)
Additions, net of repurchases:		
Fair value of performance and other related costs of newly-issued guarantees	2,674	1,172
Deferred guarantee income of newly-issued guarantees	540	585
Amortization income:		
Performance and other related costs	(489)	(424)
Deferred guarantee income	(235)	(205)
Income on guarantee obligation	(724)	(629)
Ending balance	<u>\$9,573</u>	<u>\$6,664</u>
Components of the guarantee obligation, at September 30:		
Unamortized balance of performance and other related costs	\$7,020	\$4,486
Unamortized balance of deferred guarantee income	2,553	2,178
Ending balance	<u>\$9,573</u>	<u>\$6,664</u>

(1) Represents portions of the guarantee obligation that correspond to incurred credit losses reclassified to reserve for guarantee losses on PCs.

The primary drivers affecting our guarantee obligation balances are our credit guarantee business volumes, fair values of performance obligations on new guarantees, liquidation rates on the existing portfolio and expected profitability of new guarantee business at origination.

Additions, net of repurchases, increased for the nine months ended September 30, 2007, compared to the nine months ended September 30, 2006. The increase was primarily a result of higher expected performance costs on newly-issued guarantees, which have been negatively impacted by the expectation of higher credit costs and increased uncertainty in the mortgage market. This increase also reflects higher business volumes as the unpaid principal balance of guaranteed PCs and Structured Securities issued during the nine months ended September 30, 2007 increased to approximately \$357 billion from \$268 billion issued during the nine months ended September 30, 2006. See “CONSOLIDATED RESULTS OF OPERATIONS — Non-Interest Income — *Income on Guarantee Obligation*” for a discussion of amortization income related to our guarantee obligation.

Total Stockholders’ Equity

Total stockholders’ equity decreased \$2.5 billion during the nine months ended September 30, 2007. This decrease was primarily a result of a net loss of \$1.5 billion, a \$0.9 billion net increase in the AOCI loss, the repurchase of \$1.0 billion of common stock and \$1.3 billion of common and preferred stock dividends declared. These reductions were partially offset by a net increase of \$2 billion in the balance of non-cumulative, perpetual preferred stock. During the nine months ended September 30, 2007, we issued \$2.6 billion of non-cumulative, perpetual preferred stock, consisting of \$1.5 billion toward the planned replacement of common stock with an equal amount of preferred stock and \$600 million to replace higher-cost preferred stock that we redeemed and an additional issuance of \$500 million for general corporate purposes.

The balance of AOCI at September 30, 2007 was a net loss of approximately \$8.8 billion, net of taxes, compared to a net loss of \$7.9 billion, net of taxes, at December 31, 2006. The increase in the net loss in AOCI was primarily attributable to unrealized losses on our single-family non-agency mortgage-related securities backed by subprime loans and Alt-A loans with net unrealized losses, net of taxes, recorded in AOCI of \$1.2 billion and \$0.7 billion, respectively, at September 30, 2007. See “QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK — Credit Risks — *Mortgage Credit Risk*” for more information regarding mortgage-related securities backed by subprime loans and Alt-A loans.

CONSOLIDATED FAIR VALUE BALANCE SHEETS ANALYSIS

Our consolidated fair value balance sheets include the estimated fair values of financial instruments recorded on our consolidated balance sheets prepared in conformity with GAAP, as well as off-balance sheet financial instruments that represent our assets or liabilities that are not recorded on our GAAP consolidated balance sheets. These off-balance sheet items predominantly consist of: (a) the unrecognized guarantee asset and guarantee obligation associated with our PCs issued through our guarantor swap program prior to the implementation of FASB Interpretation No. 45, “Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, an interpretation of FASB Statements No. 5, 57, and 107 and rescission of FASB Interpretation No. 34” in 2003; (b) certain commitments to purchase mortgage loans; and (c) certain credit enhancements on manufactured housing asset-backed securities. The fair value balance sheets also include certain assets and liabilities that are not

financial instruments at their carrying value in conformity with GAAP. During the nine months ended September 30, 2007 and for the full year 2006, our fair value results as presented in our consolidated fair value balance sheets were affected by several improvements in our approach for estimating the fair value of certain financial instruments. See “CRITICAL ACCOUNTING POLICIES AND ESTIMATES” as well as “NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES” and “NOTE 14: FAIR VALUE DISCLOSURES” to our consolidated financial statements for more information on fair values.

We use a number of financial models in the preparation of our consolidated fair value balance sheets. See “CONTROLS AND PROCEDURES” in this Information Statement Supplement and “MD&A — RISK MANAGEMENT — Interest-Rate Risk and Other Market Risks” in our 2006 Information Statement for information concerning the risks associated with our use of these models.

Table 16 shows our summary consolidated fair value balance sheets.

Table 16 — Summary Consolidated Fair Value Balance Sheets⁽¹⁾

	September 30, 2007		December 31, 2006	
	Carrying Amount ⁽²⁾	Fair Value	Carrying Amount ⁽²⁾	Fair Value
	(in billions)			
Total assets.....	\$792.9	\$791.7	\$813.1	\$811.3
Total liabilities and minority interests.....	\$767.1	\$767.9	\$784.8	\$779.5
Net assets attributable to stockholders:				
Preferred stockholders.....	8.1	7.4	6.1	5.8
Common stockholders.....	17.7	16.4	22.2	26.0
Total net assets.....	25.8	23.8	28.3	31.8
Total liabilities, minority interests and net assets.....	\$792.9	\$791.7	\$813.1	\$811.3

(1) The summary consolidated fair value balance sheets do not purport to present our net realizable, liquidation or market value as a whole. Furthermore, amounts we ultimately realize from the disposition of assets or settlement of liabilities may vary significantly from the fair values presented.

(2) Equals the amount reported on our GAAP consolidated balance sheets.

Discussion of Fair Value Results

During the nine months ended September 30, 2007, the fair value of net assets attributable to common stockholders, before capital transactions, decreased by \$7.6 billion, resulting in an annualized negative return on the average fair value of net assets attributable to common stockholders of approximately 48.0%. During the nine months ended September 30, 2006, the fair value of net assets attributable to common stockholders, before capital transactions, increased by \$2.7 billion, resulting in an annualized return on the average fair value of net assets attributable to common stockholders of approximately 13.3%. The fair value of net assets attributable to common stockholders at September 30, 2007 was \$16.4 billion, compared to \$26.0 billion at December 31, 2006. The payment of common stock dividends and the repurchase of common stock during the nine months ended September 30, 2007 reduced total fair value by \$2.0 billion.

Our attribution of changes in the fair value of net assets relies on models, assumptions and other measurement techniques that evolve over time. The following attribution of changes in fair value reflects our current estimate of the items presented (on a pre-tax basis) and excludes the effect of returns on capital and administrative expenses.

Our credit guarantee activities decreased fair value by an estimated \$5.8 billion during the nine months ended September 30, 2007. This estimate includes an increase in the single-family guarantee obligation of approximately \$10.2 billion, primarily attributable to the market’s pricing of mortgage credit, which implies credit loss higher than we expect to ultimately incur. This increase in the single-family guarantee obligation was partially offset by a fair value increase in the single-family guarantee asset of approximately \$2.5 billion and the receipt of cash primarily related to management and guarantee fees and other up-front fees related to new business.

During the nine months ended September 30, 2006, our credit guarantee activities increased fair value by an estimated \$1.9 billion. This increase includes the receipt of cash primarily related to management and guarantee fees and other up-front fees related to new business. This increase also includes a fair value increase related to our single-family guarantee asset of approximately \$0.8 billion. These increases were partially offset by an increase in the single-family guarantee obligation of approximately \$0.7 billion.

During the nine months ended September 30, 2007, our investment activities decreased fair value by approximately \$6.3 billion. This estimate includes declines in fair value of approximately \$9.7 billion attributable to net mortgage-to-debt OAS widening. Of this amount, approximately \$3.7 billion was related to the impact of the net mortgage-to-debt OAS widening on our portfolio of non-agency mortgage-related securities.

Our investment activities increased fair value by an estimated \$1.4 billion during the nine months ended September 30, 2006. This estimate includes declines in fair value of approximately \$0.6 billion attributable to net mortgage-to-debt OAS widening.

We believe disclosing the estimated impact of changes in mortgage-to-debt OAS on the fair value of net assets is helpful to understanding our current period fair value results in the context of our long-term fair value return objective. Due to the significant challenges that exist in the current market, we will not, in the near-term, achieve our objective of long-term returns, before capital transactions, on the average fair value of net assets attributable to common stockholders in the low-to mid-teens. Our long-term objective remains the same, however, given the current level of uncertainty in the residential mortgage credit market, volatility in interest rates and our current capital constraints, we will not achieve our long-term objective until market conditions improve.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

Our business activities require that we maintain adequate liquidity to make payments upon the maturity, redemption or repurchase of our debt securities; purchase mortgage loans, mortgage-related securities and other investments; make payments of principal and interest on our debt securities and on our guaranteed PCs and Structured Securities; make net payments on derivative instruments; fund our general operations; and pay dividends on and repurchase our preferred and common stock.

We fund our cash requirements primarily by issuing short-term and long-term debt. Other sources of cash include:

- receipts of principal and interest payments on securities we hold or mortgage loans we have securitized and sold;
- sales of securities we hold;
- borrowings against mortgage-related securities and other investment securities we hold;
- other cash flows from operating activities, including guarantee activities; and
- issuances of common and preferred stock.

Debt Securities

We fund our business activities primarily through the issuance of short-term and long-term debt. Table 17 summarizes the par value of the debt securities we issued, based on settlement dates, during the three and nine months ended September 30, 2007 and 2006. We seek to maintain a variety of consistent, active funding programs that promote high-quality coverage by market makers and reach a broad group of institutional and retail investors. By diversifying our investor base and the types of debt securities we offer, we believe we enhance our ability to maintain continuous access to the debt markets under a variety of market conditions.

Table 17 — Debt Security Issuances by Product, at Par Value⁽¹⁾

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
	(in millions)			
Short-term debt:				
Reference Bills® securities and discount notes	\$134,369	\$119,727	\$392,861	\$477,508
Medium-term notes — callable	775	—	2,975	2,097
Medium-term notes — non-callable	100	50	202	1,550
Total short-term debt issued	135,244	119,777	396,038	481,155
Long-term debt:				
Medium-term notes — callable ⁽²⁾	16,394	10,617	89,734	78,654
Medium-term notes — non-callable ⁽³⁾	3,271	1,919	24,486	16,225
U.S. dollar Reference Notes® securities — non-callable	11,000	9,000	40,000	48,000
Freddie SUBS® securities	—	—	—	1,250
Total long-term debt issued	30,665	21,536	154,220	144,129
Total debt securities issued	<u>\$165,909</u>	<u>\$141,313</u>	<u>\$550,258</u>	<u>\$625,284</u>

(1) Exclude securities sold under agreements to repurchase and Federal funds purchased, swap collateral obligations, lines of credit and securities sold but not yet purchased.

(2) Include \$145 million and \$— million of medium-term notes — callable issued for the three months ended September 30, 2007 and 2006, respectively, which were accounted for as debt exchanges. Include \$145 million and \$100 million of medium-term notes — callable issued for the nine months ended September 30, 2007 and 2006, respectively, which were accounted for as debt exchanges.

(3) Include \$— billion and \$1.0 billion of medium-term notes — non-callable issued for the three months ended September 30, 2007 and 2006, respectively, which were accounted for as debt exchanges. Include \$— billion and \$1.0 billion of medium-term notes — non-callable issued for the nine months ended September 30, 2007 and 2006, respectively, which were accounted for as debt exchanges.

Subordinated Debt

During the nine months ended September 30, 2007, we called \$1.2 billion of Freddie SUBS® securities. At September 30, 2007 and December 31, 2006, the balance of our subordinated debt outstanding was \$5.2 billion and \$6.4 billion, respectively. Our subordinated debt in the form of Freddie SUBS® securities is a component of our risk management and disclosure commitments with OFHEO (described in “RISK MANAGEMENT AND DISCLOSURE COMMITMENTS”).

Credit Ratings

Our ability to access the capital markets and other sources of funding, as well as our cost of funds, are highly dependent upon our credit ratings. Table 18 indicates our credit ratings at November 1, 2007.

Table 18 — Freddie Mac Credit Ratings

	Nationally Recognized Statistical Rating Organization		
	Standard & Poor's	Moody's	Fitch
Senior long-term debt ⁽¹⁾	AAA	Aaa	AAA
Short-term debt ⁽²⁾	A-1+	P-1	F-1+
Subordinated debt ⁽³⁾	AA-	Aa2	AA-
Preferred stock	AA-	Aa3	AA-

(1) Includes medium-term notes, U.S. dollar Reference Notes® securities and €Reference Notes® securities.

(2) Includes Reference Bills® securities and discount notes.

(3) Includes Freddie SUBS® securities only.

Equity Securities

See “Capital Resources — Core Capital” and “UNREGISTERED SALES OF EQUITY SECURITIES” for information about issuances and repurchases of our equity securities in the three months ended September 30, 2007.

Cash and Investments Portfolio

We maintain a cash and investments portfolio that is important to our financial management and our ability to provide liquidity and stability to the mortgage market. At September 30, 2007, the investments in this portfolio consisted of liquid non-mortgage-related securities, principally asset-backed securities and other marketable assets, that we could sell or finance to provide us with an additional source of liquidity to fund our business operations. We also use the portfolio to help manage recurring cash flows and meet our other cash management needs. In addition, we use the portfolio to hold capital on a temporary basis until we can deploy it into retained portfolio investments or credit guarantee opportunities. We may also sell or finance the securities in this portfolio to maintain capital reserves to meet mortgage-funding needs, provide diverse sources of liquidity or help manage the interest-rate risk inherent in mortgage-related assets. During the three months ended September 30, 2007, we reduced the balance of our cash and investments portfolio by \$30 billion, which helped us manage our capital and take advantage of investment opportunities in mortgage-related securities as OAS widened.

Capital Resources

Capital Adequacy

We estimated at September 30, 2007 that we exceeded each of our regulatory capital requirements, in addition to the 30% mandatory target capital surplus, based on our most recent submissions to OFHEO. However, the sharp decline in the housing market and volatility in financial markets are adversely affecting our capital, including our ability to manage to the 30% mandatory target capital surplus. Factors that could adversely affect the adequacy of our capital in future periods include GAAP net losses; continued declines in home prices; increases in our credit and interest-rate risk profiles; adverse changes in interest-rate or implied volatility; adverse OAS changes; legislative or regulatory actions that increase capital requirements; or changes in accounting practices or standards. See “NOTE 9: REGULATORY CAPITAL” to our consolidated financial statements for further information regarding our regulatory capital requirements and “NOTE 10: REGULATORY CAPITAL” to our consolidated financial statements in our 2006 Information Statement for further information regarding OFHEO’s capital monitoring framework.

As a result of the impact of these items on our GAAP net income and in order to manage to the 30% mandatory target capital surplus and respond to regulatory concerns, as well as to have the flexibility to effectively manage our business, we are planning on taking several actions. First, we have engaged Goldman, Sachs & Co. and Lehman Brothers as financial advisors to help us consider very near-term capital raising alternatives. Second, we are seriously considering reducing our fourth quarter common stock dividend by 50%. If these measures are not sufficient to help us manage to the 30% mandatory target capital surplus, then we may consider additional measures in the future such as limiting growth or reducing the size of our retained portfolio, slowing purchases into our credit guarantee portfolio, issuing additional preferred or convertible preferred stock and issuing common stock. When market conditions improve and we return to

sustainable profitability, we will consider increasing the common stock dividend and returning capital to our stockholders through, among other things, calling preferred stock.

Our ability to execute any of these actions or their effectiveness may be limited and we might not be able to manage to the 30% mandatory target capital surplus. If we are not able to manage to the 30% mandatory target capital surplus, OFHEO may, among other things, seek to require us to (a) submit a plan for remediation or (b) take other remedial steps. In addition, OFHEO has discretion to reduce our capital classification by one level if OFHEO determines that we are engaging in conduct OFHEO did not approve that could result in a rapid depletion of core capital or determines that the value of property subject to mortgage loans we hold or guarantee has decreased significantly. See “RISK FACTORS” in this Information Statement Supplement and “REGULATION AND SUPERVISION — Office of Federal Housing Enterprise Oversight — *Capital Standards*” and “NOTE 10: REGULATORY CAPITAL — Classification” to our consolidated financial statements in our 2006 Information Statement for information regarding additional potential actions OFHEO may seek to take against us.

Core Capital

During the nine months ended September 30, 2007, our core capital decreased approximately \$1.5 billion. This decrease was primarily due to a net loss of \$1.5 billion, common stock repurchase of \$1.0 billion, and common and preferred stock dividends declared of \$1.3 billion, partially offset by a net increase in the balance of our non-cumulative, perpetual preferred stock of \$2.0 billion and the cumulative effect of a change in accounting principle of \$181 million. See “NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — Recently Adopted Accounting Standards — *Accounting for Uncertainty in Income Taxes*” to our consolidated financial statements for further information regarding the cumulative effect of a change in accounting principle.

We completed four non-cumulative, perpetual preferred stock offerings during the first nine months of 2007. In these offerings, we issued an aggregate of \$2.6 billion of non-cumulative, perpetual preferred stock, consisting of \$1.5 billion toward the planned replacement of common stock with an equal amount of preferred stock and \$600 million to replace higher-cost preferred stock that we redeemed and an additional issuance of \$500 million for general corporate purposes. We purchased a total of approximately 16.1 million shares of our outstanding common stock under the stock repurchase plan authorized in March 2007 at an average cost of \$62.04 per share.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to risks that include interest-rate and other market risks, credit risks and operational risks. We manage risk through a framework, approved by our board of directors, that recognizes primary risk ownership and management by our business areas. Within this framework, our executive management committees and divisions responsible for independent risk oversight, which include Enterprise Risk Oversight, Corporate Compliance and Internal Audit, monitor performance against our risk management strategies and established risk limits, identify and assess potential issues and provide oversight regarding changes in business processes and activities. Our board of directors and its committees also provide oversight of risk management. Together, these groups assess the adequacy and effectiveness of the risk management functions across the company. See “CONTROLS AND PROCEDURES” in this Information Statement Supplement for a discussion of disclosure controls and procedures and internal control over financial reporting and the “RISK FACTORS” sections of our 2006 Information Statement and this Information Statement Supplement for further information regarding these and other risks.

Interest-Rate Risk and Other Market Risks

Our interest-rate risk management objective is to protect stockholder value consistent with our housing mission and safe and sound operations in all interest-rate environments. We believe a disciplined approach to interest-rate risk management is essential to maintaining a strong and durable capital base and uninterrupted access to debt and equity capital markets. See “MD&A — RISK MANAGEMENT — Interest-Rate Risk and Other Market Risks” in our 2006 Information Statement for more information.

PMVS and Duration Gap

Our primary interest-rate risk measures are PMVS and duration gap. PMVS measures the estimated sensitivity of our portfolio market value to parallel (PMVS-L) and non-parallel (PMVS-Yield Curve, or PMVS-YC) movements in interest rates.

PMVS Results

Table 19 provides estimated PMVS-L and PMVS-YC results. Table 19 also provides PMVS-L estimates assuming an immediate 100 basis point shift in the LIBOR yield curve. Because we do not hedge all prepayment risk, the duration of our mortgage assets changes more rapidly as changes in interest rates increase. Accordingly, as shown in Table 19, the

PMVS-L results based on a 100 basis point shift in the LIBOR curve are disproportionately higher than the PMVS-L results based on a 50 basis point shift in the LIBOR curve.

Table 19 — Portfolio Market Value Sensitivity Assuming Shifts of the LIBOR Yield Curve

	Portfolio Market Value Sensitivity			Potential Pre-Tax Loss in Portfolio Market Value		
	PMVS-YC	PMVS-L		PMVS-YC	PMVS-L	
	25 bps	50 bps	100 bps	25 bps	50 bps	100 bps
At:				(in millions)		
September 30, 2007	—%	1%	5%	\$37	\$244	\$851
December 31, 2006	—%	1%	2%	\$27	\$146	\$560

Derivatives have enabled us to keep our interest-rate risk exposure at consistently low levels in a wide range of interest-rate environments. By keeping PMVS-L and PMVS-YC low, we have been able to reduce the exposure of the fair value of our stockholders' equity to adverse changes in interest rates.

Table 20 shows that the low PMVS-L risk levels for the periods presented would generally have been higher if we had not used derivatives to manage our interest-rate risk exposure. PMVS-L (50 bps), before the impact of derivatives, increased at September 30, 2007 to 9%, primarily as a result of a shift in the product mix of the retained portfolio to more traditional fixed-rate products, coupled with a decline in the fair value of common equity.

Table 20 — Derivative Impact on PMVS-L (50 bps)

	Before Derivatives	After Derivatives	Effect of Derivatives
At:			
September 30, 2007	9%	1%	(8)%
December 31, 2006	2%	1%	(1)%

Duration Gap Results

Our estimated average duration gap for the months of September 2007 and December 2006 was zero months.

Use of Derivatives and Interest-Rate Risk Management

Types of Derivatives

The derivatives we use to economically hedge interest-rate and foreign currency risk are common in the financial markets. We principally use the following types of derivatives:

- LIBOR- and Euribor-based interest-rate swaps;
- LIBOR- and Treasury-based exchange-traded futures;
- LIBOR- and Treasury-based purchased options (including purchased swaptions); and
- Foreign currency swaps.

Derivative Positions

In addition to swaps, futures and options, our derivative positions include the following:

Written Options and Swaptions

Written call and put swaptions are sold to counterparties allowing them the option to enter into receive- and pay-fixed swaps, respectively. Written call and put options on mortgage-related securities give the counterparty the right to execute a contract under specified terms, which generally occurs when we are in a liability position. We use these written options and swaptions to manage convexity risk over a wide range of interest rates. We may, from time to time, write other derivative contracts such as caps, floors and interest-rate futures.

Forward Purchase and Sale Commitments

We routinely enter into forward purchase and sale commitments for mortgage loans and mortgage-related securities. Most of these commitments are derivatives subject to the requirements of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended.

Swap Guarantee Derivatives

We guarantee the payment of principal and interest on: (a) multifamily mortgage loans that are originated and held by state and municipal housing finance agencies to support tax-exempt multifamily housing revenue bonds; (b) tax-exempt multifamily housing revenue bonds that support pass-through certificates issued by third parties; and (c) Freddie Mac pass-through certificates, which are backed by tax-exempt multifamily housing revenue bonds and related taxable bonds and/or loans. In connection with some of these guarantees, we may also guarantee the sponsor's or the borrower's performance as a counterparty on any related interest-rate swaps used to mitigate interest-rate risk. Guarantees of these interest-rate swaps entered into after June 30, 2003 are treated as derivatives and are reported as swap guarantee derivatives.

Credit Derivatives

We have entered into credit derivatives during the nine months ended September 30, 2007, including risk-sharing agreements. Under these risk-sharing agreements, default losses on specific mortgage loans delivered by sellers are compared to default losses on reference pools of mortgage loans with similar characteristics. Based upon the results of that comparison, we remit or receive payments based upon the default performance of the referenced pools of mortgage loans. In addition, we have entered into an agreement whereby we assume credit risk for mortgage loans held by third parties for up to a 90-day period in exchange for a monthly fee. Should the mortgage loans become delinquent we are obligated to purchase the loans. See “MD&A — RISK MANAGEMENT — Credit Risks — *Mortgage Credit Risk — Other Credit Risk Management Activities*” in our 2006 Information Statement for more information.

Derivative Counterparty Credit Risk

Table 21 summarizes our exposure to counterparty credit risk in our derivatives.

Table 21 — Derivative Counterparty Credit Exposure

Rating ⁽¹⁾	Number of Counterparties ⁽²⁾	Notional or Contractual Amount	Total Exposure at Fair Value ⁽³⁾	Exposure, Net of Collateral ⁽⁴⁾	Weighted Average Contractual Maturity (in years)	Collateral Posting Threshold
AAA	2	\$ 1,154	\$ 154	\$154	3.7	Mutually agreed upon \$10 million or less \$10 million or less \$10 million or less \$1 million or less \$1 million or less
AA+	4	179,098	1,261	91	4.3	
AA	8	407,518	1,822	161	5.2	
AA-	8	257,193	4,383	102	5.2	
A+	5	123,403	1,262	59	6.5	
A	1	210	4	1	4.3	
Subtotal ⁽⁵⁾	28	968,576	8,886	568	5.2	
Other derivatives ⁽⁶⁾		170,762	—	—		
Forward purchase and sale commitments		62,938	223	223		
Swap guarantee derivatives		1,153	—	—		
Total derivatives		\$1,203,429	\$9,109	\$791		

(1) We use the lower of Standard & Poor's, or S&P, and Moody's ratings to manage collateral requirements. In this table, the rating of the legal entity is stated in terms of the S&P equivalent.

(2) Based on legal entities. Affiliated legal entities are reported separately.

(3) For each counterparty, this amount includes derivatives with a net positive fair value (recorded as derivative assets, net at fair value) including the related accrued interest receivable/payable (net) (recorded in accounts and other receivables, net or accrued interest payable).

(4) Total exposure at fair value less collateral held as determined at the counterparty level.

(5) Consists of over-the-counter derivative agreements for interest-rate swaps, option-based derivatives (excluding written options), certain credit derivatives, foreign currency swaps and purchased interest-rate caps. Written options do not present counterparty credit exposure, because we receive a one-time up-front premium in exchange for giving the holder the right to execute a contract under specified terms, which generally puts us in a liability position.

(6) Consist primarily of exchange-traded contracts, written options and certain credit derivatives.

Credit Risks

Our credit guarantee portfolio is subject primarily to two types of credit risk: institutional credit risk and mortgage credit risk. Institutional credit risk is the risk that a counterparty that has entered into a business contract or arrangement with us will fail to meet its obligations. Mortgage credit risk is the risk that a borrower will fail to make timely payments on a mortgage we own or guarantee.

Mortgage and credit market conditions deteriorated rapidly in the third quarter of 2007. Factors negatively affecting the mortgage and credit markets in recent months include:

- significant volatility;
- lower levels of liquidity;
- wider credit spreads;
- rating agency downgrades of mortgage-related securities; and
- higher levels of foreclosures and delinquencies, particularly with respect to non-traditional and subprime mortgage loans.

Institutional Credit Risk

Our primary institutional credit risk exposure, other than counterparty credit risk relating to derivatives, arises from agreements with:

- mortgage loan insurers;
- mortgage seller/servicers;
- issuers, guarantors or third-party providers of credit enhancements;

- mortgage investors and originators; and
- issuers, guarantors and insurers of investments held in both our retained portfolio and cash and investments portfolio.

A significant failure by a major entity in one of these categories to perform in their obligations to us could have a material adverse effect on our retained portfolio, cash and investments portfolio or credit guarantee activities. The challenging market conditions have adversely affected, and are expected to continue to adversely affect, the liquidity and financial condition of a number of our counterparties. For example, some of our largest mortgage seller/servicers have experienced ratings downgrades and liquidity constraints and other counterparties may also experience these concerns. The weakened financial condition and liquidity position of some of our counterparties may adversely affect their ability to perform their obligations to us, or the quality of the services that they provide to us. We have already terminated our arrangements with certain mortgage seller/servicers due to their failure to meet our eligibility requirements and we continue to closely monitor the eligibility of mortgage seller/servicers under our standards. The failure of any of our primary counterparties to meet their obligations to us could have a material adverse effect on our results of operations and financial condition.

Investments in our retained portfolio expose us to institutional credit risk on non-Freddie Mac mortgage-related securities to the extent that servicers, issuers, guarantors, or third parties providing credit enhancements become insolvent or do not perform. Our non-Freddie Mac mortgage-related securities portfolio consists of both agency and non-agency mortgage-related securities. Agency securities present minimal institutional credit risk due to the prevailing view that these securities have a credit quality at least equivalent to non-agency securities rated AAA (based on the S&P or equivalent rating scale of other nationally recognized statistical rating organizations). We seek to manage institutional credit risk on non-Freddie Mac mortgage-related securities by only purchasing securities that meet our investment guidelines and performing ongoing analysis to evaluate the creditworthiness of the issuers and servicers of these securities and the bond insurers that guarantee them. See “CONSOLIDATED BALANCE SHEETS ANALYSIS — Table 10 — Characteristics of Mortgage Loans and Mortgage-Related Securities in the Retained Portfolio” for more information on non-Freddie Mac securities within our retained portfolio. See “MD&A — RISK MANAGEMENT” in our 2006 Information Statement for more information on our institutional credit risks.

Mortgage Credit Risk

Mortgage credit risk is primarily influenced by the credit profile of the borrower on the mortgage, the features of the mortgage itself, the type of property securing the mortgage and the general economic environment. To manage our mortgage credit risk, we focus on three key areas: underwriting requirements and quality control standards; portfolio diversification; and portfolio management activities, including loss mitigation and the use of credit enhancements.

All mortgages that we purchase for our retained portfolio or that we guarantee have an inherent risk of default. We seek to manage the underlying risk by adequately pricing for the risk we assume using our underwriting and quality control processes. Our underwriting process evaluates mortgage loans using several critical risk characteristics, such as credit score, loan-to-value ratio and occupancy type. Table 22 provides characteristics of our single-family mortgage loans purchased during the three and nine months ended September 30, 2007 and 2006, and of our single-family mortgage portfolio at September 30, 2007 and December 31, 2006.

Table 22 — Characteristics of Single-Family Mortgage Portfolio⁽¹⁾

	Purchases During the Three Months Ended		Purchases During the Nine Months Ended		Balances as of	
	September 30,		September 30,		September 30,	December 31,
	2007	2006	2007	2006	2007	2006
Original LTV Ratio Range						
Less than 60%	20%	18%	19%	19%	22%	24%
Above 60% to 70%	13	13	14	15	16	16
Above 70% to 80%	45	55	51	53	48	46
Above 80% to 90%	9	6	7	7	7	7
Above 90% to 100%	13	7	9	6	7	7
Above 100%	—	1	—	—	—	—
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>
Weighted average original LTV ratio	73%	73%	73%	73%	71%	70%
Estimated Current LTV Ratio Range⁽²⁾						
Less than 60%					45%	52%
Above 60% to 70%					17	18
Above 70% to 80%					21	20
Above 80% to 90%					12	8
Above 90% to 100%					4	2
Above 100%					1	—
Total					<u>100%</u>	<u>100%</u>
Weighted average estimated current LTV ratio					60%	57%
Credit Score⁽³⁾						
740 and above	43%	43%	42%	42%	45%	45%
700 to 739	22	23	23	24	23	23
660 to 699	18	19	19	20	18	18
620 to 659	11	10	10	10	9	9
Less than 620	6	5	6	4	4	4
Not available	—	—	—	—	1	1
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>
Weighted average credit score	719	721	719	721	724	725
Loan Purpose						
Purchase	48%	60%	46%	53%	40%	37%
Cash-out refinance	27	27	32	32	30	29
Other refinance	25	13	22	15	30	34
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>
Property Type						
1 unit	97%	98%	97%	97%	97%	97%
2-4 units	3	2	3	3	3	3
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>
Occupancy Type						
Primary residence	90%	89%	90%	89%	91%	92%
Second/vacation home	5	6	5	6	5	5
Investment	5	5	5	5	4	3
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

(1) Purchases and ending balances are based on the unpaid principal balance of the single-family mortgage portfolio (excluding certain Structured Transactions and loans purchased under financial guarantees). Purchases included in the data totaled \$123 billion and \$92 billion for the three months ended September 30, 2007 and 2006, respectively, and \$356 billion and \$266 billion for the nine months ended September 30, 2007 and 2006, respectively. Ending balances included in the data totaled \$1,655 billion and \$1,482 billion at September 30, 2007 and December 31, 2006, respectively.

(2) Current market values are estimated by adjusting the value of the property at origination based on changes in the market value of homes since origination. Estimated current LTV ratio excludes certain Structured Transactions. Estimated current LTV ratio ranges are not applicable to purchases made during the period. We began using a new model for estimating current LTV ratios during the nine months ended September 30, 2007. Prior period estimated current LTV ratios have been revised to conform to the current period presentation.

(3) Credit score data is as of mortgage loan origination for all loans within mortgage pools underlying our issued PCs and Structured Securities, as well as mortgage loans held in our retained portfolio, and is based on the rating system scale developed by Fair, Isaac and Co., Inc., or FICO® scores.

Our charter requires that single-family mortgages with LTV ratios above 80% at the time of purchase be covered by one or more of the following: (a) mortgage insurance for mortgage amounts above the 80% threshold; (b) a seller's agreement to repurchase or replace any mortgage upon default; or (c) retention by the seller of at least a 10% participation interest in the mortgages. In addition, we employ other types of credit enhancements, including pool insurance, indemnification agreements, collateral pledged by lenders and subordinated security structures. We may also use credit enhancements to mitigate risk on multifamily mortgages.

Certain loan characteristics are often associated with a higher degree of credit risk. For example, mortgages with high LTV ratios and borrowers who have lower credit scores typically experience higher rates of delinquency, default and credit losses. We take a disciplined approach to the acquisition of mortgage loans and generally participate in these products when we believe we are appropriately compensated for the credit risk. For the 17% of single-family mortgages underlying our guaranteed PCs and Structured Securities with greater than 80% estimated current LTV ratios the borrowers had a weighted average credit score at origination of 705 as of both September 30, 2007 and December 31, 2006. Similarly, for the 13% of single-family mortgages underlying our guaranteed PCs and Structured Securities where the average credit score at origination was less than 660, the average estimated current LTV ratios were 67% and 63% at September 30, 2007 and December 31, 2006, respectively.

The composition of our mortgage portfolio, as described in “Table 23 — Product Distribution,” at September 30, 2007 generally remained consistent with that at December 31, 2006, except for an increase in interest-only mortgages and a decrease in 15-year mortgages and ARMs.

Table 23 summarizes the product distribution of our mortgage portfolio.

Table 23 — Product Distribution⁽¹⁾

	<u>September 30, 2007</u>	<u>December 31, 2006</u>
	(dollars in millions)	
<i>Single-family:</i>		
30-year amortizing fixed-rate ⁽²⁾	64%	63%
15-year amortizing fixed-rate	16	19
ARMs	5	7
Option ARMs	1	1
Interest-only	9	5
Balloon/resets	1	1
Other	<u>1</u>	<u>1</u>
<i>Total single-family</i>	97%	97%
<i>Multifamily:</i>		
Conventional	<u>3%</u>	<u>3%</u>
<i>Total multifamily</i>	<u>3%</u>	<u>3%</u>
Total	<u>100%</u>	<u>100%</u>
Amounts related to:		
Guaranteed PCs and Structured Securities:		
Single-family	\$1,634,500	\$1,442,306
Multifamily	7,767	8,415
Structured Securities backed by non-Freddie Mac mortgage-related securities ⁽³⁾	22,509	26,302
Mortgage loans in the retained portfolio:		
Single-family	23,377	20,640
Multifamily	49,650	45,207
Total	<u>\$1,737,803</u>	<u>\$1,542,870</u>

(1) Based on unpaid principal balances. Excludes non-Freddie Mac mortgage-related securities held in our retained portfolio, but includes those that underlie Freddie Mac Structured Securities.

(2) Includes 40-year and 20-year fixed-rate mortgages.

(3) Consists of Structured Transactions and that portion of Structured Securities that are backed by Ginnie Mae Certificates.

We periodically issue Structured Securities backed by mortgage loans or mortgage-related securities using collateral pools transferred to trusts that were specifically created for the purpose of issuing the securities. These trusts issue various senior interests, subordinated interests or both. We purchase interests, including senior interests, of the trusts and simultaneously issue and guarantee Structured Securities backed by these interests. We refer to these Structured Securities as Structured Transactions. Although Structured Transactions generally have underlying mortgage loans with higher risk characteristics, they may afford us credit protection from losses due to the underlying structure employed and additional credit enhancement features.

Subprime Loans

Participants in the mortgage market often characterize single-family loans based upon their overall credit quality at the time of origination, generally considering them to be prime or subprime. There is no universally accepted definition of subprime. The subprime segment of the mortgage market primarily serves borrowers with poorer credit payment histories and such loans typically have a mix of credit characteristics that indicate a higher likelihood of default and higher loss severities than prime loans. Such characteristics might include a combination of high loan-to-value ratios, low credit scores or originations using lower underwriting standards such as limited or no documentation of a borrower’s income. The subprime market helps certain borrowers by broadening the availability of mortgage credit.

We estimate that approximately \$5 billion and \$3 billion of loans underlying our Structured Transactions at September 30, 2007 and December 31, 2006, respectively, were classified as subprime mortgage loans. With respect to our retained portfolio, at September 30, 2007 and December 31, 2006, we held investments of approximately \$105 billion and \$124 billion, respectively, of non-agency mortgage-related securities backed by subprime loans. These securities include significant credit enhancement, particularly through subordination, and approximately 97.6% of these securities were rated AAA at November 15, 2007.

Between September 30 and November 15, 2007, credit ratings for several mortgage-related securities backed by subprime loans with an aggregate unpaid principal balance of \$2.5 billion were downgraded from AAA to a lesser investment-grade rating by at least one nationally recognized statistical rating organization. To date, we have not recorded any impairment charges on these securities because we have the ability and intent to hold these securities for a period of time sufficient to recover all unrealized losses; however, since these are designated as available-for-sale securities, there are \$55 million of unrealized losses, net as of September 30, 2007 that are reflected in AOCI. We expect that these and any further credit downgrades of our non-agency mortgage-related securities backed by subprime loans will result in declines in their fair value.

To support our mission, we announced on April 18, 2007 that we will purchase up to \$20 billion in fixed-rate and hybrid ARM products that will provide lenders with more choices to offer subprime borrowers. The products are intended to be consumer-friendly mortgages for borrowers that will limit payment shock by offering reduced adjustable-rate margins, longer fixed-rate terms and longer reset periods than existing similar products. Subsequent to our announcement, we have entered into purchase commitments of \$181 million of mortgages on primary residence, single-family properties specifically pursuant to this commitment. We also fulfill this commitment through purchases of refinance mortgages made to credit challenged borrowers, who may have previously been served by the subprime mortgage market. We have purchased approximately \$15 billion of refinance mortgages meeting this criterion as of September 30, 2007.

Alt-A Loans

Many mortgage market participants classify single-family loans with credit characteristics that range between their prime and subprime categories as Alt-A because these loans have a combination of characteristics of each category or may be underwritten with lower or alternative documentation than a full documentation mortgage loan. Although there is no universally accepted definition of Alt-A, industry participants have used this classification principally to describe loans for which the underwriting process has been streamlined in order to reduce the documentation requirements of the borrower or allow alternative documentation.

We principally acquire mortgage loans originated as Alt-A from our traditional lenders that largely specialize in originating prime mortgage loans. These lenders typically originate Alt-A loans as a complementary product offering and generally follow an origination path similar to that used for their prime origination process. In determining our Alt-A exposure in loans underlying our single-family mortgage portfolio, we have classified mortgage loans as Alt-A if the lender that delivers them to us has classified the loans as Alt-A, or if the loans had reduced documentation requirements which indicate that the loan should be classified as Alt-A. We estimate that approximately \$131 billion, or 8%, of loans underlying our single-family mortgage portfolio at September 30, 2007 were classified as Alt-A mortgage loans. For these loans, our average credit score was 715 and our estimated current average LTV ratio was 72%.

We also invest in non-agency mortgage-related securities backed by Alt-A loans in our retained portfolio. We have classified these securities as Alt-A if the securities were labeled as Alt-A when sold to us or we believe the underlying collateral includes a significant amount of Alt-A loans. We believe that \$53 billion and \$54 billion of our single-family non-agency mortgage-related securities that are not backed by subprime loans are generally backed by Alt-A mortgage loans at September 30, 2007 and December 31, 2006, respectively. We have focused our purchases on credit-enhanced, senior tranches of these securities, which provides additional protection due to subordination. Approximately 99.9% of these securities were rated AAA as of September 30, 2007 and none had been downgraded as of November 15, 2007.

Guidance on Non-traditional Mortgage Product Risks and Subprime Mortgage Lending

In October 2006, five federal financial institution regulatory agencies jointly issued the Interagency Guidance that updated earlier guidance and clarified how financial institutions should offer non-traditional mortgage products in a safe and sound manner and in a way that clearly discloses the risks that borrowers may assume. In June 2007, the same financial institution regulatory agencies published the final Subprime Statement, which addresses risks relating to subprime short-term hybrid ARMs. The Interagency Guidance and the Subprime Statement set forth principles that regulated financial institutions originating non-traditional mortgages and subprime short-term hybrid ARMs should follow with respect to their underwriting practices, including providing borrowers with clear and balanced information about the relative benefits and risks of these products sufficiently early in the process to enable them to make informed decisions.

OFHEO has directed us to adopt practices consistent with the risk management, underwriting and consumer protection principles of the Interagency Guidance and the Subprime Statement for non-traditional mortgages and subprime short-term hybrid ARMs that we purchase or which back non-agency mortgage-backed securities in which we invest. In response, in July 2007, we informed our customers of new underwriting and disclosure requirements for non-traditional mortgages. In September 2007, we informed our customers and other counterparties of similar new requirements for subprime short-term hybrid ARMs we purchase and for both subprime short-term hybrid ARMs and non-traditional mortgages backing non-agency mortgage-backed securities in which we invest. These new requirements are also consistent with our announcement made in February 2007 stating that we would implement stricter investment standards for certain subprime ARMs originated after September 1, 2007, and develop new mortgage products providing lenders with more choices to offer subprime borrowers. These changes could reduce the number of non-traditional and subprime mortgages available to us for purchase, potentially affecting our profitability, or our ability to achieve our housing goals and subgoals.

Credit Performance

Performing and Non-Performing Assets

We have classified single-family loans in our total mortgage portfolio that are past due for 90 days or more (seriously delinquent) or whose contractual terms have been modified due to the financial difficulties of the borrower as non-performing assets. Similarly, multifamily loans are classified as non-performing assets if they are 60 days or more past due (seriously delinquent), if collectibility of principal and interest is not reasonably assured based on an individual loan level assessment, or if their contractual terms have been modified due to financial difficulties of the borrower. Table 24 provides detail of performing and non-performing assets within our total mortgage portfolio.

Table 24 — Performing and Non-Performing Assets⁽¹⁾

	September 30, 2007			Total
	Performing ⁽²⁾ Assets	Non-Performing Assets		
		Less Than 90 Days Past Due ⁽³⁾	Seriously Delinquent ⁽⁴⁾	
(in millions)				
<i>Mortgage loans in retained portfolio</i>				
Multifamily	\$ 49,331	\$ —	\$ 3	\$ 49,334
Multifamily loans purchased under financial guarantees ⁽⁵⁾	—	—	30	30
Multifamily troubled debt restructurings	—	286	—	286
Subtotal, mortgage loans in retained portfolio, multifamily	49,331	286	33	49,650
Single-family	13,497	—	741	14,238
Single-family loans purchased under financial guarantees ⁽⁵⁾	2,182	—	3,880	6,062
Single-family troubled debt restructurings	—	2,558	519	3,077
Subtotal, mortgage loans in retained portfolio, single-family	15,679	2,558	5,140	23,377
Subtotal, mortgage loans in retained portfolio	65,010	2,844	5,173	73,027
<i>Guaranteed PCs and Structured Securities issued</i>				
Multifamily	7,715	—	—	7,715
Multifamily troubled debt restructurings	—	52	—	52
Single-family ⁽⁶⁾	1,631,359	—	3,141	1,634,500
Structured Securities backed by non-Freddie Mac mortgage-related securities ⁽⁷⁾	21,551	—	958	22,509
Subtotal, guaranteed PCs and Structured Securities issued	1,660,625	52	4,099	1,664,776
<i>REO, Net</i>	—	—	1,321	1,321
Totals	\$1,725,635	\$2,896	\$10,593	\$1,739,124

	December 31, 2006			Total
	Performing ⁽²⁾ Assets	Non-Performing Assets		
		Less Than 90 Days Past Due ⁽³⁾	Seriously Delinquent ⁽⁴⁾	
(in millions)				
<i>Mortgage loans in retained portfolio</i>				
Multifamily	\$ 44,845	\$ —	\$ —	\$ 44,845
Multifamily troubled debt restructurings	—	362	—	362
Subtotal, mortgage loans in retained portfolio, multifamily	44,845	362	—	45,207
Single-family	13,819	—	1,090	14,909
Single-family loans purchased under financial guarantees ⁽⁵⁾	1,180	—	1,862	3,042
Single-family troubled debt restructurings	—	2,219	470	2,689
Subtotal, mortgage loans in retained portfolio, single-family	14,999	2,219	3,422	20,640
Subtotal, mortgage loans in retained portfolio	59,844	2,581	3,422	65,847
<i>Guaranteed PCs and Structured Securities issued</i>				
Multifamily	8,333	—	30	8,363
Multifamily troubled debt restructurings	—	52	—	52
Single-family ⁽⁶⁾	1,440,585	—	1,721	1,442,306
Structured Securities backed by non-Freddie Mac mortgage-related securities ⁽⁷⁾	25,305	—	997	26,302
Subtotal, guaranteed PCs and Structured Securities issued	1,474,223	52	2,748	1,477,023
<i>REO, Net</i>	—	—	743	743
Totals	\$1,534,067	\$2,633	\$ 6,913	\$1,543,613

(1) Based on unpaid principal balance.

(2) Consists of single-family loans that are less than 90 days past due and multifamily loans less than 60 days past due under the original terms of the mortgage as of period end.

(3) Represents loans for which the original loan terms have been modified, including single-family loans that were previously reported as seriously delinquent.

(4) Consists of single-family loans 90 days or more delinquent or in foreclosure and multifamily loans 60 days or more delinquent as of period end. Delinquency status does not apply to REO; however, REO is included in non-performing assets.

(5) Represents those loans purchased from the mortgage pools underlying PCs, Structured Securities or long-term standby agreements due to the borrower's delinquency. Generally, once we purchase a loan under our financial guarantee it is placed on non-accrual status as long as it remains greater than 90 days past due.

(6) Once a loan in this category is delinquent for 120 days it is generally repurchased out of the security and becomes part of our retained portfolio. Excludes Structured Securities that we classify separately as Structured Transactions.

(7) Consists of Structured Transactions and that portion of Structured Securities that are backed by Ginnie Mae certificates.

The amount of non-performing assets increased 41% during the nine months ended September 30, 2007, to approximately \$13.5 billion, from \$9.5 billion at December 31, 2006, due to increases in the average size of seriously delinquent loans compared to 2006, continued deterioration in single-family housing market fundamentals, as well as higher volume associated with portfolio growth. The delinquency transition rate is the percentage of delinquent loans that proceed to foreclosure or are modified as troubled debt restructurings. This rate increased during the nine months ended September 30, 2007, compared to the same period in 2006. The changes in these delinquency transition rates, as compared to our historical experience, have been progressively worse for loans originated in 2006 and 2007. We believe this trend is, in part, due to greater origination volume of non-traditional loans, such as interest-only mortgages. As a result, the balance of our REO, net, increased 78% during the nine months ended September 30, 2007. Until nationwide home prices return to historical appreciation rates or selected regional economies improve, we expect to continue to experience higher delinquency transition rates than those experienced in 2006 and an increase in non-performing assets.

Delinquencies

We report single-family delinquency rate information based on the number of loans that are 90 days or more past due. For multifamily loans, we report the mortgage loans as delinquent when payment is 60 days or more past due. See "NOTE 5: LOAN LOSS RESERVES — Table 5.5 — Delinquency Performance" to our consolidated financial statements for the delinquency performance of our single-family and multifamily mortgage portfolios. Table 25 presents our single-family delinquency rates.

Table 25 — Single-Family — Delinquency Rates, Excluding Structured Transactions — By Region⁽¹⁾

	September 30, 2007		December 31, 2006	
	Percent of Unpaid Principal Balance ⁽²⁾	Delinquency Rate ⁽³⁾	Percent of Unpaid Principal Balance ⁽²⁾	Delinquency Rate ⁽³⁾
Northeast	24%	0.31%	24%	0.24%
Southeast	18	0.43	18	0.30
North Central	22	0.39	21	0.32
Southwest	12	0.27	13	0.26
West	24	0.26	24	0.12
	<u>100%</u>		<u>100%</u>	
Total non-credit-enhanced — all regions		0.34		0.25
Total credit-enhanced — all regions		1.34		1.30
Total single-family portfolio		0.51		0.42

(1) Presentation of non-credit-enhanced delinquency rates with the following regional designation: West (AK, AZ, CA, GU, HI, ID, MT, NV, OR, UT, WA); Northeast (CT, DE, DC, MA, ME, MD, NH, NJ, NY, PA, RI, VT, VA, WV); North Central (IL, IN, IA, MI, MN, ND, OH, SD, WI); Southeast (AL, FL, GA, KY, MS, NC, PR, SC, TN, VI); and Southwest (AR, CO, KS, LA, MO, NE, NM, OK, TX, WY).

(2) Percentages are based on mortgage loans in the retained portfolio and total guaranteed PCs and Structured Securities issued, excluding that portion of Structured Securities that is backed by Ginnie Mae Certificates.

(3) Percentages are based on mortgage loans in the retained portfolio and total guaranteed PCs and Structured Securities issued, excluding that portion of Structured Securities that is backed by Ginnie Mae Certificates and Structured Transactions. Delinquency rates on Structured Transactions were 9.01% and 8.36% at September 30, 2007 and December 31, 2006, respectively. At September 30, 2007 and December 31, 2006, the balances of Structured Transactions represented approximately 1% of our total mortgage portfolio. The delinquency rate of the total single-family portfolio, including Structured Transactions, was 0.62% and 0.54% as of September 30, 2007 and December 31, 2006, respectively.

In the second half of 2006 and continuing for the nine months ended September 30, 2007, there has been a significant decrease in the rate of home price appreciation and most regions have seen declines in home prices. In some geographical areas, particularly in the North Central region, this decline has been combined with increased rates of unemployment and weakness in home sales, which has resulted in increases in delinquency rates throughout 2007. The East and West coastal areas of the country have also experienced home price declines during 2007 and, as a result, we experienced increases in delinquency rates in the Northeast, Southeast and West regions during the nine months ended September 30, 2007.

Increases in delinquency rates occurred in all product types during the nine months ended September 30, 2007, but were most significant for interest-only and option ARM mortgages. Delinquency rates for interest-only and option ARM products, which together represented approximately 10% of our total mortgage guarantee portfolio at September 30, 2007, increased to 121 and 130 basis points at September 30, 2007, respectively, compared with 44 and 31 basis points at December 31, 2006, respectively. The delinquency rate on our total single-family portfolio, excluding that portion of Structured Securities that is backed by Ginnie Mae Certificates and Structured Transactions, was 51 basis points at September 30, 2007. Although we believe our delinquency rates have remained low relative to conforming loan delinquency rates of other industry participants, we expect our delinquency rates to continue to rise over the remainder of 2007 and into 2008.

Table 26 presents activities related to loans purchased under financial guarantees for the three and nine months ended September 30, 2007.

Table 26 — Changes in Loans Purchased Under Financial Guarantees⁽¹⁾

	Three Months Ended September 30, 2007			
	Unpaid Principal Balance	Purchase Discount	Loan Loss Reserves	Net Investment
	(in millions)			
Beginning balance	\$4,791	\$ (566)	\$ (10)	\$4,215
Purchases of loans	2,532	(697)	—	1,835
Provision for credit losses	—	—	(32)	(32)
Principal repayments	(360)	45	1	(314)
Troubled debt restructurings ⁽²⁾	(148)	28	—	(120)
Foreclosures, transferred to REO	(723)	108	4	(611)
Ending balance ⁽³⁾	<u>\$6,092</u>	<u>\$ (1,082)</u>	<u>\$ (37)</u>	<u>\$4,973</u>
	Nine Months Ended September 30, 2007			
	Unpaid Principal Balance	Purchase Discount	Loan Loss Reserves	Net Investment
	(in millions)			
Beginning balance	\$ 3,042	\$ (201)	\$ —	\$ 2,841
Purchases of loans	6,225	(1,237)	—	4,988
Provision for credit losses	—	—	(45)	(45)
Principal repayments	(1,105)	109	2	(994)
Troubled debt restructurings ⁽²⁾	(460)	57	—	(403)
Foreclosures, transferred to REO	(1,610)	190	6	(1,414)
Ending balance ⁽³⁾	<u>\$ 6,092</u>	<u>\$ (1,082)</u>	<u>\$ (37)</u>	<u>\$ 4,973</u>

(1) Consists of seriously delinquent loans purchased in performance of our financial guarantee since January 1, 2006.

(2) Consist of loans that have transitioned into troubled debt restructurings during the stated period.

(3) Includes \$1.3 billion and \$1.1 billion of contractual balance and net investment in loans, respectively, that have subsequently returned to current status under the original loan terms at September 30, 2007.

We have the right to purchase mortgages that back our financial guarantees from the underlying loan pools when they are significantly past due. This right to repurchase collateral is known as our repurchase option. We record at fair value loans that we purchase out of our guaranteed PCs and Structured Securities held by third parties in connection with our repurchase option. We record losses on loans purchased on our consolidated statements of income in order to reduce our net investment in the acquired loan to its fair value. Loans that we purchase out of PCs we hold in our retained portfolio, in connection with our repurchase option, are recorded at their carrying amount. The carrying amount generally approximates fair value because the related PC residual is generally accounted for at fair value with changes in market valuations recorded in our consolidated statements of income.

We expect that we will continue to incur losses on the purchase of non-performing loans during the remainder of 2007 and into 2008. However, the volume and severity of these losses is dependent on many factors, including the rate of home price appreciation and changes in the market environment for non-performing assets. In the current market, we believe there is a disparity between fair values of these loans and the actual amounts we ultimately expect to recover. Based on the reperformance rate experienced on these loans as well as our access to credit enhancement remedies that are not considered in the market determination of the loan's fair value, we believe our recoveries should exceed the recorded net investment in these purchased loans, in the aggregate. However, there can be no assurance that this will occur.

The recapture of losses previously recognized on purchased loans may occur when a borrower repays the loan or with the proceeds from the disposition of the REO obtained as a result of foreclosure. As indicated in Table 26, at December 31, 2006, there was a \$201 million purchase discount representing the difference between contractual loan balances and the prevailing market values at acquisition for those non-performing loans that we purchased from PC and mortgage loan pools in fulfillment of our guarantees. For loans purchased out of mortgage loan pools during 2006, we have subsequently recaptured approximately 53% of the purchase discount recorded on those loans as of September 30, 2007. Loans acquired during the nine months ended September 30, 2007 added \$1.2 billion of purchase discount, which reflects: (a) \$379 million that was previously recorded on our consolidated balance sheets either as reserve for guarantee losses on PCs, net guarantee obligation, or PC residuals if the related PC was held in our retained portfolio; and (b) \$858 million of losses on loans purchased as shown on our consolidated statements of income.

The unpaid principal balance of non-performing loans that have been purchased under our financial guarantees and that have not been modified under troubled debt restructurings increased approximately 100% during the nine months ended September 30, 2007. This increase is attributable to an increase in the volume of loans purchased under our financial guarantees as well as an increase in the average size of the unpaid principal balance of those loans. During the period, we purchased approximately \$6.2 billion in contractual balances of these loans with a fair value of \$5.0 billion. In resolution and disposition of loans purchased under financial guarantees during the nine months ended September 30,

2007, \$1.6 billion, of these loans proceeded to foreclosure and \$1.6 billion of these loans were either repaid or were modified under a troubled debt restructuring. There were approximately 46,000 and 27,000 of these mortgages remaining at September 30, 2007 and December 31, 2006, respectively.

Credit Loss Performance

Some loans that are delinquent or in foreclosure result in credit losses. Table 27 provides detail on our credit loss performance associated with mortgage loans in our retained portfolio, including those purchased out of PCs and Structured Securities.

Table 27 — Credit Loss Performance

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
	(dollars in millions)			
REO				
REO balances:				
Single-family	\$ 1,321	\$ 665	\$ 1,321	\$ 665
Multifamily	—	10	—	10
Total	<u>\$ 1,321</u>	<u>\$ 675</u>	<u>\$ 1,321</u>	<u>\$ 675</u>
REO activity ⁽¹⁾ (number of properties):				
Beginning property inventory	10,260	8,302	8,785	8,070
Properties acquired	5,905	4,007	15,556	12,221
Properties disposed	(4,249)	(3,976)	(12,425)	(11,958)
Ending property inventory	<u>11,916</u>	<u>8,333</u>	<u>11,916</u>	<u>8,333</u>
Average holding period ⁽²⁾ (in days)	165	168	168	177
REO operations income (expense):				
Single-family	\$ (50)	\$ (20)	\$ (80)	\$ (39)
Multifamily	(1)	1	(1)	1
Total	<u>\$ (51)</u>	<u>\$ (19)</u>	<u>\$ (81)</u>	<u>\$ (38)</u>
CHARGE-OFFS				
Single-family:				
Charge-offs, gross ⁽³⁾ (including \$97 million, \$75 million, \$266 million and \$227 million relating to loan loss reserves, respectively)	\$ (133)	\$ (75)	\$ (340)	\$ (227)
Recoveries	61	40	161	122
Single-family, net	<u>\$ (72)</u>	<u>\$ (35)</u>	<u>\$ (179)</u>	<u>\$ (105)</u>
Multifamily:				
Charge-offs, gross (including \$3 million, \$5 million, \$3 million and \$5 million relating to loan loss reserves, respectively)	\$ (3)	\$ (5)	\$ (3)	\$ (5)
Recoveries	—	—	—	—
Multifamily, net	<u>(3)</u>	<u>(5)</u>	<u>(3)</u>	<u>(5)</u>
Total charge-offs, net	<u>\$ (75)</u>	<u>\$ (40)</u>	<u>\$ (182)</u>	<u>\$ (110)</u>
CREDIT LOSSES⁽⁴⁾				
Single-family	\$ (122)	\$ (55)	\$ (259)	\$ (144)
Multifamily	(4)	(4)	(4)	(4)
Total	<u>\$ (126)</u>	<u>\$ (59)</u>	<u>\$ (263)</u>	<u>\$ (148)</u>
In basis points ⁽⁵⁾ (annualized):				
Single-family	2.9	1.5	2.1	1.3
Multifamily	0.1	0.1	0.1	0.1
Total	<u>3.0</u>	<u>1.6</u>	<u>2.2</u>	<u>1.4</u>

(1) Includes single-family and multifamily REO properties.

(2) Represents weighted average holding period for single-family and multifamily based on number of REO properties.

(3) Charge-offs represent the amount of the unpaid principal balance of a loan that has been discharged in order to remove the loan from our retained portfolio at the time of resolution, regardless of when the impact of the credit loss was recorded on our consolidated statements of income through the provision for credit losses or losses on loans purchased. The amount of charge-offs for credit loss performance is generally derived as the contractual balance of a loan at the date it is discharged less the estimated value in final disposition.

(4) Equal to REO operations expense plus charge-offs, net.

(5) Calculated as annualized credit losses divided by the average total mortgage portfolio, excluding non-Freddie Mac mortgage-related securities and that portion of Structured Securities that is backed by Ginnie Mae Certificates.

Our credit loss performance is an indicator of the effectiveness of both risk management and loss mitigation strategies. However, this indicator is a historical metric that measures losses at the conclusion of a delinquent loan resolution process, which may occur several years from the point of initial delinquency. While our credit losses have shown an increase from the prior year, our credit losses, net of recoveries, remain modest, at 2.2 basis points of the average balance of the total mortgage portfolio, excluding non-Freddie Mac mortgage-related securities and that portion of Structured Securities that is backed by Ginnie Mae Certificates, for the nine months ended September 30, 2007. Our credit loss performance above does not include an estimate of probable incurred losses in the three and nine month

periods on mortgage loans held-for-investment in the retained portfolio and mortgages underlying PCs held by third parties. These unrealized losses are recorded in our provision for credit losses and losses on loans purchased in our consolidated financial statements. We expect our credit losses to continue to increase in 2007 and 2008, especially if housing market conditions, such as home prices and the rate of home sales, continue to deteriorate.

Table 28 — Single-Family Charge-offs and Recoveries By Region^{(1) (2)}

	Three Months Ended September 30,					
	2007			2006		
	Charge-offs, gross	Recoveries	Charge-offs, net	Charge-offs, gross	Recoveries	Charge-offs, net
Northeast	\$ 12	\$ (6)	\$ 6	\$ 5	\$ (2)	\$ 3
Southeast	27	(14)	13	15	(8)	7
North Central	59	(24)	35	35	(17)	18
Southwest	21	(11)	10	18	(12)	6
West	14	(6)	8	2	(1)	1
Total	<u>\$133</u>	<u>\$(61)</u>	<u>\$72</u>	<u>\$75</u>	<u>\$(40)</u>	<u>\$35</u>

	Nine Months Ended September 30,					
	2007			2006		
	Charge-offs, gross	Recoveries	Charge-offs, net	Charge-offs, gross	Recoveries	Charge-offs, net
Northeast	\$ 31	\$ (15)	\$ 16	\$ 16	\$ (6)	\$ 10
Southeast	72	(39)	33	53	(31)	22
North Central	148	(65)	83	97	(48)	49
Southwest	63	(31)	32	55	(33)	22
West	26	(11)	15	6	(4)	2
Total	<u>\$340</u>	<u>\$(161)</u>	<u>\$179</u>	<u>\$227</u>	<u>\$(122)</u>	<u>\$105</u>

(1) See “Table 25 — Single-Family — Delinquency Rates, Excluding Structured Transactions — By Region” for a description of these regions.

(2) Includes recoveries of charge-offs primarily resulting from foreclosure alternatives and REO acquisitions on loans where a share of default risk has been assumed by mortgage insurers, servicers, or other third parties through credit enhancements. Recoveries of charge-offs through credit enhancements are limited in some instances to amounts less than the full amount of the loss.

Single-family charge-offs, gross, in the nine months ended September 30, 2007 increased by 50% compared to those in the nine months ended September 30, 2006, primarily due to an increase in the volume of REO properties acquired at foreclosure. The volume of single-family REO additions increased 27% for the nine months ended September 30, 2007 as compared to the nine months ended September 30, 2006. The severity of charge-offs during 2007 has increased due to declines in regional housing markets as well as lower third-party mortgage insurance coverage on newer portfolio purchases resulting in higher per-property losses. The combination of these factors led to an approximate 38% increase in the average single-family per-property charge-off, after giving effect to recoveries, for the three months ended September 30, 2007 compared to the three months ended September 30, 2006.

CONTROLS AND PROCEDURES

Operational risks are inherent in all of our business activities and can become apparent in various ways, including accounting or operational errors, business interruptions, fraud, failures of the technology used to support our business activities and other operational challenges resulting from failed or inadequate internal controls. We face a number of material weaknesses and significant deficiencies in our internal control over financial reporting. These operational risks may expose us to financial loss, may delay or interfere with our ability to return to and sustain timely financial reporting or may result in other adverse consequences.

Disclosure Controls and Procedures

Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that the information we are required to disclose in our financial reports is accumulated and communicated to senior management, as appropriate, to allow timely decisions regarding required disclosure. We are currently documenting and evaluating the design of our disclosure controls and procedures.

Internal Control Over Financial Reporting

As discussed in “MD&A — RISK MANAGEMENT — Operational Risks” in our 2006 Information Statement, we have material weaknesses and significant deficiencies in our internal control over financial reporting. Based on the existence of the material weaknesses, our Chief Executive Officer and Chief Financial Officer concluded that our internal control over financial reporting was ineffective at December 31, 2006. Since that time, we have made a number of improvements to our internal control over financial reporting as described below. We believe our efforts to date to remediate our material weaknesses and significant deficiencies have continued to strengthen our control environment since December 31, 2006. However, material weaknesses and significant deficiencies continue to impact our financial

reporting in 2007. The complexity associated with the interdependent nature of key elements of our remediation efforts may also continue to affect the timing and impact of such efforts. As we continue our remediation activities, we may identify additional material weaknesses, significant deficiencies or other operational issues in our internal controls or conclude that significant deficiencies we have already identified should be regarded as material weaknesses, either individually or in the aggregate. The improvements to the processes and controls that we put in place to remediate our control deficiencies need to operate for a period of time to enable us to evaluate their effectiveness. Additionally, the controls described below that we have put in place through our remediation efforts have not been subject to assessment by our external auditors in the course of their audit of our annual consolidated financial statements.

We performed extensive verification and validation procedures to provide reasonable assurance that our September 30, 2007 consolidated financial statements were prepared in conformity with GAAP. We developed and have assessed our processes against a set of standards over internal controls for matters such as general ledger reconciliations, financial analytics and end-user computing. To assess the reliability of our financial results, we strengthened our monthly and quarterly analysis and review forums. In these forums, the business area controllers, the Corporate Controller and the Chief Financial Officer review our periodic results, the issues that arose in processing these results, our key assumptions used in the processing of financial results, the impact of process changes and the status and impact of control deficiencies. In view of these and other procedures we performed, we believe that our material weaknesses do not prevent us from preparing our September 30, 2007 consolidated financial statements in conformity with GAAP.

Overview of Progress Toward Remediation

Remediation of the material weaknesses and significant deficiencies in our financial reporting processes continues to be a top corporate priority in 2007. Our material weaknesses and planned remediation activities are described in our 2006 Information Statement. We report progress towards remediation of material weaknesses and significant deficiencies in the following stages:

- In process — We are in the process of designing and implementing controls to correct identified internal control deficiencies and conducting ongoing evaluations to ensure all deficiencies have been identified.
- Remediation activities implemented — We have designed and implemented the controls that we believe are necessary to remediate the identified internal control deficiencies.
- Remediated — After a sufficient period of operation of the controls implemented to remediate the control deficiencies, management has evaluated the controls and found them to be operating effectively.

Progress Toward Remediation of Material Weaknesses

At December 31, 2006, remediation activities were in process for all of our material weaknesses. Our progress toward remediation of the material weaknesses is summarized below.

<u>Material Weaknesses</u>	<u>Remediation Progress as of August 30, 2007</u>	<u>Remediation Progress as of November 20, 2007</u>
Integration between Operations and Finance		
Systems and processes related to our operational and financial accounting systems and to our financial close process are not adequately integrated. The components of this weakness are:		
• Data Hand-offs — Controls over data hand-offs between business units and from external providers need to be improved.	In process	In process
• Financial Close Process — The financial close process needs better coordination between business unit accounting teams and corporate accounting and reporting teams, and improved monitoring of the process.	Remediation activities implemented	Remediated
• Complex Transactions Processing — Controls over the processing of complex structured securitization transactions need to be improved.	Remediation activities implemented	Remediation activities implemented
• Accounting Policy Linkage — Processing performed by financial applications needs to be evaluated for appropriate linkage to accounting policies.	In process	In process
Monitoring Controls within Financial Operations		
Monitoring controls and analytics within financial operations failed to detect significant errors and escalate issues to management prior to external disclosure of financial results.	In process	In process
Information Technology General Controls — Access to Data and Security Administration		
Controls over monitoring of users with direct access to data, segregation of duties and administration of user access to applications and data are not adequately designed and enforced.	In process	Remediation activities implemented
Information Technology General Controls — Change Management		
Policies and procedures for making program and data changes are inadequate and controls over system development testing, approval and quality assurance are not operating effectively.	In process	In process
Management Self-Assessment		
Self-assessment processes do not enable management to timely identify, document and remediate control deficiencies within the financial reporting process.	In process	In process
Adequacy of Staffing		
Vacancies in leadership and key staff positions increase operational risk in our financial reporting processes. Individual accountability for risk management is not embedded in our corporate culture.	Remediated	Remediated

Material Weakness We Remediated

Adequacy of Staffing

We filled our leadership and critical staff position vacancies and made significant progress in resolving single-person critical dependencies. We also implemented an on-going process designed to identify and resolve critical vacancies in an expeditious manner through better coordination between our human resources professionals and our business units. In addition, we developed and have initiated a series of programs designed to enhance our management of human resources and to create and sustain a more effective culture of accountability. These programs include improvements to our performance management process, development of broad-based risk and control training programs and more effective workforce planning. We are continuing to implement programs and processes related to assuring adequate staffing and risk management accountability as part of our ongoing focus in this area.

Progress Toward Remediation of Other Material Weaknesses

The discussion below describes the actions that management has taken and is in the process of taking to remediate our remaining material weaknesses. Although we have made progress on remediation of these material weaknesses, additional work remains. As we continue our remediation activities, we may identify additional material weaknesses, significant deficiencies or other operational issues in our internal control over financial reporting or conclude that significant deficiencies we already identified should be regarded as material weaknesses, either individually or in the aggregate.

Integration between Operations and Finance

Our efforts to remediate the components of this material weakness are described below:

- 1) **Data Hand-offs** — Policies and standards have been developed to define control objectives related to hand-offs of information between people, processes and systems. An extensive “end-to-end” process review is currently in progress to assess the controls over hand-offs that are in place and to identify potential design deficiencies in our existing system of internal controls. As specific control deficiencies are identified, remediation plans are designed and implemented.
- 2) **Financial Close Process** — We have made significant improvements in the coordination and execution of and control over our financial close process. These significant improvements include substantive enhancements to the coordination of our close process activities among our business unit accounting teams and corporate accounting and reporting teams as well as improvements in monitoring controls around critical elements of the financial close process. Based on our evaluation of the changes to the financial close process and related monitoring controls over the last three reporting cycles, we have determined that the process and controls are operating effectively. Although we will continue our efforts to return to timely financial reporting, we conclude that this component of the material weakness is remediated.
- 3) **Complex Transactions Processing** — We performed an in-depth review of our controls related to the processing and reporting of our more complex structured securitization transactions. For the specific deficiencies identified, we designed and implemented the controls that we believe are necessary for remediation.
- 4) **Accounting Policy Linkage** — We reviewed and ranked the relative risk of our financial applications for their impact on the application of our accounting policies. High-risk financial applications are currently being evaluated to determine whether accounting policies are appropriately applied through the processing of those applications.

Monitoring Controls within Financial Operations

We are developing and implementing monitoring controls and standards to support the accounting processes at both the business unit and corporate levels, including a more structured, in-depth analytics process. These monitoring controls, combined with a newly implemented governance and review structure, are being designed to provide for detection, escalation and remediation of accounting and reporting issues prior to external disclosure of financial results.

Information Technology General Controls — Access to Data and Security Administration

We completed the design assessment of our information technology general controls over security administration utilizing the Information Technology Governance Institute’s Control Objectives for Information Technology framework. We identified relevant control deficiencies and have implemented controls designed to ensure that data is secure and available only to authorized and appropriate users. We are in the process of testing these controls to evaluate their operating effectiveness.

Information Technology General Controls — Change Management

We developed and deployed a new change management process and a new systems development life cycle process that are based on methodologies acquired from a third party. We now require adherence to these processes and related controls for new systems development projects. Critical financial projects will be subject to a management evaluation prior to implementation. Management is conducting operational effectiveness testing for financial application projects to determine compliance with the new systems development life cycle. We have identified and are establishing the remaining functions needed to ensure a controlled, auditable development environment.

Management Self-Assessment

We designed a management self-assessment process that will provide more timely and effective identification, documentation and remediation of control deficiencies within the financial reporting process. We are currently conducting a pilot of the process within a portion of our business to validate the process and procedures for risk assessment, control effectiveness assessment, issue identification and remediation, and management attestation and reporting on internal control. We anticipate deploying the self-assessment process to each business area as the corresponding components of the end-to-end process review are completed.

Progress Toward Remediation of Significant Deficiencies

As discussed in “MD&A — RISK MANAGEMENT — Operational Risks” in our 2006 Information Statement, we previously remediated significant deficiencies related to our risk governance framework, our security impairments accounting process and our amortization of deferred premiums, discounts and fees for assets held in our retained portfolio. Our progress toward remediation of the significant deficiencies is summarized below.

<u>Significant Deficiencies</u>	<u>Remediation Progress as of August 30, 2007</u>	<u>Remediation Progress as of November 20, 2007</u>
<p>Guarantee Asset/Guarantee Obligation Governance Our process for valuation of and accounting for our guarantee asset and guarantee obligation is complex, manually intensive and dependent on end-user computing solutions, resulting in an unacceptable likelihood of risk of significant error.</p>	In process	In process
<p>End-User Computing Controls Our financial reporting processes rely on models and end-user computing solutions (other than those used in the Guarantee Asset/Guarantee Obligation Governance significant deficiency described above) that are not subject to adequate controls over their development, nor are they currently subject to adequate change control procedures.</p>	In process	In process
<p>New Products Governance Our policies and procedures for the introduction of new products are insufficient and related governance processes do not adequately ensure adherence to policies and procedures.</p>	Remediated	Remediated
<p>Tax Basis Balance Sheet We do not maintain a tax basis balance sheet to support deferred tax accounting under GAAP, which could result in balance sheet misclassifications and potential income statement adjustments.</p>	In process	In process
<p>Controls over Data Quality Controls over the quality of data used in our financial reporting process are not effective.</p>	In process	In process
<p>Simplifying Assumptions Our financial reporting process is over-reliant on simplifying assumptions, or manual work around solutions, in the application of our accounting policies. In addition, we do not adequately monitor the potential impact of these simplifying assumptions on the financial statements.</p>	Remediation activities implemented	Remediated
<p>Oversight of Models and Model Applications Our model governance and monitoring procedures (other than those used in the Guarantee Asset/Guarantee Obligation Governance significant deficiency described above) do not effectively ensure that changes to and our use of models in our financial reporting process are appropriate.</p>	Remediation activities implemented	Remediation activities implemented

Significant Deficiencies We Remediated

New Products Governance

In completing the remediation of this significant deficiency, we redesigned the processes and controls over the introduction of new products, including improving our overall procedures, implementing enhanced governance and oversight, providing training to personnel involved in developing and implementing new products and deploying post-implementation monitoring.

Simplifying Assumptions

We redesigned and implemented processes and controls over simplifying assumptions, including enhanced governance and oversight, and procedures related to the identification and governance of new assumptions. We also provided training to responsible personnel on governance, oversight, monitoring and measurement processes. Additionally, we evaluated all simplifying assumptions to determine the feasibility of eliminating the assumptions by modifying our processes and implemented changes as appropriate. We evaluated the controls we put in place to monitor the impact of remaining simplifying assumptions and found them to be operating effectively.

Progress Toward Remediation of Other Significant Deficiencies

Guarantee Assets/Guarantee Obligations Governance

We have modified our Guarantee Assets/Guarantee Obligations governance process to utilize third-party pricing and valuation data and credit quality tools that we believe are more reliable than those previously used, which were internally developed data and models. We are in the process of automating the guarantee asset accounting process to reduce our reliance on complex end-user computing solutions. We are currently performing an evaluation of the entire process to identify areas where additional oversight and control are required, and designing and implementing remediation plans when we identify control gaps.

End User Computing Controls, or EUCs

We established standards for controls over EUCs that have a significant impact on the financial reporting process. We completed an inventory of those EUCs and trained the business area owners of those EUCs on the control requirements established by the standards. We deployed a tool to provide change management and enhanced access security capabilities for EUCs. We conducted a design review of the controls over the significant EUCs to assess compliance with the standard. We continue to provide training to enhance the implementation and performance of controls over EUCs and monitor the operation of those controls to enhance their operating effectiveness. Significant EUCs used in the valuation of and accounting for our guarantee assets and guarantee obligations are addressed under the Guarantee Asset/Guarantee Obligation Governance significant deficiency.

Tax Basis Balance Sheet

We are working to complete a tax basis balance sheet and the identification of appropriately comparable financial statement asset and liability accounts to support the balance sheet measurement of cumulative temporary differences as of December 31, 2005.

Controls over Data Quality

As discussed in “*Integration between Operations and Finance — Data Hand-offs*” above, controls over data hand-offs between people, processes and systems are being assessed through the end-to-end process review effort. As specific control deficiencies are identified, we are designing and implementing remediation plans. We are also designing and implementing improved monitoring controls over the quality of data provided by loan seller/servicers.

Oversight of Models and Model Applications

We developed and implemented a governance structure for our core financial models and model application systems to monitor model risk and performance, including requirements for documentation and change management controls. We prioritized our inventory of core models based on the level of risk and implemented a review process to periodically evaluate each model for compliance with established policies and control requirements. We completed the initial evaluations of each model for compliance and we continue to evaluate the operating effectiveness of the model governance process. Our governance and monitoring procedures over models used in the valuation of and accounting for our guarantee asset and guarantee obligation are addressed under the Guarantee Asset/Guarantee Obligation Governance significant deficiency.

OFF-BALANCE SHEET ARRANGEMENTS

We enter into certain business arrangements that are not recorded on our consolidated balance sheets or may be recorded in amounts that differ from the full contract or notional amount of the transaction. Most of these arrangements relate to our financial guarantee and securitization activity for which we record guarantee-related assets and obligations, but the related securitized assets are owned by third parties. See “*MD&A — OFF-BALANCE SHEET ARRANGEMENTS*” in our 2006 Information Statement for more discussion of our off-balance sheet arrangements.

During the three months ended September 30, 2007 we entered into \$16.2 billion of long-term standby commitments for mortgage assets held by third parties that require that we purchase loans from lenders when the loans subject to these commitments meet certain delinquency criteria. We have included these transactions in the reported activity and balances of our guaranteed portfolio. Long-term standby commitments represented approximately 2% and less than 1% of the outstanding balance of our guaranteed PCs and Structured Securities as of September 30, 2007 and December 31, 2006, respectively.

As part of our credit guarantee business, we routinely enter into forward purchase and sale commitments for mortgage loans and mortgage-related securities. Some of these commitments are accounted for as derivatives. Their fair values are reported as either derivative assets, net at fair value or derivative liabilities, net at fair value on our consolidated balance sheets. Certain non-derivative commitments are related to commitments arising from mortgage swap transactions and commitments to purchase certain multifamily mortgage loans that will be classified as held-for-investment. These non-derivative commitments totaled \$230.9 billion and \$264.4 billion at September 30, 2007 and December 31, 2006, respectively. Such commitments are not accounted for as derivatives and are not recorded on our consolidated balance sheets.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in conformity with GAAP requires us to make a number of judgments, estimates and assumptions that affect the reported amounts of our assets, liabilities, income and expenses. Certain of our accounting policies, as well as estimates we make, are critical to the presentation of our financial condition and results of operations. They often require management to make difficult, complex or subjective judgments and estimates, at times, regarding matters that are inherently uncertain. Actual results could differ from our estimates and different judgments and assumptions related to these policies and estimates could have a material impact on the consolidated financial statements.

Our critical accounting policies and estimates relate to: (a) valuation of financial instruments; (b) issuances and transfers of PCs and Structured Securities; (c) derivative instruments and hedging activities; (d) credit losses; (e) amortization of cost basis adjustments using the effective interest method; and (f) impairment recognition on investments in securities. For additional information about our critical accounting policies and estimates and other significant accounting policies, including recently issued accounting pronouncements, see “MD&A — CRITICAL ACCOUNTING POLICIES AND ESTIMATES” and “NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES” to our consolidated financial statements in our 2006 Information Statement.

OUR PORTFOLIOS

Table 29 — Freddie Mac’s Total Mortgage Portfolio Based on Unpaid Principal Balances⁽¹⁾

	September 30, 2007		December 31, 2006	
	Amount	% of Total Mortgage Portfolio	Amount	% of Total Mortgage Portfolio
	(dollars in millions)			
Outstanding guaranteed PCs and Structured Securities ⁽²⁾	\$1,308,771	64%	\$1,122,761	61%
Retained portfolio:				
PCs and Structured Securities	356,005	18	354,262	19
Non-Freddie Mac mortgage-related securities:				
Agency mortgage-related securities	48,281	2	45,385	3
Non-agency mortgage-related securities	235,851	12	238,465	13
Total non-Freddie Mac mortgage-related securities	284,132	14	283,850	16
Mortgage loans	73,027	4	65,847	4
Total retained portfolio ⁽³⁾	713,164	36	703,959	39
Total mortgage portfolio	<u>\$2,021,935</u>	<u>100%</u>	<u>\$1,826,720</u>	<u>100%</u>

(1) Excludes mortgage loans and mortgage-related securities traded, but not yet settled.

(2) Represent guaranteed PCs and Structured Securities held by third parties.

(3) See “CONSOLIDATED BALANCE SHEETS ANALYSIS — Retained Portfolio — Table 10 — Characteristics of Mortgage Loans and Mortgage-Related Securities in the Retained Portfolio” for a reconciliation of the retained portfolio amounts shown in this table to the amounts shown under such caption in conformity with GAAP on our consolidated balance sheets.

During the nine months ended September 30, 2007 and 2006, we grew our portfolio of guaranteed PCs and Structured Securities outstanding at an annualized rate of 22% and 15%, respectively. We have increased our securitization volume of non-traditional mortgage products in the last two years in response to newer products within the mortgage origination market. For example, interest-only loans represented approximately 23% and 14% of our securitization volume during the nine months ended September 30, 2007 and 2006, respectively. Although we charge higher guarantee fees for interest-only mortgages, we have limited historical performance experience with this product. Total non-traditional mortgage products, including those designated as Alt-A loans, made up approximately 33% and 24% of our mortgage purchase volume in the nine months ended September 30, 2007 and 2006, respectively. See “QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK” for additional information regarding our non-traditional mortgage loans, including delinquency rate information. Despite an increase in the purchase of variable-rate mortgages in the last few years, long-term fixed-rate mortgages comprised approximately 80% of our credit guarantee portfolio at September 30, 2007. We impose risk management thresholds on purchases of certain new products for which we have limited historical experience.

Table 30 summarizes purchases into our total mortgage portfolio.

Table 30 — Total Mortgage Portfolio Activity Detail⁽¹⁾

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2007		2006		2007		2006	
	Amount	% of Purchase Amounts	Amount	% of Purchase Amounts	Amount	% of Purchase Amounts	Amount	% of Purchase Amounts
(dollars in millions)								
New business purchases:								
Single-family mortgage purchases:								
Conventional:								
Amortizing fixed-rate ⁽²⁾	\$ 98,518	76%	\$ 71,101	74%	\$260,957	71%	\$204,891	74%
ARMs/variable-rate ⁽³⁾	2,101	2	3,838	4	11,075	3	13,936	5
Interest-only ⁽⁴⁾	22,391	17	16,006	17	83,301	23	39,798	14
Balloon/resets ⁽⁵⁾	13	—	85	—	45	—	404	—
FHA/VA ⁽⁶⁾	2	—	816	—	146	—	816	1
Rural Housing Service and other federally guaranteed loans	49	—	52	—	135	—	129	—
Total single-family	123,074	95	91,898	95	355,659	97	259,974	94
Multifamily:								
Conventional	3,504	3	2,687	3	9,158	2	9,274	3
Total multifamily	3,504	3	2,687	3	9,158	2	9,274	3
Total mortgage purchases	126,578	98	94,585	98	364,817	99	269,248	97
Non-Freddie Mac mortgage-related securities purchased for Structured Securities:								
Ginnie Mae Certificates	4	—	6	—	44	—	40	—
Structured Transactions ⁽⁷⁾	2,817	2	1,684	2	3,017	1	7,931	3
Total non-Freddie Mac mortgage-related securities purchased for Structured Securities	2,821	2	1,690	2	3,061	1	7,971	3
Total single-family and multifamily mortgage purchases and total non-Freddie Mac mortgage-related securities purchased for Structured Securities	129,399	100%	96,275	100%	367,878	100%	277,219	100%
Non-Freddie Mac mortgage-related securities purchased into the retained portfolio:								
Agency securities:								
Single-family:								
Fixed-rate	976		250		2,079		4,046	
Variable-rate	4,623		1,940		8,352		6,488	
Total Agency	5,599		2,190		10,431		10,534	
Non-agency securities:								
<i>Mortgage-related securities, other:</i>								
Single-family:								
Fixed-rate	260		—		529		718	
Variable-rate	3,330		20,012		41,914		74,399	
Total mortgage-related securities, other	3,590		20,012		42,443		75,117	
CMBS:								
Fixed-rate	280		90		3,381		2,503	
Variable-rate	5,713		2,868		15,509		7,924	
Total CMBS	5,993		2,958		18,890		10,427	
<i>Mortgage revenue bonds:</i>								
Single-family:								
Fixed-rate	604		1,009		1,407		2,691	
Multifamily:								
Fixed-rate	—		31		—		91	
Total mortgage revenue bonds	604		1,040		1,407		2,782	
Total non-agency mortgage-related securities	10,187		24,010		62,740		88,326	
Total non-Freddie Mac mortgage-related securities purchased into the retained portfolio	15,786		26,200		73,171		98,860	
Total new business purchases	\$145,185		\$122,475		\$441,049		\$376,079	
Mortgage purchases with credit enhancements	22%		18%		19%		17%	
Mortgage liquidations ⁽⁸⁾	\$ 73,474		\$ 89,447		\$242,226		\$253,987	
Mortgage liquidations rate ⁽⁸⁾	15%		20%		18%		20%	
Freddie Mac securities repurchased into the retained portfolio:								
Single-family:								
Fixed-rate	\$ 40,708		\$ 11,603		\$ 78,691		\$ 60,343	
Variable-rate	6,402		5,434		24,732		22,744	
Total Freddie Mac securities repurchased into the retained portfolio	\$ 47,110		\$ 17,037		\$103,423		\$ 83,087	

(1) Based on unpaid principal balances. Excludes mortgage loans and mortgage-related securities traded, but not yet settled. Also excludes net additions to the retained portfolio for delinquent mortgage loans and balloon reset mortgages purchased out of PC pools.

(2) Includes 40-year, 30-year, 20-year and 15-year fixed-rate mortgages.

(3) Includes ARMs with 1-, 3-, 5-, 7- and 10-year initial fixed-rate periods.

(4) Represents loans where the borrower pays only interest for a period of time before the borrower begins making principal payments.

(5) Represents mortgages whose terms require lump sum principal payments on contractually determined future dates unless the borrower qualifies for and elects an extension of the maturity date with an adjusted interest-rate.

(6) Excludes FHA/VA loans that back Structured Transactions.

(7) Includes \$— million and \$6,247 million of option ARMs purchased for Structured Transactions during the nine months ended September 30, 2007 and 2006, respectively. We did not purchase any option ARMs during the three months ended September 30, 2007 and 2006.

(8) Based on the total mortgage portfolio.

Table 31 presents ending balance and issuance detail of our credit guarantee business activity.

Table 31 — Guaranteed PCs and Structured Securities⁽¹⁾

	September 30, 2007		December 31, 2006	
	Total Issued PCs and Structured Securities	Outstanding PCs and Structured Securities ⁽²⁾	Total Issued PCs and Structured Securities	Outstanding PCs and Structured Securities ⁽²⁾
	(in millions)			
Ending Balances				
PCs and Structured Securities				
Single-family:				
Conventional:				
30-year fixed-rate ⁽³⁾	\$1,128,353	\$ 928,862	\$ 956,842	\$ 763,563
15-year fixed-rate	275,950	205,827	290,314	202,747
ARMs/variable-rate	208,788	137,422	169,254	116,910
Option ARMs	1,994	215	2,808	303
Balloons/resets	18,094	17,263	21,551	20,508
FHA/VA	1,188	1,026	1,398	1,267
Rural Housing Service and other federally guaranteed loans	133	133	139	139
<i>Total single-family</i>	<u>1,634,500</u>	<u>1,290,748</u>	<u>1,442,306</u>	<u>1,105,437</u>
Multifamily:				
Conventional:				
Fixed-rate	3,052	2,812	3,449	3,208
Variable-rate	4,715	4,578	4,966	4,825
<i>Total multifamily</i>	<u>7,767</u>	<u>7,390</u>	<u>8,415</u>	<u>8,033</u>
Structured Securities backed by non-Freddie Mac mortgage-related securities:				
Ginnie Mae Certificates ⁽⁴⁾	1,325	1,303	1,510	1,481
Structured Transactions ⁽⁵⁾	21,184	9,330	24,792	7,810
<i>Total Structured Securities backed by non-Freddie Mac mortgage-related securities</i>	<u>22,509</u>	<u>10,633</u>	<u>26,302</u>	<u>9,291</u>
Total	<u><u>\$1,664,776</u></u>	<u><u>\$1,308,771</u></u>	<u><u>\$1,477,023</u></u>	<u><u>\$1,122,761</u></u>

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
	(in millions)			
Issuance Detail				
PCs and Structured Securities				
Single-family:				
Conventional:				
30-year fixed-rate ⁽³⁾	\$ 85,223	\$ 65,679	\$237,249	\$187,778
15-year fixed-rate	12,339	5,204	22,348	16,933
ARMs/variable-rate	2,088	3,813	11,070	13,912
Interest-only	22,424	15,968	83,238	39,737
Balloon/resets	—	95	26	402
FHA/VA	2	816	147	816
Rural Housing Service and other federally guaranteed loans	3	1	7	4
<i>Total single-family</i>	<u>122,079</u>	<u>91,576</u>	<u>354,085</u>	<u>259,582</u>
Multifamily:				
Conventional				
<i>Total multifamily</i>	<u>193</u>	<u>68</u>	<u>320</u>	<u>423</u>
Structured Securities that are backed by non-Freddie Mac mortgage-related securities:				
Ginnie Mae Certificates ⁽⁴⁾	4	6	44	40
Structured Transactions ⁽⁵⁾⁽⁶⁾	2,817	1,684	3,017	7,931
<i>Total Structured Securities backed by non-Freddie Mac mortgage-related securities</i>	<u>2,821</u>	<u>1,690</u>	<u>3,061</u>	<u>7,971</u>
Total guaranteed PCs and Structured Securities Issued	<u><u>\$125,093</u></u>	<u><u>\$ 93,334</u></u>	<u><u>\$357,466</u></u>	<u><u>\$267,976</u></u>
Resecuritization Activity:				
Multi-class	\$ 24,575	\$ 45,831	\$104,146	\$138,440
Single-class	83,113	57,334	219,714	154,172
Total activity	<u><u>\$107,688</u></u>	<u><u>\$103,165</u></u>	<u><u>\$323,860</u></u>	<u><u>\$292,612</u></u>

(1) Based on unpaid principal balances. Excludes mortgage loans and mortgage-related securities traded, but not yet settled.

(2) Represent PCs and Structured Securities held by third parties.

(3) Includes 40-year and 20-year fixed-rate mortgages.

(4) Ginnie Mae Certificates that underlie the Structured Securities are backed by FHA/VA loans.

(5) Represents Structured Securities backed by non-agency securities that include prime, FHA/VA and subprime mortgage loans.

(6) Includes \$— million and \$6,247 million of option ARMs purchased for Structured Transactions during the nine months ended September 30, 2007 and 2006, respectively. We did not purchase any option ARMs during the three months ended September 30, 2007 and 2006.

UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS AND ACCOMPANYING NOTES

FREDDIE MAC
CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
	(dollars in millions, except share-related amounts)			
<i>Interest income</i>				
Mortgage loans	\$ 1,102	\$ 1,012	\$ 3,242	\$ 3,092
Mortgage-related securities	9,170	8,782	26,893	25,905
Cash and investments	959	1,263	2,897	3,156
Total interest income	<u>11,231</u>	<u>11,057</u>	<u>33,032</u>	<u>32,153</u>
<i>Interest expense</i>				
Short-term debt	(2,292)	(2,183)	(6,749)	(6,439)
Long-term debt	(7,521)	(7,418)	(22,028)	(20,961)
Total interest expense on debt securities	(9,813)	(9,601)	(28,777)	(27,400)
Due to Participation Certificate investors	(98)	(91)	(322)	(286)
Total interest expense	(9,911)	(9,692)	(29,099)	(27,686)
Expense related to derivatives	(333)	(406)	(995)	(1,205)
<i>Net interest income</i>	<u>987</u>	<u>959</u>	<u>2,938</u>	<u>3,262</u>
<i>Non-interest income (loss)</i>				
Management and guarantee income (includes interest on guarantee asset of \$115, \$115, \$333 and \$347, respectively)	520	427	1,454	1,229
Gains (losses) on guarantee asset	(420)	(690)	(91)	(469)
Income on guarantee obligation	231	217	724	629
Derivative gains (losses)	(150)	(783)	(397)	(155)
Gains (losses) on investment activity	(932)	(257)	(1,483)	(403)
Gains on debt retirement	91	155	187	463
Resecuritization fees	22	30	76	109
Foreign currency gains (losses), net	(1,162)	8	(1,692)	(25)
Other income	135	25	285	80
<i>Non-interest income (loss)</i>	<u>(1,665)</u>	<u>(868)</u>	<u>(937)</u>	<u>1,458</u>
<i>Non-interest expense</i>				
Salaries and employee benefits	(234)	(207)	(705)	(601)
Professional services	(113)	(120)	(338)	(338)
Occupancy expense	(17)	(15)	(47)	(44)
Other administrative expenses	(64)	(76)	(183)	(213)
Total administrative expenses	(428)	(418)	(1,273)	(1,196)
Provision for credit losses	(1,197)	(93)	(1,696)	(113)
Real estate owned, or REO, operations expense	(51)	(19)	(81)	(38)
Losses on certain credit guarantees	(396)	(103)	(727)	(201)
Losses on loans purchased	(483)	(30)	(858)	(72)
Low-income housing tax credit partnerships	(111)	(98)	(354)	(317)
Other expenses	(65)	(66)	(194)	(188)
<i>Non-interest expense</i>	<u>(2,731)</u>	<u>(827)</u>	<u>(5,183)</u>	<u>(2,125)</u>
Income (loss) before income tax benefit	(3,409)	(736)	(3,182)	2,595
Income tax benefit	1,380	21	1,706	96
<i>Net income (loss)</i>	<u>(2,029)</u>	<u>(715)</u>	<u>(1,476)</u>	<u>2,691</u>
Preferred stock dividends and issuance costs on redeemed preferred stock (including \$—, \$—, \$6 and \$— of issuance costs on redeemed preferred stock, respectively)	(102)	(72)	(292)	(189)
Amount allocated to participating security option holders	—	—	—	(6)
<i>Net income (loss) available to common stockholders</i>	<u>\$ (2,131)</u>	<u>\$ (787)</u>	<u>\$ (1,768)</u>	<u>\$ 2,496</u>
Earnings (loss) per common share:				
Basic	\$ (3.29)	\$ (1.17)	\$ (2.70)	\$ 3.63
Diluted	\$ (3.29)	\$ (1.17)	\$ (2.70)	\$ 3.63
Weighted average common shares outstanding (in thousands)				
Basic	647,377	675,556	653,825	686,651
Diluted	647,377	675,556	653,825	688,130
Dividends per common share	\$ 0.50	\$ 0.47	\$ 1.50	\$ 1.41

The accompanying notes are an integral part of these unaudited consolidated financial statements.

**FREDDIE MAC
CONSOLIDATED BALANCE SHEETS**

	September 30, 2007 (unaudited)	December 31, 2006
	(in millions, except share-related amounts)	
Assets		
<i>Retained portfolio</i>		
Mortgage loans:		
Held-for-investment, at amortized cost	\$ 68,599	\$ 63,780
Reserve for losses on mortgage loans held-for-investment	(250)	(70)
Held-for-sale, at lower-of-cost-or-market	3,331	1,908
Mortgage loans, net of reserve	<u>71,680</u>	<u>65,618</u>
Mortgage-related securities:		
Available-for-sale, at fair value (includes \$17,834 and \$20,463, respectively, pledged as collateral that may be repledged)	620,672	626,731
Trading, at fair value	13,611	7,597
Participation Certificate residuals, at fair value	(1,064)	597
Total mortgage-related securities	<u>633,219</u>	<u>634,925</u>
<i>Retained portfolio</i>	<u>704,899</u>	<u>700,543</u>
<i>Cash and investments</i>		
Cash and cash equivalents	12,227	11,359
Investments:		
Non-mortgage-related securities:		
Available-for-sale, at fair value	21,264	45,586
Securities purchased under agreements to resell and Federal funds sold	17,267	23,028
<i>Cash and investments</i>	<u>50,758</u>	<u>79,973</u>
Accounts and other receivables, net	6,774	7,461
Derivative assets, net at fair value	7,271	7,908
Guarantee asset, at fair value	8,243	6,070
REO, net	1,321	743
Other assets	13,607	10,383
<i>Total assets</i>	<u>\$ 792,873</u>	<u>\$ 813,081</u>
Liabilities and stockholders' equity		
<i>Debt securities, net</i>		
Senior debt:		
Due within one year	\$ 261,127	\$ 294,861
Due after one year	468,903	452,677
Subordinated debt, due after one year	5,232	6,400
<i>Total debt securities, net</i>	<u>735,262</u>	<u>753,938</u>
Due to Participation Certificate investors	9,815	11,123
Accrued interest payable	7,655	8,345
Guarantee obligation	9,573	7,117
Derivative liabilities, net at fair value	337	179
Reserve for guarantee losses on Participation Certificates	1,589	350
Other liabilities	2,541	3,212
<i>Total liabilities</i>	<u>766,772</u>	<u>784,264</u>
Commitments and contingencies (Notes 2, 3, 11 and 12)		
Minority interests in consolidated subsidiaries	281	516
<i>Stockholders' equity</i>		
Preferred stock, at redemption value	8,109	6,109
Common stock, \$0.21 par value, 726,000,000 shares authorized, 725,863,886 shares issued and 646,064,612 shares and 661,254,178 shares outstanding, respectively	152	152
Additional paid-in capital	961	962
Retained earnings	29,607	32,177
Accumulated other comprehensive income (loss), or AOCI, net of taxes, related to:		
Available-for-sale securities	(4,434)	(2,749)
Cash flow hedge relationships	(4,309)	(5,033)
Defined benefit plans	(80)	(87)
Total AOCI, net of taxes	<u>(8,823)</u>	<u>(7,869)</u>
Treasury stock, at cost, 79,799,274 shares and 64,609,708 shares, respectively	<u>(4,186)</u>	<u>(3,230)</u>
<i>Total stockholders' equity</i>	<u>25,820</u>	<u>28,301</u>
<i>Total liabilities and stockholders' equity</i>	<u>\$ 792,873</u>	<u>\$ 813,081</u>

The accompanying notes are an integral part of these unaudited consolidated financial statements.

FREDDIE MAC
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(UNAUDITED)

	Nine Months Ended September 30,			
	2007		2006	
	Shares	Amount	Shares	Amount
	(in millions)			
<i>Preferred stock, at redemption value</i>				
Balance, beginning of year	132	\$ 6,109	92	\$ 4,609
Preferred stock issuances	104	2,600	20	1,000
Preferred stock redemptions	(12)	(600)	—	—
<i>Preferred stock, end of period</i>	<u>224</u>	<u>8,109</u>	<u>112</u>	<u>5,609</u>
<i>Common stock, par value</i>				
Balance, beginning of year	726	152	726	152
<i>Common stock, end of period</i>	<u>726</u>	<u>152</u>	<u>726</u>	<u>152</u>
<i>Additional paid-in capital</i>				
Balance, beginning of year		962		924
Stock-based compensation		61		40
Income tax benefit from stock-based compensation		2		8
Preferred stock issuance costs		(26)		(10)
Common stock issuance		(31)		(12)
Real Estate Investment Trust preferred stock repurchase		(7)		(2)
<i>Additional paid-in capital, end of period</i>		<u>961</u>		<u>948</u>
<i>Retained earnings</i>				
Balance, beginning of year		32,177		31,559
Cumulative effect of change in accounting principle, net of taxes		181		(13)
Balance, beginning of year, as adjusted		<u>32,358</u>		<u>31,546</u>
Net income (loss)		(1,476)		2,691
Preferred stock dividends declared		(286)		(189)
Common stock dividends declared		(989)		(975)
<i>Retained earnings, end of period</i>		<u>29,607</u>		<u>33,073</u>
<i>AOCI, net of taxes</i>				
Balance, beginning of year		(7,869)		(8,773)
Changes in unrealized gains (losses) related to available-for-sale securities, net of reclassification adjustments		(1,685)		(213)
Changes in unrealized gains (losses) related to cash flow hedge relationships, net of reclassification adjustments		724		982
Changes in defined benefit plans		7		—
<i>AOCI, net of taxes, end of period</i>		<u>(8,823)</u>		<u>(8,004)</u>
<i>Treasury stock, at cost</i>				
Balance, beginning of year	65	(3,230)	33	(1,280)
Common stock issuances	(1)	44	(1)	33
Common stock repurchases	16	(1,000)	26	(1,500)
<i>Treasury stock, end of period</i>	<u>80</u>	<u>(4,186)</u>	<u>58</u>	<u>(2,747)</u>
<i>Total stockholders' equity</i>		<u>\$25,820</u>		<u>\$29,031</u>
<i>Comprehensive income (loss)</i>				
Net income (loss)		\$(1,476)		\$ 2,691
Changes in other comprehensive income, net of taxes, net of reclassification adjustments		(954)		769
<i>Total comprehensive income (loss)</i>		<u>\$(2,430)</u>		<u>\$ 3,460</u>

The accompanying notes are an integral part of these unaudited consolidated financial statements.

FREDDIE MAC
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Nine Months Ended September 30,	
	2007	2006
	(in millions)	
Cash flows from operating activities		
Net (loss) income	\$ (1,476)	\$ 2,691
Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities:		
Hedge accounting losses	—	12
Derivative losses	684	226
Asset related amortization — premiums, discounts and basis adjustments	(163)	62
Debt related amortization — premiums and discounts on certain debt securities and basis adjustments	8,192	8,409
Net discounts paid on retirements of debt	(6,194)	(5,502)
Gains on debt retirement	(187)	(463)
Provision for credit losses	1,696	113
Low-income housing tax credit partnerships	354	317
Losses on loans purchased	858	72
Losses on investment activity	315	500
Foreign currency losses, net	1,692	25
Deferred income taxes	(925)	(241)
Purchases of held-for-sale mortgages	(16,091)	(13,749)
Sales of held-for-sale mortgages	14,368	14,531
Repayments of held-for-sale mortgages	96	68
Change in trading securities	(2,261)	767
Change in accounts and other receivables, net	100	(960)
Change in amounts due to Participation Certificate investors, net	(1,575)	(950)
Change in accrued interest payable	(639)	(187)
Change in income taxes payable	(1,444)	(1,104)
Change in guarantee asset, at fair value	(2,174)	(777)
Change in guarantee obligation	2,493	1,094
Change in Participation Certificate residuals, at fair value	1,036	(101)
Other, net	208	542
<i>Net cash (used for) provided by operating activities</i>	(1,037)	5,395
Cash flows from investing activities		
Purchases of available-for-sale securities	(240,571)	(301,529)
Proceeds from sales of available-for-sale securities	82,470	73,086
Proceeds from maturities of available-for-sale securities	181,410	232,408
Purchases of held-for-investment mortgages	(13,160)	(11,299)
Repayments of held-for-investment mortgages	7,075	7,552
Proceeds from mortgage insurance and sales of REO	1,255	1,139
Net increase (decrease) in securities purchased under agreements to resell and Federal funds sold	5,762	(20,299)
Derivative premiums and terminations, net	246	(763)
Investments in low-income housing tax credit partnerships	(116)	(140)
<i>Net cash provided by (used for) investing activities</i>	24,371	(19,845)
Cash flows from financing activities		
Proceeds from issuance of short-term debt	723,625	523,469
Repayments of short-term debt	(740,139)	(547,190)
Proceeds from issuance of long-term debt	149,092	140,516
Repayments of long-term debt	(153,691)	(97,679)
Repayments of minority interest in consolidated subsidiaries	—	(348)
Repurchase of Real Estate Investment Trust preferred stock	(239)	(27)
Proceeds from the issuance of preferred stock	2,574	990
Redemption of preferred stock	(600)	—
Proceeds from issuance of common stock	13	22
Repurchases of common stock	(1,000)	(1,500)
Payment of cash dividends on preferred stock and common stock	(1,279)	(1,164)
Excess tax benefits associated with stock-based awards	5	12
Repayments of low-income housing tax credit partnerships notes payable	(825)	(962)
(Decrease) increase in cash overdraft	(2)	64
<i>Net cash (used for) provided by financing activities</i>	(22,466)	16,203
Net increase in cash and cash equivalents	868	1,753
Cash and cash equivalents at beginning of year	11,359	10,468
<i>Cash and cash equivalents at end of period</i>	\$ 12,227	\$ 12,221
Supplemental cash flow information		
Cash paid (received) for:		
Interest	\$ 29,165	\$ 26,190
Derivative interest carry, net	(838)	285
Income taxes	663	1,250
Non-cash investing and financing activities:		
Held-for-sale mortgages securitized and retained as available-for-sale securities	169	13
Transfers from mortgage loans to REO	1,978	1,174
Investments in low-income housing tax credit partnerships financed by notes payable	173	169
Transfers from held-for-sale mortgages to held-for-investment mortgages	40	96
Transfers from held-for-investment mortgages to held-for-sale mortgages	—	950
Transfers from retained portfolio Participation Certificates to held-for-investment mortgages	1,354	957

The accompanying notes are an integral part of these unaudited consolidated financial statements.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

We are a stockholder-owned government-sponsored enterprise, or GSE, established by Congress in 1970 to provide a continuous flow of funds for residential mortgages. Our obligations are ours alone and are not insured or guaranteed by the U.S. government, or any other agency or instrumentality of the U.S. We play a fundamental role in the U.S. housing finance system, linking the domestic mortgage market and the global capital markets. Our participation in the secondary mortgage market includes providing our credit guarantee on securities backed by residential mortgages originated by mortgage lenders and investing in mortgage loans and mortgage-related securities that we hold in our retained portfolio. Through our credit guarantee activities, we securitize mortgage loans by issuing mortgage Participation Certificates, or PCs. We also resecuritize mortgage-related securities that are issued by us or the Government National Mortgage Association, or Ginnie Mae, as well as non-agency entities. We also guarantee the payment of principal and interest with respect to multifamily mortgage loans that support housing revenue bonds issued by third parties. Securitized mortgage-related assets that are backed by PCs and Structured Securities and held by third parties are not reflected as our assets. In return for providing our guarantee on issued PCs and Structured Securities, we may earn a management and guarantee fee that is paid to us over the life of the related PCs and Structured Securities. Our guarantee of the payment of principal and interest on outstanding PCs and Structured Securities is reflected on our consolidated financial statements through the recognition of a guarantee asset and guarantee obligation.

Basis of Presentation

The accompanying unaudited consolidated financial statements include our accounts and those of our subsidiaries, and should be read in conjunction with the audited consolidated financial statements and related notes included in our Information Statement and Annual Report to Stockholders for the fiscal year ended December 31, 2006 dated March 23, 2007, or 2006 Information Statement.

Certain financial information that is normally included in annual financial statements prepared in conformity with U.S. generally accepted accounting principles, or GAAP, but is not required for interim reporting purposes has been condensed or omitted. Certain amounts in prior periods' consolidated financial statements have been reclassified to conform to the current presentation. In the opinion of management, all adjustments, which include only normal recurring adjustments, have been recorded for a fair statement of our unaudited consolidated financial statements in conformity with GAAP.

Changes in Estimates and Accounting Principles

The preparation of financial statements requires the use of estimates and assumptions. See "NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES" to our consolidated financial statements in our 2006 Information Statement for a discussion of our estimates and assumptions.

Table 1.1 shows the impact of the changes in estimates in our consolidated statements of income:

Table 1.1 — Summary of Changes in Estimates

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
	(in millions)			
Interest income	\$ —	\$—	\$ —	\$(93)
<i>Non-interest income (loss)</i>				
Management and guarantee income	—	—	—	18
Gains (losses) on guarantee asset	—	—	30	40
Gains (losses) on investment activity	(1)	—	5	47
Total Non-interest income (loss)	<u>(1)</u>	<u>—</u>	<u>35</u>	<u>105</u>
<i>Non-interest expense</i>				
Provision for credit losses	(244)	—	(277)	—
Losses on certain credit guarantees	—	—	1	—
Total non-interest expense	<u>(244)</u>	<u>—</u>	<u>(276)</u>	<u>—</u>
Total pre-tax impact of changes in estimates	<u>\$(245)</u>	<u>\$—</u>	<u>\$(241)</u>	<u>\$ 12</u>
Total after-tax impact of changes in estimates	<u>\$(159)</u>	<u>\$—</u>	<u>\$(157)</u>	<u>\$ 8</u>

Changes in estimates decreased net income for the three months ended September 30, 2007 and 2006 by approximately \$159 million and \$— million (after-tax), or \$(0.25) and \$— per diluted common share, respectively. Changes in estimates decreased net income for the nine months ended September 30, 2007 by approximately \$157 million (after-tax), or \$(0.24) per diluted common share. Changes in estimates increased net income for the nine months ended September 30, 2006 by \$8 million, or \$0.01 per diluted common share. The decreases for the three months ended

September 30, 2007 were due to enhancements to our approach for estimating the reserve for losses on mortgage loans held-for-investment and the reserve for guarantee losses on PCs. Specifically, we enhanced our methodology used to forecast losses on our 2007 and 2006 loan originations based on the emerging patterns for loans originated in those years. We also modified our process to estimate the average unpaid principal balance on foreclosed properties and reduced the historical data used for estimating insurance recoveries to reflect more recent experience. For the nine months ended September 30, 2007, the decreases resulting from enhancements to our approach for estimating the reserve for losses on mortgage loans held-for-investment and the reserve for guarantee losses on PCs were partially offset by enhancements to our approach for estimating prepayments impacting our guarantee asset and guarantee obligation.

Effective January 1, 2006, we enhanced our process for forecasting interest rates and estimating prepayments used to amortize discounts, premiums and deferred fees for assets held in our retained portfolio. This change resulted in a \$49 million (after-tax) reduction in net income for the nine months ended September 30, 2006, including the effect of the amortization of deferred credit fees. Also, we enhanced our approach for guarantee asset and guarantee obligation valuations primarily with respect to applying dealer prices in estimating the fair value of our guarantee-related assets. We also enhanced our approach for applying loan characteristics in the valuation of our guarantee obligation. These changes resulted in a \$57 million (after-tax) increase in net income for the nine months ended September 30, 2006.

Effective January 1, 2006, we made a change to our method of amortization for certain types of non-agency securities resulting in a \$13 million (after-tax) reduction to the beginning balance of retained earnings.

Net income included after-tax adjustments of approximately \$22 million and \$41 million of income, for the nine months ended September 30, 2007 and 2006, respectively, to correct certain immaterial errors related to previously reported periods.

Recently Adopted Accounting Standards

Accounting for Uncertainty in Income Taxes

On January 1, 2007, we adopted Financial Accounting Standard Board, or FASB, Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109," or FIN 48. FIN 48 provides a single model to account for uncertain tax positions and clarifies accounting for income taxes by prescribing a minimum threshold that a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. As a result of the adoption of FIN 48, we recorded a \$181 million increase to retained earnings as of January 1, 2007. See "NOTE 12: INCOME TAXES" for additional information related to FIN 48.

Accounting for Certain Hybrid Instruments

On January 1, 2007, we adopted Statement of Financial Accounting Standards, or SFAS, No. 155, "Accounting for Certain Hybrid Financial Instruments, an amendment of FASB Statements No. 133 and 140," or SFAS 155. SFAS 155 permits the fair value measurement for any hybrid financial instrument with an embedded derivative that otherwise would require bifurcation. In addition, this statement establishes a requirement to evaluate interests in securitized financial assets to identify instruments that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation. We adopted SFAS 155 prospectively, and, therefore, there is no cumulative effect of a change in accounting principle. In connection with the adoption of SFAS 155 on January 1, 2007, we elected to measure newly acquired interests in securitized financial assets that contain embedded derivatives at fair value, with changes in fair value reflected in our consolidated statements of income. See "NOTE 4: RETAINED PORTFOLIO AND CASH AND INVESTMENTS PORTFOLIO" for additional information.

Recently Issued Accounting Standards, Not Yet Adopted

Fair Value Measurements

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements," or SFAS 157. This statement defines fair value, establishes a framework for measuring fair value in conformity with GAAP and expands disclosures about fair value measurements. SFAS 157 provides clarity to other accounting pronouncements that require or permit fair value measurements, but does not change existing guidance as to whether a financial asset or liability is carried at fair value. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. We do not expect our adoption of SFAS 157 to result in a material increase or decrease to our fair value measurements.

The Fair Value Option for Financial Assets and Financial Liabilities

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities, Including an Amendment of FASB Statement No. 115," or SFAS 159. This statement permits companies to choose to measure certain financial assets and liabilities at fair value with changes in fair value recognized in earnings as they occur. The objective is to improve financial reporting by providing entities with the opportunity to measure both

assets and liabilities at fair value without having to apply complex hedge accounting provisions. SFAS 159 is effective as of the beginning of an entity's first fiscal year beginning after November 15, 2007. We are still evaluating which, if any, financial instruments we will elect to report at fair value. Therefore, we have not yet determined the impact, if any, that the adoption of this standard will have on our consolidated financial statements.

Offsetting of Amounts Related to Certain Contracts

In April 2007, the FASB issued FASB Staff Position FIN 39-1, "Amendment of FASB Interpretation No. 39," or FSP FIN 39-1. The position amends FASB Interpretation No. 39, "Offsetting of Amounts Related to Certain Contracts, an interpretation of APB Opinion No. 10 and FASB Statement No. 105," to permit a reporting entity to offset fair value amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral against fair value amounts recognized for derivative instruments executed with the same counterparty under a master netting agreement. When offsetting of fair value amounts recognized for derivative instruments is elected, as permitted under a master netting agreement, the position requires the offsetting of amounts recognized for cash collateral held or posted when the collateral represents "fair value amounts." FSP FIN 39-1 is effective for financial statements issued for fiscal years beginning after November 15, 2007, with early adoption permitted. We adopted FSP FIN 39-1 on October 1, 2007, and it resulted in a decrease to total assets and total liabilities of approximately \$9 billion.

NOTE 2: FINANCIAL GUARANTEES AND SECURITIZED INTERESTS IN MORTGAGE-RELATED ASSETS

Financial Guarantees

We provide a variety of financial guarantees. For a discussion of these guarantees see "NOTE 2: TRANSFERS OF SECURITIZED INTERESTS IN MORTGAGE-RELATED ASSETS" and "NOTE 4: FINANCIAL GUARANTEES" to our consolidated financial statements in our 2006 Information Statement. Table 2.1 below presents our maximum potential amount of future payments, our recognized liability and the maximum remaining term of these guarantees.

Table 2.1 — Financial Guarantees

	September 30, 2007			December 31, 2006		
	Maximum Exposure	Recognized Liability	Maximum Remaining Term	Maximum Exposure	Recognized Liability	Maximum Remaining Term
	(dollars in millions, terms in years)					
Financial Guarantees:						
Guaranteed PCs, Structured Securities and other mortgage guarantees held by third parties ⁽¹⁾	\$1,308,771	\$9,573	40	\$1,122,761	\$7,117	40
Derivative instruments	32,482	101	28	27,917	13	28
Servicing-related premium guarantees	36	—	5	44	—	5

(1) Exclude mortgage loans and mortgage-related securities traded, but not yet settled. Include long-term standby commitments of \$19.9 billion and \$0.7 billion at September 30, 2007 and December 31, 2006, respectively.

With the exception of interest-rate swap guarantees included in derivative instruments in Table 2.1, maximum exposure represents the contractual amounts that could be lost under the guarantees if underlying borrowers defaulted, without consideration of possible recoveries under recourse provisions or from collateral held or pledged. The maximum exposure related to interest-rate swap guarantees is based on contractual rates and without consideration of recovery under recourse provisions. The maximum exposure disclosed above is not representative of the actual loss we are likely to incur, based on our historical loss experience.

Guaranteed PCs, Structured Securities and Other Mortgage Guarantees

We guarantee the payment of principal and interest on issued PCs and Structured Securities that are backed by pools of mortgage loans and we are obligated to purchase delinquent loans that are covered by long-term standby commitments. At September 30, 2007 and December 31, 2006, we issued \$1,664.8 billion and \$1,477.0 billion of PCs and such other mortgage guarantees, respectively, of which \$356.0 billion and \$354.3 billion were held in our retained portfolio at September 30, 2007 and December 31, 2006, respectively. There were \$1,437.9 billion and \$1,240.2 billion at September 30, 2007 and December 31, 2006, respectively, of Structured Securities backed by resecuritized PCs and other previously issued Structured Securities. These restructured securities do not increase our credit-related exposure and consist of single-class and multi-class Structured Securities backed by PCs, Real Estate Mortgage Investment Conduits, or REMICs, and principal-only strips.

Our guarantee obligation represents the recognized liability associated with our guarantee of PCs and Structured Securities held by third parties. At September 30, 2007 and December 31, 2006 our guarantee obligation includes our estimate of performance and other related costs of \$7.0 billion and \$4.9 billion, respectively, and deferred guarantee income of \$2.6 billion and \$2.2 billion, respectively. In addition to our guarantee obligation, we recognized a reserve for

guarantee losses on PCs that totaled \$1.6 billion and \$0.4 billion at September 30, 2007 and December 31, 2006, respectively.

At September 30, 2007 and December 31, 2006, approximately 96% and 94%, respectively, of issued PCs and Structured Securities (excluding securities we issued that are backed by Ginnie Mae Certificates) had a corresponding guarantee asset, guarantee obligation or PC residual recognized on our consolidated balance sheets. At September 30, 2007 and December 31, 2006, 97% and 95%, respectively, of our outstanding guarantees held by third parties had a related guarantee asset and guarantee obligation established.

Derivative Instruments

Derivative instruments include written options, written swaptions, interest-rate swap guarantees and guarantees of stated final maturity of Structured Securities. Derivative instruments also include short-term default guarantee commitments that we account for as credit derivatives.

Servicing-Related Premium Guarantees

We provide guarantees to reimburse servicers for premiums paid to acquire servicing in situations where the original seller is unable to perform under its separate servicing agreement. The liability associated with these agreements was not material at September 30, 2007 and December 30, 2006.

Other Financial Commitments

As part of the guarantee arrangements pertaining to multifamily housing revenue bonds, we provided commitments to advance funds, commonly referred to as “liquidity guarantees,” totaling \$5.2 billion and \$5.8 billion at September 30, 2007 and December 31, 2006, respectively. These guarantees enable others to repurchase any tendered tax-exempt and related taxable pass-through certificates and housing revenue bonds that are unable to be remarketed. Any repurchased securities would be pledged to us to secure funding until the time when the securities could be remarketed. We have not made any payments to date under these liquidity guarantees.

Valuation of Recognized Guarantee Asset

Recognized Guarantee Asset

Our approach for estimating the fair value of the guarantee asset utilizes third-party market data as practicable. For approximately 75% of the fair value of the guarantee asset at September 30, 2007, the valuation approach involved obtaining dealer quotes on proxy securities with collateral similar to aggregated characteristics of our portfolio. Effectively, the guarantee asset approximates the current, or “spot,” market values for excess servicing, interest-only securities. The remaining 25% of the guarantee asset, which relates to underlying loan products without readily available market prices, is valued using an expected cash flow approach with market input assumptions extracted from the dealer quotes provided on the more liquid products and reduced by an estimated liquidity adjustment.

Key Assumptions Used in the Valuation of the Guarantee Asset

Table 2.2 summarizes the key assumptions associated with the fair value measurements of the recognized guarantee asset. The fair values at the time of securitization and the subsequent fair value measurements were estimated using third-party information. However, the assumptions included in this table for those periods are those implied by our fair value estimates, with the internal rates of return, or IRRs, adjusted where necessary to align our internal models with estimated fair values determined using third-party information. Prepayment rates are presented as implied by our internal models and have not been similarly adjusted.

At September 30, 2007, our guarantee asset totaled \$8.2 billion on our consolidated balance sheets, of which approximately \$0.2 billion, or approximately 2%, related to PCs and Structured Securities backed by multifamily mortgage loans. The key assumptions utilized in fair value measurements of the guarantee asset presented in Table 2.2 and the sensitivity analysis presented in Table 2.3 relate solely to the guarantee asset associated with PCs and other financial guarantees backed by single-family mortgage loans.

Table 2.2 — Key Assumptions Utilized in Fair Value Measurements of the Guarantee Asset

Valuation Assumptions	Three Months Ended September 30,				Nine Months Ended September 30,			
	2007		2006		2007		2006	
	Range ⁽¹⁾	Mean ⁽²⁾	Range ⁽¹⁾	Mean ⁽²⁾	Range ⁽¹⁾	Mean ⁽²⁾	Range ⁽¹⁾	Mean ⁽²⁾
IRRs ⁽³⁾	3.5% – 11.2%	5.9%	3.9% – 13.1%	8.6%	1.0% – 12.6%	6.6%	3.9% – 13.5%	8.7%
Prepayment rates ⁽⁴⁾	7.9% – 49.6%	15.2%	7.4% – 54.0%	14.8%	7.9% – 64.6%	17.1%	7.4% – 54.0%	15.0%
Weighted average lives (years)	1.9 – 8.6	5.7	1.8 – 9.0	5.8	1.5 – 8.6	5.3	1.8 – 9.0	5.7

- (1) Lower and higher ranges of IRR and Prepayment rate assumptions represent the first and ninety-ninth percentile of rate assumptions, respectively. Weighted average lives range assumptions reflect Prepayment rate assumptions.
- (2) Mean values represent the weighted average of all IRR, Prepayment rate and Weighted average lives assumptions.
- (3) IRR range and mean assumptions represent an unpaid principal balance weighted average of the discount rates inherent in the fair value of the recognized Guarantee asset. Mean Weighted average lives assumptions reflect Prepayment rate assumptions.
- (4) Although Prepayment rates are simulated monthly, the range and mean rate assumptions above represent annualized Prepayment rates based on unpaid principal balances.

Table 2.3 — Sensitivity Analysis of the Guarantee Asset (Single-Family Mortgages)

	September 30, 2007	December 31, 2006
	(dollars in millions)	
Fair value	\$8,080	\$5,905
Weighted average IRR assumptions:	6.1%	7.0%
Impact on fair value of 100 bps unfavorable change	\$ (348)	\$ (224)
Impact on fair value of 200 bps unfavorable change	\$ (667)	\$ (431)
Weighted average prepayment rate assumptions:	16.0%	18.4%
Impact on fair value of 10% unfavorable change	\$ (426)	\$ (298)
Impact on fair value of 20% unfavorable change	\$ (806)	\$ (565)

Valuation of Other Retained Interests

Other retained interests include securities we issued as part of a securitization transaction, which was recorded as a sale. The majority of these securities are classified as available-for-sale. The fair value of other retained interests is generally based on independent price quotations obtained from third-party pricing services or dealer provided prices.

To report the hypothetical sensitivity of the carrying value of other retained interests, we used internal models adjusted where necessary to align with the fair values. The sensitivity analysis in Table 2.4 illustrates hypothetical adverse changes in the fair value of other retained interests for changes in key assumptions based on these models.

Table 2.4 — Sensitivity Analysis of Other Retained Interests⁽¹⁾

	September 30, 2007	December 31, 2006
	(dollars in millions)	
Fair value	\$110,533	\$127,490
Weighted average IRR assumptions:	5.6%	5.6%
Impact on fair value of 100 bps unfavorable change	\$ (4,197)	\$ (4,551)
Impact on fair value of 200 bps unfavorable change	\$ (8,112)	\$ (8,813)
Weighted average prepayment rate assumptions:	9.4%	11.0%
Impact on fair value of 10% unfavorable change	\$ (15)	\$ (66)
Impact on fair value of 20% unfavorable change	\$ (40)	\$ (132)

- (1) The sensitivity analysis includes only other retained interests whose fair value is impacted as a result of changes in IRR and prepayment assumptions. At September 30, 2007 and December 31, 2006, the fair values of other retained interests not included in the sensitivity analysis above were \$44 million and \$51 million, respectively.

Gains and Losses on Transfers of PCs and Structured Securities that are Accounted for as Sales

We recognized gains (losses) on transfers of PCs and Structured Securities that were accounted for as sales under SFAS 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities — a replacement of FASB Statement No. 125." For the three months ended September 30, 2007 and 2006, these net pre-tax gains (losses) were approximately \$320 million and \$44 million, respectively. For the nine months ended September 30, 2007 and 2006, these net pre-tax gains (losses) were approximately \$224 million and \$(12) million, respectively.

Cash Flows on Transfers of Securitized Interests and Corresponding Retained Interests

Table 2.5 summarizes cash flows on retained interests.

Table 2.5 — Details of Cash Flows

Cash flows from:	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2007	2006	2007	2006
	(in millions)			
Transfers of Freddie Mac securities that were accounted for as sales	\$30,531	\$16,670	\$64,995	\$51,570
Payments received on the guarantee asset ⁽¹⁾	468	372	1,335	1,082
Other retained interests principal and interest	5,660	6,889	17,718	18,426

- (1) Represent contractual guarantee-related cash flows received by us in connection with the recognized guarantee asset.

Credit Protection and Other Forms of Recourse

In connection with our outstanding guarantees of PCs and Structured Securities held by third parties, we have recourse in the form of primary mortgage insurance, pool insurance, recourse to lenders, credit enhancements and other forms of credit protection. As of September 30, 2007 and December 31, 2006, we recorded \$576 million and \$466 million, respectively, within other assets on our consolidated balance sheets related to these credit enhancements on securitized mortgages. Table 2.6 presents the amounts of potential loss recovery by type of credit protection.

Table 2.6 — Credit Protection and Other Forms of Recourse⁽¹⁾

	<u>September 30, 2007</u>	<u>December 31, 2006</u>
	(in millions)	
PCs and Structured Securities:		
Single-family:		
Primary mortgage insurance	\$36,828	\$30,720
Pool insurance and other credit enhancements	3,136	3,178
Recourse to lenders	9,940	8,875
Multifamily:		
Credit enhancements	854	1,104
Structured Securities backed by Ginnie Mae Certificates ⁽²⁾	1,303	1,481

- (1) Excludes credit enhancements related to PCs and Structured Securities held in our retained portfolio as well as Structured Transactions, which had unpaid principal balances that totaled \$9.3 billion and \$7.8 billion at September 30, 2007 and December 31, 2006, respectively.
(2) Ginnie Mae Certificates are backed by the full faith and credit of the U.S. government.

Indemnifications

In connection with certain business transactions, we may provide indemnification to counterparties for claims arising out of breaches of certain obligations (*e.g.*, those arising from representations and warranties) in contracts entered into in the normal course of business. For a discussion of these indemnifications see “NOTE 4: FINANCIAL GUARANTEES” to our consolidated financial statements in our 2006 Information Statement. Our assessment is that the risk of any material loss from such a claim for indemnification is remote and there are no probable and estimable losses associated with these contracts. Therefore, we have not recorded any liabilities related to these indemnifications on our consolidated balance sheets at September 30, 2007 and December 31, 2006.

NOTE 3: VARIABLE INTEREST ENTITIES

We are a party to numerous entities that are considered to be variable interest entities, or VIEs. Our investments in VIEs include low-income housing tax credit, or LIHTC, partnerships, certain Structured Securities transactions and a mortgage reinsurance entity. In addition, we buy the highly-rated senior securities in non-mortgage-related, asset-backed investment trusts that are VIEs. Our investments in these securities do not represent a significant variable interest in the securitization trusts as the securities issued by these trusts are not designed to absorb a significant portion of the variability in the trust. Accordingly, we do not consolidate these securities.

Low-Income Housing Tax Credit Partnerships

We invest as a limited partner in LIHTC partnerships formed for the purpose of providing funding for affordable multifamily rental properties. Most of these LIHTC partnerships are VIEs. A general partner operates the partnership, identifying investments and obtaining debt financing as needed to finance partnership activities. Although these partnerships generate operating losses, we realize a return on our investment through reductions in income tax expense that result from tax credits and the deductibility of the operating losses of these partnerships. The LIHTC partnerships invest as limited partners in lower-tier partnerships, which own and operate multifamily rental properties. The partnership agreements are typically structured to meet a required 15-year period of occupancy by qualified low-income tenants. The investments in LIHTC partnerships, in which we were either the primary beneficiary or had a significant variable interest, were made between 1989 and 2007. At September 30, 2007 and December 31, 2006, we did not guarantee any obligations of these LIHTC partnerships and our exposure was limited to the amount of our investments. At September 30, 2007 and December 31, 2006, we were the primary beneficiary of investments in six LIHTC partnerships and we consolidated these investments. The investors in the obligations of the consolidated LIHTC partnerships have recourse only to the assets of those VIEs and do not have recourse to us.

VIEs Not Consolidated

Low-Income Housing Tax Credit Partnerships

At September 30, 2007 and December 31, 2006, we had unconsolidated investments in 183 and 179 LIHTC partnerships, respectively, in which we had a significant variable interest. The size of these partnerships at September 30, 2007 and December 31, 2006, as measured in total assets, was \$10.2 billion and \$8.9 billion, respectively. These partnerships are accounted for using the equity method. As a limited partner, our maximum exposure to loss equals the

undiscounted book value of our equity investment. At both September 30, 2007 and December 31, 2006, our maximum exposure to loss on unconsolidated LIHTC partnerships, in which we had a significant variable interest, was \$3.7 billion.

Structured Transactions

We periodically issue securities in Structured Transactions, which are backed by mortgage loans or mortgage-related securities using collateral pools transferred to trusts specifically created for the purpose of issuing securities. These trusts issue various senior interests, subordinated interests or both. We purchase interests, including senior interests, of the trusts and simultaneously issue and guarantee Structured Securities backed by these interests. The subordinated interests are generally either held by the seller or other party or sold in the capital markets. Generally, the structure of the transactions and the trusts as qualifying special purpose entities exempts them from the scope of FASB Interpretation No. 46 (revised December 2003), "Consolidation of Variable Interest Entities, an interpretation of ARB No. 51," or FIN 46(R). At September 30, 2007, we had investments or guarantees related to one Structured Transaction that did not fall within this scope exception and in which we had a significant variable interest. At December 31, 2006, we had investments or guarantees related to two Structured Transactions that did not fall within this scope exception and in which we had a significant variable interest. One of these Structured Transactions matured on September 1, 2007. At September 30, 2007 and December 31, 2006, we were not the primary beneficiary of any such transactions.

Our involvement in this one Structured Transaction at September 30, 2007 began in 2002. The size of the one transaction at September 30, 2007 and the two transactions at December 31, 2006, as measured in total assets, was \$47 million and \$67 million, respectively. At September 30, 2007 and December 31, 2006, our maximum exposure to loss on these transactions, in which we had a significant variable interest, was \$40 million and \$55 million, respectively, consisting of the book value of our investments plus incremental guarantees of the senior interests that are held by third parties.

NOTE 4: RETAINED PORTFOLIO AND CASH AND INVESTMENTS PORTFOLIO

Table 4.1 summarizes amortized cost, estimated fair values and corresponding gross unrealized gains and gross unrealized losses for available-for-sale securities by major security type.

Table 4.1 — Available-For-Sale Securities

<u>September 30, 2007</u>	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
	(in millions)			
<i>Retained portfolio</i>				
Mortgage-related securities issued by:				
Freddie Mac	\$344,541	\$2,220	\$(4,319)	\$342,442
Federal National Mortgage Association, or Fannie Mae	46,046	314	(552)	45,808
Ginnie Mae	581	16	(6)	591
Other	221,098	391	(4,134)	217,355
Obligations of states and political subdivisions	14,547	166	(237)	14,476
Total mortgage-related securities	<u>626,813</u>	<u>3,107</u>	<u>(9,248)</u>	<u>620,672</u>
<i>Cash and investments portfolio</i>				
Non-mortgage-related securities:				
Asset-backed securities	18,117	13	(70)	18,060
Commercial paper	3,033	—	—	3,033
Obligations of states and political subdivisions	170	1	—	171
Total non-mortgage-related securities	<u>21,320</u>	<u>14</u>	<u>(70)</u>	<u>21,264</u>
Total available-for-sale securities	<u>\$648,133</u>	<u>\$3,121</u>	<u>\$(9,318)</u>	<u>\$641,936</u>
<u>December 31, 2006</u>				
<i>Retained portfolio</i>				
Mortgage-related securities issued by:				
Freddie Mac	\$347,700	\$1,753	\$(5,365)	\$344,088
Fannie Mae	44,223	323	(660)	43,886
Ginnie Mae	720	17	(4)	733
Other	224,642	553	(1,096)	224,099
Obligations of states and political subdivisions	13,622	334	(31)	13,925
Total mortgage-related securities	<u>630,907</u>	<u>2,980</u>	<u>(7,156)</u>	<u>626,731</u>
<i>Cash and investments portfolio</i>				
Non-mortgage-related securities:				
Asset-backed securities	32,179	23	(80)	32,122
Commercial paper	11,191	—	—	11,191
Obligations of states and political subdivisions	2,273	—	—	2,273
Total non-mortgage-related securities	<u>45,643</u>	<u>23</u>	<u>(80)</u>	<u>45,586</u>
Total available-for-sale securities	<u>\$676,550</u>	<u>\$3,003</u>	<u>\$(7,236)</u>	<u>\$672,317</u>

At September 30, 2007, gross unrealized losses on available-for-sale securities were \$9.3 billion. We have the ability and intent to hold available-for-sale securities that may be currently in an unrealized loss position for a period of time sufficient to recover all unrealized losses. Based on our ability and intent to hold these available-for-sale securities, we have concluded that the impairment of these securities is temporary.

Table 4.2 below illustrates the gross realized gains and gross realized losses from the sale of available-for-sale securities.

Table 4.2 — Gross Realized Gains and Gross Realized Losses on Available-For-Sale Securities

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
	(in millions)			
Gross realized gains	\$ 397	\$ 69	\$ 544	\$ 338
Gross realized (losses)	(103)	(98)	(400)	(401)
Net realized gains (losses)	<u>\$ 294</u>	<u>\$(29)</u>	<u>\$ 144</u>	<u>\$(63)</u>

For the three months ended September 30, 2007 and 2006, we recorded impairments related to investments in securities of \$314 million and \$68 million, respectively. For the nine months ended September 30, 2007 and 2006, we recorded impairments related to investments in securities of \$742 million and \$419 million, respectively.

Table 4.3 presents the changes in AOCI, net of taxes, related to available-for-sale securities. The net unrealized holding losses, net of tax, represents the net fair value adjustments recorded on available-for-sale securities throughout the period, after the effects of our statutory tax rate of 35%. The net reclassification adjustment for realized (gains) losses, net of tax, represents the amount of those fair value adjustments, after the effects of our statutory tax rate of 35%, that have been recognized in earnings due to the sale of an available-for-sale security or the recognition of an impairment loss.

Table 4.3 — AOCI, Net of Taxes, Related to Available-For-Sale Securities

	Nine Months Ended September 30,	
	2007	2006
	(in millions)	
Beginning balance	\$ (2,749)	\$ (2,485)
Net unrealized holding losses, net of tax ⁽¹⁾	(1,673)	(492)
Net reclassification adjustment for realized (gains) losses, net of tax ⁽²⁾⁽³⁾	(12)	279
Ending balance	<u>\$(4,434)</u>	<u>\$(2,698)</u>

(1) Net of tax benefit of \$901 million and \$265 million for the nine months ended September 30, 2007 and 2006, respectively. Include the fair value adjustments of available-for-sale PC residuals, net of tax.

(2) Net of tax (expense) benefit of \$(6) million and \$150 million for the nine months ended September 30, 2007 and 2006, respectively.

(3) Includes the reversal of previously recorded unrealized losses that have been recognized as impairment losses on available-for-sale securities of \$80 million and \$246 million, net of tax, for the nine months ended September 30, 2007 and 2006, respectively.

Table 4.4 summarizes the estimated fair values by major security type for trading securities in our retained portfolio.

Table 4.4 — Trading Securities in the Retained Portfolio

	September 30, 2007	December 31, 2006
	(in millions)	
Mortgage-related securities issued by:		
Freddie Mac	\$11,713	\$6,573
Fannie Mae	1,713	802
Ginnie Mae	184	222
Other	1	—
Total trading securities in the retained portfolio	<u>\$13,611</u>	<u>\$7,597</u>

For the three months ended September 30, 2007 and 2006, we recorded net unrealized gains on trading securities held at September 30, 2007 and 2006 of \$271 million and \$31 million, respectively. For the nine months ended September 30, 2007 and 2006, we recorded net unrealized gains (losses) on trading securities held at September 30, 2007 and 2006 of \$326 million and \$(49) million, respectively.

Total trading securities in the retained portfolio include \$3.4 billion of SFAS 155 related assets. Gains (losses) on trading securities include gains of \$209 million and \$115 million, respectively, related to these SFAS 155 trading securities for the three and the nine months ended September 30, 2007.

Retained Portfolio Voluntary Growth Limit

In response to a request by the Office of Federal Housing Enterprise Oversight, or OFHEO, on August 1, 2006, we announced that we would voluntarily and temporarily limit the growth of our retained portfolio to 2.0% annually. On September 19, 2007, OFHEO provided an interpretation regarding the methodology for calculating the voluntary

temporary growth limit. The interpretation changed the methodology for measuring the growth limit of our retained portfolio, as calculated in conformity with GAAP, to the unpaid principal balance, as adjusted in accordance with OFHEO's interpretation. Quarterly compliance with the growth limit is determined based on an average of month-end retained portfolio unpaid principal balances beginning July 2007 compared to the applicable quarterly growth limit. For purposes of this calculation, OFHEO's interpretation sets the beginning value for the month of July 2007 at \$725.0 billion. For the fourth quarter of 2007, the quarterly growth limit of 0.5% is doubled to 1.0%, and the 2.0% annual limit remains in place. Any net increase in delinquent loan balances in the retained portfolio after September 30, 2007 will not be counted for purposes of determining our compliance with the growth limit.

The average unpaid principal balance for the three months ended September 30, 2007, calculated using cumulative average month-end portfolio balances, was \$11.5 billion below our voluntary growth limit of \$735.0 billion.

Collateral Pledged

Collateral Pledged to Freddie Mac

Our counterparties are required to pledge collateral for reverse repurchase transactions and most interest-rate swap transactions subject to collateral posting thresholds generally related to a counterparty's credit rating. Although it is our practice not to repledge assets held as collateral, a portion of the collateral may be repledged based on master agreements related to our interest-rate swap transactions. At September 30, 2007 and December 31, 2006, we did not have collateral in the form of securities pledged to and held by us under interest-rate swap agreements.

Collateral Pledged by Freddie Mac

We are also required to pledge collateral for margin requirements with third-party custodians in connection with secured financings, interest-rate swap agreements, futures and daily trade activities with some counterparties. The level of collateral pledged related to our interest-rate swap agreements is determined after giving consideration to our credit rating. As of September 30, 2007, we had two uncommitted intraday lines of credit with third parties, both of which are secured, in connection with the Federal Reserve Board's revised payments system risk policy, which restricts or eliminates daylight overdrafts by the GSEs in connection with our use of the Fedwire system. In certain limited circumstances, the line of credit agreements give the secured parties the right to repledge the securities underlying our financing to other third parties, including the Federal Reserve Bank. We pledge collateral to meet these requirements upon a demand by the respective counterparty.

Table 4.5 summarizes all securities pledged as collateral by us, including assets that the secured party may repledge and those that may not be repledged.

Table 4.5 — Collateral in the Form of Securities Pledged

	<u>September 30, 2007</u>	<u>December 31, 2006</u>
	(in millions)	
Securities pledged with ability for secured party to repledge (parenthetically disclosed on our consolidated balance sheets):		
Available-for-sale	\$17,834	\$20,463
Securities pledged without ability for secured party to repledge:		
Available-for-sale	<u>774</u>	<u>225</u>
Total securities pledged	<u>\$18,608</u>	<u>\$20,688</u>

NOTE 5: LOAN LOSS RESERVES

We maintain separate loan loss reserves for mortgage loans in our retained portfolio that we classify as held-for-investment and for credit-related losses associated with certain mortgage loans that underlie guaranteed PCs and Structured Securities held by third parties.

Table 5.1 summarizes loan loss reserve activity during the periods presented.

Table 5.1 — Detail of Loan Loss Reserves Balance

	Three Months Ended September 30,					
	2007			2006		
	Reserves related to:		Total Loan Loss Reserves	Reserves related to:		Total Loan Loss Reserves
	Retained Mortgages	PCs Outstanding		Retained Mortgages	PCs Outstanding	
	(in millions)					
Beginning balance	\$ 108	\$ 682	\$ 790	\$ 109	\$ 242	\$ 351
Provision for credit losses	179	1,018	1,197	28	65	93
Charge-offs ⁽¹⁾⁽²⁾	(98)	(2)	(100)	(80)	—	(80)
Recoveries ⁽¹⁾	61	—	61	40	—	40
Transfers-out ⁽³⁾	—	(127)	(127)	—	(17)	(17)
Other transfers ⁽⁴⁾	—	18	18	—	2	2
Ending balance	<u>\$250</u>	<u>\$1,589</u>	<u>\$1,839</u>	<u>\$ 97</u>	<u>\$292</u>	<u>\$389</u>
	Nine Months Ended September 30,					
	2007			2006		
	Reserves related to:		Total Loan Loss Reserves	Reserves related to:		Total Loan Loss Reserves
	Retained Mortgages	PCs Outstanding		Retained Mortgages	PCs Outstanding	
	(in millions)					
Beginning balance	\$ 70	\$ 350	\$ 420	\$ 119	\$ 295	\$ 414
Provision for credit losses	286	1,410	1,696	88	25	113
Charge-offs ⁽¹⁾⁽²⁾	(267)	(2)	(269)	(232)	—	(232)
Recoveries ⁽¹⁾	161	—	161	122	—	122
Transfers-out ⁽³⁾	—	(203)	(203)	—	(33)	(33)
Other transfers ⁽⁴⁾	—	34	34	—	5	5
Ending balance	<u>\$250</u>	<u>\$1,589</u>	<u>\$1,839</u>	<u>\$ 97</u>	<u>\$292</u>	<u>\$389</u>

- (1) It is our practice to purchase mortgage loans from the pools that underlie PCs principally at the point a mortgage loan is identified as being 120 days past due. Charge-offs or recoveries are presented in the retained mortgages columns above when credit losses related to off-balance sheet PCs have been preceded by the purchase of a delinquent mortgage loan from the PC pool.
- (2) Charge-offs related to retained mortgages represent the amount of the unpaid principal balance of a loan that has been discharged using the reserve balance to remove the loan from our retained portfolio at the time of resolution. Exclude \$36 million for the three months ended September 30, 2007 and \$74 million for the nine months ended September 30, 2007 related to reserve amounts previously transferred to reduce the carrying value of loans purchased under financial guarantees.
- (3) Consist of the transfer of reserves associated with non-performing loans purchased from mortgage pools underlying PCs, Structured Securities and long-term standby agreements to establish the initial recorded investment in these loans at the date of our purchase. Also, includes amounts attributable to uncollectible interest on outstanding PCs and Structured Securities, which is included as a reduction to the related receivable balance within accounts and other receivables, net on our consolidated balance sheets.
- (4) Represent transfers of a portion of the initial guarantee obligation associated with credit losses reclassified to the reserve balance allocated to PCs outstanding.

Impaired Loans

Single-family impaired loans include performing and non-performing troubled debt restructurings, as well as delinquent loans that were purchased from mortgage collateral pools underlying PCs and Structured Securities and long-term standby agreements. Multifamily impaired loans are defined as troubled debt restructuring loans, non-credit-enhanced loans greater than 60 days delinquent and certain mortgage loans identified as individually impaired. Recorded investment on impaired loans includes the unpaid principal balance plus amortized basis adjustments, which are modifications to the loan's carrying value.

Total loan loss reserves, as presented in "Table 5.1 — Detail of Loan Loss Reserves Balance," consist of a specific valuation allowance related to impaired loans, which is presented in Table 5.2, and a reserve for other probable incurred losses.

Our recorded investment in impaired loans and the related valuation allowance are summarized in Table 5.2.

Table 5.2 — Impaired Loans

	September 30, 2007			December 31, 2006		
	Recorded Investment	Specific Reserve	Net Investment	Recorded Investment	Specific Reserve	Net Investment
	(in millions)					
Impaired loans having:						
Related valuation allowance	\$ 612	\$(44)	\$ 568	\$ 86	\$(6)	\$ 80
No related valuation allowance ⁽¹⁾	<u>7,734</u>	<u>—</u>	<u>7,734</u>	<u>5,869</u>	<u>—</u>	<u>5,869</u>
Total	<u>\$8,346</u>	<u>\$(44)</u>	<u>\$8,302</u>	<u>\$5,955</u>	<u>\$(6)</u>	<u>\$5,949</u>

- (1) Impaired loans with no related valuation allowance primarily represent performing single-family troubled debt restructuring loans and those delinquent loans purchased out of PC pools that have not been impaired subsequent to acquisition.

The average investment in impaired loans was \$7.2 billion and \$4.2 billion for the nine months ended September 30, 2007 and for the year ended December 31, 2006, respectively. The increase in impaired loans for the nine months ended September 30, 2007 is attributed to higher delinquency rates and an increase in the average size of the unpaid principal balance for loans originated in 2006 and 2007, which have been principally purchased out of PCs and Structured Securities.

Interest income and management and guarantee income foregone on impaired loans approximated \$136 million and \$21 million for the nine months ended September 30, 2007 and 2006, respectively.

Loans Acquired in a Transfer

We have the option to purchase mortgage loans from the loan pools that underlie our guarantees and standby commitments under certain circumstances, such as to resolve an existing or impending delinquency or default. Our general practice is to purchase the mortgage loans when the loans are significantly past due. Loans purchased that underlie our guarantees and standby commitments held by third parties are recorded at fair value. We recognize losses on loans purchased in our consolidated statements of income in order to reduce our net investment in the acquired loan to its fair value. Loans purchased out of PCs we held in our retained portfolio are recorded at their carrying amount, which approximates fair value because the related PC residual is generally accounted for at fair value with changes in market valuations recorded in our consolidated statements of income. At September 30, 2007 and December 31, 2006, the outstanding balance of these loans was \$6.1 billion and \$3.0 billion, respectively, while the carrying amount of these loans was \$5.0 billion and \$2.8 billion, respectively.

The following table provides details on loans acquired under financial guarantees.

Table 5.3 — Loans Acquired Under Financial Guarantees

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
	(in millions)			
Contractual principal and interest payments at acquisition	\$2,836	\$1,264	\$6,963	\$3,776
Non-accretable difference	(160)	(42)	(302)	(124)
Cash flows expected to be collected at acquisition	2,676	1,222	6,661	3,652
Accretable balance	(841)	(167)	(1,673)	(474)
Initial investment in acquired loans at acquisition	<u>\$1,835</u>	<u>\$1,055</u>	<u>\$4,988</u>	<u>\$3,178</u>

The excess of contractual principal and interest over the undiscounted amount of cash flows we expect to collect represents a non-accretable difference that is not accreted to interest income nor displayed on the consolidated balance sheets. The amount that may be accreted into interest income on such loans is limited to the excess of our estimate of undiscounted expected principal, interest and other cash flows from the loan over our initial investment in the loan. We consider estimated prepayments when calculating the accretable balance and the non-accretable difference. While these loans are seriously delinquent, no amounts are accreted to interest income. Subsequent changes in estimated future cash flows to be collected related to interest-rate changes are recognized prospectively in interest income over the remaining contractual life of the loan. Decreases in estimated future cash flows to be collected due to further credit deterioration are recognized as provision for credit losses and increase our loan loss reserve. Subsequent to acquisition, we recognized an increase in provision for credit losses related to these loans of \$32 million and \$45 million for the three and nine months ended September 30, 2007, respectively.

The following table provides changes in the accretable balance of these loans.

Table 5.4 — Changes in Accretable Balance

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
	(in millions)			
Beginning balance	\$1,162	\$302	\$ 593	\$ —
Additions from new acquisitions	841	167	1,673	474
Accretion during the period	(58)	(13)	(128)	(24)
Reductions ⁽¹⁾	(109)	(16)	(207)	(31)
Change in estimated cash flows ⁽²⁾	(4)	(9)	(57)	(4)
Reclassifications to or from nonaccretable difference	(58)	(1)	(100)	15
Ending balance	<u>\$1,774</u>	<u>\$430</u>	<u>\$1,774</u>	<u>\$430</u>

(1) Represent the recapture of losses previously recognized due to borrower repayment or foreclosure on the loan.

(2) Represents the change in expected cash flows due to troubled debt restructurings or change in prepayment assumptions of the related loans.

Delinquency Rates

Table 5.5 summarizes the delinquency performance for our total mortgage portfolio, excluding non-Freddie Mac mortgage-related securities and that portion of Structured Securities backed by Ginnie Mae Certificates.

Table 5.5 — Delinquency Performance

	<u>September 30, 2007</u>	<u>December 31, 2006</u>
Delinquencies, end of period:		
<i>Single-family:</i> ⁽¹⁾		
Non-credit-enhanced portfolio — excluding Structured Transactions:		
Delinquency rate	0.34%	0.25%
Total number of delinquent loans	32,823	22,671
Credit-enhanced portfolio — excluding Structured Transactions:		
Delinquency rate	1.34%	1.30%
Total number of delinquent loans	27,123	24,106
Total portfolio — excluding Structured Transactions:		
Delinquency rate	0.51%	0.42%
Total number of delinquent loans	59,946	46,777
Structured Transactions ⁽²⁾ :		
Delinquency rate	9.01%	8.36%
Total number of delinquent loans	13,537	13,770
Total single-family portfolio ⁽²⁾ :		
Delinquency rate	0.62%	0.54%
Total number of delinquent loans	73,483	60,547
<i>Multifamily:</i> ⁽³⁾		
Total portfolio:		
Delinquency rate	0.06%	0.05%
Net carrying value of delinquent loans (in millions)	\$ 32	\$ 30

(1) Based on the number of mortgages 90 days or more delinquent or in foreclosure. Delinquencies on mortgage loans underlying certain Structured Securities, long-term standby commitments and Structured Transactions may be reported on a different schedule due to variances in industry practice.

(2) Structured Transactions generally have underlying mortgage loans with higher risk characteristics but may provide inherent credit protections from losses due to underlying subordination, excess interest, overcollateralization and other features. Previously reported delinquency data for Structured Transactions excluded certain information when underlying loan servicing data was not previously available. Prior period information has been revised to conform to the current period presentation, which includes loan servicing data for all Structured Transactions.

(3) Based on net carrying value of mortgages 60 days or more delinquent.

NOTE 6: REAL ESTATE OWNED

For periods presented below, the weighted average holding period for our disposed properties was less than one year. Table 6.1 provides a summary of our REO activity.

Table 6.1 — REO

	<u>Three Months Ended September 30,</u>					
	<u>2007</u>			<u>2006</u>		
	<u>REO, Gross</u>	<u>Valuation Allowance</u>	<u>REO, Net</u>	<u>REO, Gross</u>	<u>Valuation Allowance</u>	<u>REO, Net</u>
	(in millions)					
Beginning balance	\$1,180	\$(160)	\$1,020	\$ 783	\$(119)	\$ 664
Additions	775	(46)	729	372	(21)	351
Dispositions and write-downs	(423)	(5)	(428)	(362)	22	(340)
Ending balance	<u>\$1,532</u>	<u>\$(211)</u>	<u>\$1,321</u>	<u>\$ 793</u>	<u>\$(118)</u>	<u>\$ 675</u>
	<u>Nine Months Ended September 30,</u>					
	<u>2007</u>			<u>2006</u>		
	<u>REO, Gross</u>	<u>Valuation Allowance</u>	<u>REO, Net</u>	<u>REO, Gross</u>	<u>Valuation Allowance</u>	<u>REO, Net</u>
	(in millions)					
Beginning balance	\$ 871	\$(128)	\$ 743	\$ 744	\$(115)	\$ 629
Additions	1,841	(110)	1,731	1,089	(61)	1,028
Dispositions and write-downs	(1,180)	27	(1,153)	(1,040)	58	(982)
Ending balance	<u>\$1,532</u>	<u>\$(211)</u>	<u>\$ 1,321</u>	<u>\$ 793</u>	<u>\$(118)</u>	<u>\$ 675</u>

We realized losses of \$30 million and \$17 million for the three months ended September 30, 2007 and 2006, respectively, and \$63 million and \$42 million for the nine months ended September 30, 2007 and 2006, respectively, on REO dispositions, which are included in REO operations expense. The number of REO property additions increased by 47% and 27% during the three and nine months ended September 30, 2007, compared to the three and nine months ended September 30, 2006. Our REO additions have continued to be greatest in the North Central region of the U.S. and approximately one-half of our REO balance relates to properties located in this region.

NOTE 7: DEBT SECURITIES AND SUBORDINATED BORROWINGS

Debt securities are classified as either due within one year or due after one year based on their remaining contractual maturity. Table 7.1 summarizes the balances and effective interest rates for debt securities and subordinated borrowings.

Table 7.1 — Total Debt Securities, Net

	September 30, 2007			December 31, 2006		
	Par Value	Balance, Net ⁽¹⁾	Effective Rate ⁽²⁾	Par Value	Balance, Net ⁽¹⁾	Effective Rate ⁽²⁾
	(dollars in millions)					
Senior debt, due within one year:						
Reference Bills® securities and discount notes	\$150,633	\$148,678	5.04%	\$159,503	\$157,553	5.14%
Medium-term notes	3,352	3,352	5.28	9,832	9,832	5.16
Swap collateral obligations	8,311	8,345	4.58	9,552	9,597	5.17
Short-term debt securities	162,296	160,375	5.02	178,887	176,982	5.14
Current portion of long-term debt	99,856	100,752	4.39	117,972	117,879	4.10
Senior debt, due within one year	<u>262,152</u>	<u>261,127</u>	4.78	<u>296,859</u>	<u>294,861</u>	4.73
Senior debt, due after one year ⁽³⁾	504,212	468,903	5.28	484,397	452,677	5.08
Subordinated debt, due after one year ⁽³⁾	5,532	5,232	5.76	6,714	6,400	5.86
Senior and subordinated debt, due after one year	<u>509,744</u>	<u>474,135</u>	5.28	<u>491,111</u>	<u>459,077</u>	5.09
Total debt securities, net	<u>\$771,896</u>	<u>\$735,262</u>		<u>\$787,970</u>	<u>\$753,938</u>	

- (1) Represents par value, net of associated discounts, premiums and foreign currency-related and hedging-related basis adjustments. Swap collateral obligations include the related accrued interest payable.
- (2) Represents the approximate weighted average effective rate for each instrument outstanding at the end of the period, which includes the amortization of discounts or premiums and issuance costs, but excludes the amortization of hedging-related basis adjustments.
- (3) Balance, Net for Senior debt, due after one year includes callable debt of \$225,535 million and \$220,758 million at September 30, 2007 and December 31, 2006, respectively. Balance, Net for Subordinated debt, due after one year includes callable debt of \$747 million and \$1,928 million at September 30, 2007 and December 31, 2006, respectively.

NOTE 8: STOCKHOLDERS' EQUITY

Stock Repurchase and Issuance Programs

During the nine months ended September 30, 2007, we completed four non-cumulative, perpetual preferred stock offerings with aggregate proceeds of \$2.6 billion, including \$500 million of 6.55% non-cumulative, perpetual preferred stock on September 28, 2007. We also issued \$500 million of 6.02% and \$500 million of 5.66% non-cumulative, perpetual preferred stock and repurchased \$1.0 billion (approximately 16.1 million shares) of outstanding common stock, thereby completing our plan announced in March 2007 to replace \$1.0 billion of common stock with an equal amount of preferred stock. In addition, we issued \$1.1 billion of 5.57% non-cumulative, perpetual preferred stock, consisting of \$500 million to complete our plan announced in October 2005 to replace \$2.0 billion of common stock with an equal amount of preferred stock and \$600 million to replace higher-cost preferred stock that we redeemed. In accordance with OFHEO's capital monitoring framework, we obtained OFHEO's approval for the preferred stock redemption.

Dividends Declared During the Nine Months Ended September 30, 2007

On March 2, 2007, June 8, 2007 and September 7, 2007 our board of directors declared quarterly dividends on our common stock of \$0.50 per share and dividends on our preferred stock consistent with the contractual rates and terms shown in "NOTE 9: STOCKHOLDERS' EQUITY — Table 9.1 — Preferred Stock" in our 2006 Information Statement, excluding the redeemed 6.14% issuance and including the 6.02%, 5.66% and 5.57% issuances, as applicable, discussed above.

NOTE 9: REGULATORY CAPITAL

Table 9.1 summarizes our regulatory capital requirements and surpluses.

Table 9.1 — Regulatory Capital Requirements⁽¹⁾

	September 30, 2007	December 31, 2006
	(in millions)	
<i>Minimum capital requirement</i>	\$26,190	\$25,844
Core capital	34,643	36,170
Minimum capital surplus	8,453	10,326
<i>Critical capital requirement</i>	\$13,461	\$13,237
Core capital	34,643	36,170
Critical capital surplus	21,182	22,933
<i>Risk-based capital requirement⁽²⁾</i>	N/A	\$15,320
Total capital ⁽²⁾	N/A	36,742
Risk-based capital surplus ⁽²⁾	N/A	21,422

(1) OFHEO is the authoritative source of the capital calculations that underlie our capital classifications. The minimum and critical capital values for September 30, 2007 reflect the amounts we reported to OFHEO.

(2) OFHEO determines the amounts reported with respect to our risk-based capital requirement. Amounts for September 30, 2007 are not yet available.

Table 9.2 summarizes our compliance with our subordinated debt commitment.

Table 9.2 — Subordinated Debt Commitment⁽¹⁾

	September 30, 2007	December 31, 2006
	(in millions)	
Total on-balance sheet assets and guaranteed PCs and Structured Securities outstanding target ⁽²⁾ ..	\$37,610	\$37,576
Total capital plus qualifying subordinated debt	41,066	42,602
Surplus	3,456	5,026

(1) The values for September 30, 2007 reflect the amounts we reported to OFHEO.

(2) Equals the sum of 0.45% of outstanding guaranteed PCs and Structured Securities and 4% of on-balance sheet assets.

Table 9.3 summarizes our compliance with the mandatory target capital surplus portion of OFHEO's monitoring framework.

Table 9.3 — Mandatory Target Capital Surplus⁽¹⁾

	September 30, 2007	December 31, 2006
	(in millions)	
Minimum capital requirement plus 30% add-on	\$34,047	\$33,597
Core capital	34,643	36,170
Surplus	596	2,573

(1) The values for September 30, 2007 are based on amounts we reported to OFHEO.

NOTE 10: DERIVATIVES

By the end of 2006, we had discontinued nearly all of our cash flow hedge accounting relationships and all of our fair value hedge accounting relationships. We record changes in the fair value of derivatives not in hedge accounting relationships as derivative gains (losses) on our consolidated statements of income. Any associated interest received or paid is recognized on an accrual basis and also recorded in derivative gains (losses) on our consolidated statements of income.

For a derivative accounted for as a cash flow hedge, changes in fair value are reported in AOCI, net of taxes, on our consolidated balance sheets to the extent the hedge is effective.

Table 10.1 presents the changes in AOCI, net of taxes, related to derivatives designated as cash flow hedges. The net change in fair value related to cash flow hedging activities, net of tax represents the net change in the fair value of the derivatives that were designated as cash flow hedges, after the effects of our statutory tax rate of 35%, to the extent the hedges were effective. The net reclassifications of losses to earnings, net of tax represents the AOCI amount, after the effects of our statutory tax rate of 35%, that was recognized in earnings as the originally hedged forecasted transactions affected earnings. If it is probable that the forecasted transaction will not occur, then the entire deferred gain or loss associated with the hedge related to the forecasted transaction is reclassified into earnings immediately. The total AOCI, net of taxes, related to cash flow hedge relationships was a loss of \$4.3 billion and \$5.3 billion at September 30, 2007 and 2006, respectively, primarily composed of deferred net losses on closed cash flow hedges. Closed cash flow hedges involve derivatives that have been terminated or are no longer designated as cash flow hedges. Fluctuations in prevailing market interest rates have no impact on the deferred portion of AOCI relating to losses on closed cash flow hedges.

Over the next 12 months, we estimate that approximately \$896 million, net of taxes, of the \$4.3 billion of cash flow hedging losses in AOCI, net of taxes, at September 30, 2007 will be reclassified into earnings. The maximum remaining

length of time over which we have hedged the exposure related to the variability in future cash flows on forecasted transactions, primarily forecasted debt issuances, is 26 years. However, over 70% and 90% of AOCI, net of taxes, relating to cash flow hedges at September 30, 2007, will be reclassified to earnings over the next five and ten years, respectively.

At September 30, 2007, the only derivatives accounted for as open cash flow hedges were certain commitments to forward sell mortgage-related securities with a notional amount of \$1.1 billion and a fair value of \$1 million.

Table 10.1 — AOCI, Net of Taxes, Related to Cash Flow Hedge Relationships

	Nine Months Ended September 30,	
	2007	2006
	(in millions)	
Beginning balance ⁽¹⁾	\$(5,033)	\$(6,287)
Net change in fair value related to cash flow hedging activities, net of tax ⁽²⁾	(18)	(4)
Net reclassifications of losses to earnings, net of tax ⁽³⁾	742	986
Ending balance ⁽¹⁾	<u>\$(4,309)</u>	<u>\$(5,305)</u>

(1) Represents the effective portion of the fair value of open derivative contracts (*i.e.*, net unrealized gains and losses) and net deferred gains and losses on closed (*i.e.*, terminated or redesignated) cash flow hedges.

(2) Net of tax benefit of \$10 million and \$3 million for the nine months ended September 30, 2007 and 2006, respectively.

(3) Net of tax benefit of \$400 million and \$531 million for the nine months ended September 30, 2007 and 2006, respectively.

NOTE 11: LEGAL CONTINGENCIES

We are involved as a party to a variety of legal proceedings arising from time to time in the ordinary course of business, including among other things, contractual disputes, personal injury claims, employment-related litigation and other legal proceedings incidental to our business. We are frequently involved, directly or indirectly, in litigation involving mortgage foreclosures. From time to time, we are also involved in proceedings arising from our termination of a seller/servicer's eligibility to sell mortgages to us and service mortgages for us. In these cases, the former seller/servicer sometimes seeks damages against us for wrongful termination under a variety of legal theories. In addition, we are sometimes sued in connection with the origination or servicing of mortgages. These suits typically involve claims alleging wrongful actions of seller/servicers. Our contracts with our seller/servicers generally provide for indemnification against liability arising from their wrongful actions.

We have been subject to various other legal proceedings, including regulatory investigations and administrative and civil litigation, arising from the restatement of our previously issued consolidated financial statements for the years 2000 and 2001 and the first three quarters of 2002 and the revision of fourth quarter and full-year consolidated financial statements for 2002 (collectively referred to as the "restatement"). On September 27, 2007, we reached an agreement with the SEC to settle the SEC's investigation related to our restatement. The settlement was approved by the court on September 28, 2007. Under the terms of the settlement, we neither admitted nor denied allegations of federal securities law violations. We also agreed to a payment of \$50 million.

Litigation and claims resolution are subject to many uncertainties and are not susceptible to accurate prediction. Any additional losses that might result from the adverse resolution of any of the remaining legal proceedings could be greater than our current reserves.

Securities Class Action Lawsuits. In June 2003 and thereafter, securities class action lawsuits were brought in three separate federal courts against us and certain former executive officers on behalf of certain stockholders in connection with the restatement, which were eventually consolidated in the U.S. District Court for the Southern District of New York. The plaintiffs claimed that the defendants improperly managed earnings to create a misleading impression of steady earnings by us, that they engaged in a number of improper transactions that violated GAAP and that they made false and misleading statements regarding the same. On October 26, 2006, the court approved a settlement of the securities class action lawsuits, as well as the shareholder derivative actions described below. The settlement of these actions included a cash payment of \$410 million. The settlement does not include any admission of wrongdoing by us.

Shareholder Derivative Lawsuits. Two shareholder derivative lawsuits were filed during 2003 against certain former and current executives and, in one of the suits, certain former and current members of the board of directors and five counterparties. The plaintiffs alleged claims for breach of fiduciary duties, indemnification, waste of corporate assets, unjust enrichment and aiding and abetting breach of fiduciary duties in connection with the restatement. Both cases were ultimately assigned to the same judge in New York who handled the securities class action lawsuits described above. As described above, on October 26, 2006, the court approved a settlement of both shareholder derivative actions, as well as the securities class action lawsuits. The settlement of these cases was based in part on corporate governance reforms we instituted under our current management.

Antitrust Lawsuits. Consolidated lawsuits were filed against Fannie Mae and us in the U.S. District Court for the District of Columbia, originally filed on January 10, 2005, alleging that both companies conspired to establish and maintain artificially high guarantee fees. The complaint covers the period from January 1, 2001 to the present and asserts a variety of claims under federal and state antitrust laws, as well as claims under consumer-protection and similar state laws. The plaintiffs seek injunctive relief, unspecified damages (including treble damages with respect to the antitrust claims and punitive damages with respect to some of the state claims) and other forms of relief. We filed a motion to dismiss the action and are awaiting a ruling from the court. At present, it is not possible for us to predict the probable outcome of the consolidated lawsuit or any potential impact on our business, financial condition or results of operations.

Other Inquiries. We receive inquiries from the Internal Revenue Service, or IRS, in connection with its regular audits of our tax returns for prior years, some of which relate to matters connected with the restatement. We continue to respond to these inquiries.

NOTE 12: INCOME TAXES

For the three months ended September 30, 2007 and 2006, we reported an income tax benefit of \$1.4 billion and \$21 million, respectively, representing effective tax rates of 40% and 3%, respectively.

Our effective tax rate continues to be favorably impacted by our investments in LIHTC partnerships and interest earned on tax-exempt housing-related securities. For both the three months ended September 30, 2007 and September 30, 2006 we recognized a pre-tax loss resulting in tax benefits. However, we recognized a partially offsetting tax expense for the three months ended September 30, 2006 as a result of our application of FIN 18, "Accounting for Income Taxes in Interim Periods, an interpretation of APB Opinion No. 28."

In 2006, and other years since the restatement, we did not release interim financial statements. As a result, for the three and nine months ended September 30, 2006 our actual 2006 annual effective tax rate was used since the actual annual effective tax rate was our best estimate of the effective tax rate for those periods. We cannot estimate our annual effective tax rate, or any portion thereof, for 2007 as we are unable to produce a reliable forecast of book income for 2007. Therefore, for the three and nine months ended September 30, 2007, we used our year-to-date effective tax rate to account for income taxes, which represents our best estimate of our 2007 annual effective tax rate.

For the nine months ended September 30, 2007 and 2006, we reported tax benefits of \$1.7 billion and \$96 million, respectively, representing effective tax rates of 54% and (4)%, respectively. Our effective tax rate for the nine months ended September 30, 2007 and 2006, benefited from our investments in LIHTC partnerships and interest earned on tax-exempt housing related securities. Although we recognized pre-tax income for the nine months ended September 30, 2006, the application of FIN 18 resulted in the allocation of tax benefits on pre-tax losses incurred in the last three months of 2006 to the first nine months of 2006. In addition, during the nine months ended September 30, 2006 we benefited from tax reserve releases.

We adopted the provisions of FIN 48 effective January 1, 2007 and as a result we recorded a \$181 million increase to retained earnings. At January 1, 2007, we had total unrecognized tax benefits, exclusive of interest, of \$677 million. Included in the \$677 million are \$76 million of unrecognized tax benefits that, if recognized, would reduce our effective tax rate. The remaining \$601 million of unrecognized tax benefits relate to tax positions for which ultimate deductibility is highly certain, but for which there is uncertainty as to the timing of such deductibility. Recognition of these tax benefits, other than applicable interest, would not affect our effective tax rate. There were no material changes in our unrecognized tax benefits during the three and nine months ended September 30, 2007.

We continue to recognize interest and penalties, if any, in income tax expense. As of January 1, 2007, we had total accrued interest receivable, net of tax effect, of approximately \$67 million. Amounts included in total accrued interest relate to: (a) unrecognized tax benefits; (b) pending claims with the IRS for open tax years; (c) the tax benefit related to tax refund claims; and (d) the impact of payments made to the IRS in prior years in anticipation of potential tax deficiencies. Of the \$67 million of accrued interest receivable as of January 1, 2007, approximately \$105 million of accrued interest payable, net of tax effect, is allocable to unrecognized tax benefits. There were no material changes in our accrued interest during the three and nine months ended September 30, 2007. We have no amount accrued for penalties.

The statute of limitations for federal income tax purposes is open on tax returns filed for years 1985 to 2006. The IRS is currently examining tax years 1998 to 2005. Tax years 1985 to 1997 are before the U.S. Tax Court. We are currently in settlement discussions with the IRS regarding the tax treatment of the customer relationship intangible asset recognized upon our transition from non-taxable to taxable status in 1985. We believe it is reasonably possible that significant changes in the gross balance of unrecognized tax benefits may occur within the next 12 months that could have a material impact on income tax expense or benefit in the period the issue is resolved; however, we cannot predict the amount of such change or the range of potential changes.

NOTE 13: EMPLOYEE BENEFITS

Table 13.1 presents the components of the net periodic benefit cost with respect to pension and postretirement health care benefits for the three and nine months ended September 30, 2007 and 2006. Net periodic benefit cost is included in salaries and employee benefits in our consolidated statements of income.

Table 13.1 — Net Periodic Benefit Cost Detail

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
(in millions)				
Pension Benefits				
Service cost	\$ 8	\$ 8	\$ 25	\$ 24
Interest cost on benefit obligation	8	7	23	20
Expected (return) loss on plan assets	(9)	(6)	(28)	(18)
Recognized net actuarial loss (gain)	1	1	3	4
Net periodic benefit cost	<u>\$ 8</u>	<u>\$10</u>	<u>\$ 23</u>	<u>\$ 30</u>
Postretirement Health Care Benefits				
Service cost	\$ 2	\$ 2	\$ 6	\$ 6
Interest cost on benefit obligation	2	2	6	5
Recognized net actuarial loss (gain)	1	1	1	2
Recognized prior service (credit) cost	(1)	(1)	(1)	(1)
Net periodic benefit cost	<u>\$ 4</u>	<u>\$ 4</u>	<u>\$ 12</u>	<u>\$ 12</u>

Table 13.2 presents the changes in AOCI, net of taxes, related to our defined benefit plans recorded to AOCI for the nine months ended September 30, 2007, after the effects of our statutory tax rate of 35%.

Table 13.2 — AOCI, Net of Taxes, Related to Defined Benefit Plans

	Nine Months Ended September 30, 2007 (in millions)
Beginning balance	\$(87)
Amounts recognized in AOCI, net of tax:	
Recognized net gain (loss) ⁽¹⁾	5
Net reclassification adjustments, net of tax: ⁽²⁾	
Recognized net loss (gain) ⁽³⁾	2
Ending balance	<u>\$(80)</u>

(1) Represents the correction of deferred taxes related to previously recorded Medicare Part D subsidies from prior years.

(2) Represent amounts subsequently recognized as adjustments to other comprehensive income as those amounts are recognized as components of net periodic benefit cost.

(3) Net of tax benefit of \$2 million for the nine months ended September 30, 2007.

Cash Flows Related to Defined Benefit Plans

Our general practice is to contribute to our Pension Plan an amount at least equal to the minimum required contribution, if any, but no more than the maximum amount deductible for federal income tax purposes each year. There is no minimum required contribution for 2007. We have not made any contributions to our Pension Plan during the nine months ended September 30, 2007.

NOTE 14: FAIR VALUE DISCLOSURES

The supplemental consolidated fair value balance sheets in Table 14.1 present our estimates of the fair value of our recorded financial assets and liabilities and off-balance sheet financial instruments at September 30, 2007 and December 31, 2006. The valuations of financial instruments on our consolidated fair value balance sheets are in conformity with GAAP fair value guidelines prescribed by SFAS No. 107, "Disclosures about Fair Value of Financial Instruments," or SFAS 107, and other relevant pronouncements.

At September 30, 2007, our fair value results were impacted by several improvements in our approach for estimating the fair value of certain financial instruments, which resulted in a net decline in the fair value of total net assets of approximately \$0.2 billion (after-tax), primarily related to our multifamily whole loans and guarantee-related assets and liabilities.

Table 14.1 — Consolidated Fair Value Balance Sheets⁽¹⁾

	September 30, 2007		December 31, 2006	
	Carrying Amount ⁽²⁾	Fair Value ⁽³⁾	Carrying Amount ⁽²⁾	Fair Value ⁽³⁾
(in billions)				
Assets				
Mortgage loans	\$ 71.7	\$ 68.8	\$ 65.6	\$ 65.4
Mortgage-related securities excluding PC residuals	634.3	634.3	634.3	634.3
PC residuals	(1.1)	(1.1)	0.6	0.6
Retained portfolio	704.9	702.0	700.5	700.3
Cash and cash equivalents	12.2	12.2	11.4	11.4
Investments	21.3	21.3	45.6	45.6
Securities purchased under agreements to resell and Federal funds sold	17.3	17.3	23.0	23.0
Derivative assets	7.3	7.3	7.9	7.9
Guarantee asset ⁽⁴⁾	8.2	8.6	6.1	6.4
Other assets ⁽⁵⁾	21.7	23.0	18.6	16.7
Total assets	<u>\$792.9</u>	<u>\$791.7</u>	<u>\$813.1</u>	<u>\$811.3</u>
Liabilities and Minority Interests				
Total debt securities, net	\$735.3	\$737.3	\$753.9	\$752.3
Guarantee obligation	9.6	10.9	7.1	4.7
Derivative liabilities	0.3	0.3	0.2	0.2
Reserve for guarantee losses on PCs	1.6	—	0.4	—
Other liabilities	20.0	19.1	22.7	21.8
Minority interests in consolidated subsidiaries	0.3	0.3	0.5	0.5
Total liabilities and minority interests	<u>767.1</u>	<u>767.9</u>	<u>784.8</u>	<u>779.5</u>
Net Assets Attributable to Stockholders				
Preferred stockholders	8.1	7.4	6.1	5.8
Common stockholders	17.7	16.4	22.2	26.0
Total net assets	<u>25.8</u>	<u>23.8</u>	<u>28.3</u>	<u>31.8</u>
Total liabilities, minority interests and net assets	<u>\$792.9</u>	<u>\$791.7</u>	<u>\$813.1</u>	<u>\$811.3</u>

- (1) The consolidated fair value balance sheets do not purport to present our net realizable, liquidation or market value as a whole. Furthermore, amounts we ultimately realize from the disposition of assets or settlement of liabilities may vary significantly from the fair values presented.
- (2) Equals the amounts reported on our GAAP consolidated balance sheets.
- (3) Methodologies employed to calculate fair values are periodically changed on a prospective basis to reflect improvements in the underlying estimation processes. The estimated impact of these improvements resulted in a net after-tax decline to the fair value of Total net assets of approximately \$0.2 billion at September 30, 2007 and rounded to zero at December 31, 2006.
- (4) The fair value of the guarantee asset reported exceeds the carrying value primarily because the fair value includes the guarantee asset related to some PCs held by third parties that are not recognized on our GAAP consolidated balance sheets because such PCs were issued prior to the implementation of FIN 45, “Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, an interpretation of FASB Statements No. 5, 57, and 107 and rescission of FASB Interpretation No. 34” in 2003.
- (5) Fair values include estimated income taxes calculated using the 35% statutory rate on the difference between the consolidated fair value balance sheets net assets, including deferred taxes from our GAAP consolidated balance sheets, and the GAAP consolidated balance sheets equity attributable to common stockholders.

NOTE 15: CONCENTRATION OF CREDIT AND OTHER RISKS

Mortgages and Mortgage-Related Securities

Table 15.1 summarizes the geographical concentration of mortgages and mortgage-related securities that we held in our retained portfolio or that are collateral for our guaranteed PCs and Structured Securities, excluding:

- \$1.3 billion and \$1.5 billion of mortgage-related securities issued by Ginnie Mae that back Structured Securities at September 30, 2007 and December 31, 2006, respectively, because these securities do not expose us to meaningful amounts of credit risk;
- \$48.3 billion and \$45.4 billion of agency mortgage-related securities at September 30, 2007 and December 31, 2006, respectively, because these securities do not expose us to meaningful amounts of credit risk; and
- \$235.9 billion and \$238.5 billion of non-agency mortgage-related securities held in the retained portfolio at September 30, 2007 and December 31, 2006, respectively, because geographic information regarding these securities is not available. With respect to these securities, we look to third-party credit enhancements (e.g., bond insurance) or other credit enhancements resulting from the securitization structure supporting such securities (e.g., subordination levels) as a primary means of managing credit risk.

See “NOTE 4: RETAINED PORTFOLIO AND CASH AND INVESTMENTS PORTFOLIO” for more information about the securities we hold.

Table 15.1 — Concentration of Credit Risk

	September 30, 2007		December 31, 2006	
	Amount ⁽¹⁾	Percentage	Amount ⁽¹⁾	Percentage
	(dollars in millions)			
By Region⁽²⁾				
West	\$ 418,629	24%	\$ 366,492	24%
Northeast	415,962	24	375,844	24
North Central	376,755	22	324,255	21
Southeast	310,969	18	279,984	18
Southwest	214,163	12	194,785	13
	<u>\$1,736,478</u>	<u>100%</u>	<u>\$1,541,360</u>	<u>100%</u>
By State				
California	\$ 222,232	13%	\$ 195,964	13%
Florida	115,391	6	101,901	7
Michigan	99,862	6	60,371	4
Illinois	86,555	5	80,130	5
All Others	1,212,438	70	1,102,994	71
	<u>\$1,736,478</u>	<u>100%</u>	<u>\$1,541,360</u>	<u>100%</u>

(1) Calculated as total mortgage portfolio less Structured Securities backed by Ginnie Mae Certificates and agency and non-agency mortgage-related securities held in the retained portfolio.

(2) Region Designation: West (AK, AZ, CA, GU, HI, ID, MT, NV, OR, UT, WA); Northeast (CT, DE, DC, MA, ME, MD, NH, NJ, NY, PA, RI, VT, VA, WV); North Central (IL, IN, IA, MI, MN, ND, OH, SD, WI); Southeast (AL, FL, GA, KY, MS, NC, PR, SC, TN, VI); Southwest (AR, CO, KS, LA, MO, NE, NM, OK, TX, WY).

Mortgage Lenders and Insurers

A significant portion of our single-family mortgage purchase volume is generated from several key mortgage lenders with whom we have entered into business arrangements. These arrangements generally involve a lender's commitment to sell a significant proportion of its conforming mortgage origination volume to us. Our largest customer during the nine months ended September 30, 2007 reduced its minimum mortgage volume commitment to us upon renewal of its contract at July 1, 2007. In addition, ABN Amro Mortgage Group, Inc., which accounted for more than 8% of our mortgage purchase volume for the six months ended June 30, 2007, was acquired and its contract was not renewed when it expired during the three months ended September 30, 2007. During the nine months ended September 30, 2007, three mortgage lenders each accounted for 8% or more of our mortgage purchase volume, and collectively accounted for approximately 43% of our mortgage purchase volume. In addition, during the nine months ended September 30, 2007, our ten largest customers represented approximately 78% of our mortgage purchase volume. These top lenders are among the largest mortgage loan originators in the U.S. We are exposed to the risk that we could lose purchase volume to the extent these arrangements are terminated or modified without replacement from other lenders.

We have institutional credit risk relating to the potential insolvency or non-performance of mortgage insurers that insure mortgages we purchase or guarantee. Excluding insurers of our non-agency mortgage-related securities portfolio at September 30, 2007, there were seven mortgage insurers, all rated "AA" or better by S&P, that each provided more than 7% of our mortgage insurance coverage (including primary mortgage insurance and pool insurance) and together accounted for approximately 99% of our overall coverage.

NOTE 16: EARNINGS (LOSS) PER SHARE

We have participating securities related to options with dividend equivalent rights that receive dividends as declared on an equal basis with common shares. Consequently, in accordance with Emerging Issues Task Force, or EITF, No. 03-6, “Participating Securities and the Two-Class Method under FASB Statement No. 128”, we use the “two-class” method of computing earnings per share. Participating security option holders are not obligated to participate in undistributed net losses. Basic earnings per common share are computed by dividing net income (loss) available per common share by weighted average common shares outstanding — basic for the period. Diluted earnings (loss) per share are computed as Net income (loss) available to common stockholders divided by Weighted average common shares outstanding — diluted for the period, which consider the effect of dilutive common equivalent shares outstanding. For periods with net income the effect of dilutive common equivalent shares outstanding includes: (a) the weighted average shares related to stock options (including the Employee Stock Purchase Plan) that have an exercise price lower than the average market price during the period; (b) the weighted average of non-vested restricted shares; and (c) all restricted stock units. Such items are excluded from the weighted average common shares outstanding — basic.

Table 16.1 — Earnings (Loss) Per Common Share — Basic and Diluted

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
	(dollars in millions, shares in thousands, except per share amounts)			
Net Income (loss)	\$ (2,029)	\$ (715)	\$ (1,476)	\$ 2,691
Preferred stock dividends and issuance costs on redeemed preferred stock	(102)	(72)	(292)	(189)
Net income (loss) available to common stockholders and participating security option holders	(2,131)	(787)	(1,768)	2,502
Amounts allocated to participating security option holders ⁽¹⁾	—	—	—	(6)
Net income (loss) available to common shareholders — basic ⁽²⁾	<u>\$ (2,131)</u>	<u>\$ (787)</u>	<u>\$ (1,768)</u>	<u>\$ 2,496</u>
Weighted average common shares outstanding — basic	647,377	675,556	653,825	686,651
Dilutive potential common shares	—	—	—	1,479
Weighted average common shares outstanding — diluted	<u>647,377</u>	<u>675,556</u>	<u>653,825</u>	<u>688,130</u>
Antidilutive potential common shares excluded from the computation of dilutive potential common shares	5,624	4,774	4,237	2,948
Basic earnings (loss) per common share	\$ (3.29)	\$ (1.17)	\$ (2.70)	\$ 3.63
Diluted earnings (loss) per common share	\$ (3.29)	\$ (1.17)	\$ (2.70)	\$ 3.63

(1) Participating security option holders do not participate in earnings during periods of net losses.

(2) Net income (loss) available to common shareholders — basic includes distributed and undistributed earnings to common shareholders.

END OF UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS AND ACCOMPANYING NOTES

FORWARD-LOOKING STATEMENTS

We regularly communicate information concerning our business activities to investors, securities analysts, the news media and others as part of our normal operations. Some of these communications, including this Information Statement Supplement, contain “forward-looking statements” pertaining to our current expectations and objectives for financial reporting, remediation efforts, future business plans, economic and market conditions, market share, credit losses, prepayments, results of operations and financial condition on both a GAAP and fair value basis, and market trends and developments. Forward-looking statements are often accompanied by, and identified with, terms such as “objective,” “expect,” “trend,” “assumptions,” “judgments,” “estimate,” “ultimate,” “believe,” “ability,” “models,” “outlook,” “initiatives,” and similar phrases. These statements are not historical facts, but rather represent our expectations based on current information, plans, judgments, assumptions, estimates and projections. Forward-looking statements involve known and unknown risks, uncertainties and other factors, some of which are beyond our control. You should not unduly rely on our forward-looking statements. All risks, uncertainties and other factors described in our 2006 Information Statement and this Information Statement Supplement should be considered in relying on any forward-looking statements. Actual results may differ materially from the expectations expressed in these and other forward-looking statements we make as a result of various factors, including those factors described in the “RISK FACTORS” section of this Information Statement Supplement and the comparably captioned section in our 2006 Information Statement and:

- changes in applicable legislative or regulatory requirements, including regulation of the subprime or non-traditional mortgage product markets, enactment of GSE oversight legislation, changes to our charter, changes to affordable housing goals regulation, changes to regulatory capital requirements or the exercise or assertion of regulatory or administrative authority beyond historical practice;
- our ability to effectively identify, assess, evaluate, manage, mitigate or remediate control deficiencies and risks, including material weaknesses and significant deficiencies, in our internal control over financial reporting and disclosure controls and procedures;
- our ability to effectively implement our business strategies and manage the risks in our business, including our efforts to improve the supply and liquidity of, and demand for, our products;
- our ability to effectively identify and manage interest-rate and other market risks, including the levels and volatilities of interest rates, as well as the shape and slope of the yield curves;
- our ability to effectively identify and manage credit risk and/or changes to the credit environment;
- volatility of reported results due to changes in the fair value of certain instruments or assets;
- changes to legislative, regulatory or voluntary limits on the growth of any aspect of our business activities, including our retained portfolio;
- changes in our judgments, assumptions, forecasts or estimates regarding rates of growth in our business, spreads we expect to earn, required capital levels and the timing and impact of capital transactions;
- our ability to effectively manage and implement changes, developments or impacts of accounting or tax standards and interpretations or changes to our accounting policies or estimates;
- the availability of debt financing and equity capital in sufficient quantity and at attractive rates to support growth in our retained portfolio, to refinance maturing debt and to meet regulatory capital requirements;
- changes in pricing, valuation or other methodologies, models, assumptions, judgments, estimates and/or other measurement techniques or their respective reliability;
- changes in general regional, national or international economic, business or market conditions and competitive pressures, including consolidation of mortgage originators, employment rates and home price appreciation;
- changes in mortgage-to-debt option-adjusted spreads;
- the availability of options, interest-rate and currency swaps and other derivative financial instruments of the types and quantities and with acceptable counterparties needed for investment funding and risk management purposes;
- the rate of growth in total outstanding U.S. residential mortgage debt and the size of the U.S. residential mortgage market;
- preferences of originators in selling into the secondary market;
- borrower preferences for fixed-rate mortgages or adjustable-rate mortgages;
- changes to our underwriting and disclosure requirements or investment standards for mortgage-related products;
- investor preferences for mortgage loans and mortgage-related and debt securities compared to other investments;
- the ability of our financial, accounting, data processing and other operating systems or infrastructure and those of our vendors to process the complexity and volume of our transactions;

- incomplete or inaccurate information provided by customers and counterparties, or adverse changes in the financial condition of our customers and counterparties;
- the occurrence of a major natural or other disaster in geographic areas in which portions of our total mortgage portfolio are concentrated;
- other factors and assumptions described in this Information Statement Supplement or our 2006 Information Statement, including in the “MD&A” section;
- our assumptions and estimates regarding the foregoing and our ability to anticipate the foregoing factors and their impacts; and
- market reactions to the foregoing.

We undertake no obligation to update forward-looking statements we make to reflect events or circumstances after the date of this Information Statement Supplement or to reflect the occurrence of unanticipated events.

LEGAL PROCEEDINGS

We are involved as a party to a variety of legal proceedings arising from time to time in the ordinary course of business. For a description of certain of our legal proceedings, see “NOTE 11: LEGAL CONTINGENCIES” to our consolidated financial statements for more information regarding our involvement as a party to various legal proceedings.

On November 6, 2007, the N.Y. Attorney General sent us a draft of a letter demanding that we either retain an independent examiner to investigate Washington Mutual Inc.’s appraisal practices, the appraisals relating to our mortgage purchases from Washington Mutual, and appraisals conducted by First American Corporation and its subsidiary, eAppraiseIT, or immediately cease and desist from purchasing or securitizing Washington Mutual loans and any loans supported by First American or eAppraiseIT appraisals. We have agreed to cooperate fully with the N.Y. Attorney General in appointing an independent examiner. The letter also gave notice of the issuance to us of a subpoena, which we have now received, for information regarding appraisals and property valuations as they relate to our mortgage purchases and securitizations.

RISK FACTORS

This Information Statement Supplement should be read together with the “RISK FACTORS” section in our 2006 Information Statement, which describes various risks and uncertainties to which we are or may become subject to, and is supplemented by the discussion below. These risks and uncertainties could, directly or indirectly, adversely affect our business, financial condition, results of operations, cash flows, strategies and/or prospects.

Market uncertainty and volatility may adversely affect our business, profitability, results of operations and capital management.

The mortgage credit markets experienced difficult conditions and volatility during the first nine months of 2007. These deteriorating conditions in the mortgage market resulted in a decrease in availability of corporate credit and liquidity within the mortgage industry in the third quarter of 2007 and have caused disruptions to normal operations of major mortgage originators, including some of our largest customers. These conditions resulted in less liquidity, greater volatility, widening of credit spreads and a lack of price transparency. We operate in these markets and are subject to potential adverse effects on our results of operations and financial position due to our activities involving securities, mortgages, derivatives and other mortgage commitments with our customers.

Mortgage market conditions and volatility are also adversely affecting our capital, including our ability to manage to the 30% mandatory target capital surplus. Factors that could adversely affect the adequacy of our capital for future periods include GAAP net losses; continued declines in home prices; increases in our credit and interest-rate risk profiles; adverse changes in interest-rate or implied volatility; adverse OAS changes; legislative or regulatory actions that increase capital requirements; or changes in accounting practices or standards.

As a result of the impact of these items on our GAAP net income and in order to manage to the 30% mandatory target capital surplus and respond to regulatory concerns, as well as to have the flexibility to effectively manage our business, we are planning on taking several actions. First, we have engaged Goldman, Sachs & Co. and Lehman Brothers as financial advisors to help us consider very near-term capital raising alternatives. Second, we are seriously considering reducing our fourth quarter common stock dividend by 50%. If these measures are not sufficient to help us manage to the 30% mandatory target capital surplus, then we may consider additional measures in the future such as limiting growth or reducing the size of our retained portfolio, slowing purchases into our credit guarantee portfolio, issuing additional preferred or convertible preferred stock and issuing common stock.

Our ability to execute any of these actions or their effectiveness may be limited and we might not be able to manage to the 30% mandatory target capital surplus. If we are not able to manage to the 30% mandatory target capital surplus,

OFHEO may, among other things, seek to require us to (a) submit a plan for remediation or (b) take other remedial steps. In addition, OFHEO has discretion to reduce our capital classification by one level if OFHEO determines that we are engaging in conduct OFHEO did not approve that could result in a rapid depletion of core capital or determines that the value of property subject to mortgage loans we hold or guarantee has decreased significantly. See “REGULATION AND SUPERVISION — Office of Federal Housing Enterprise Oversight — *Capital Standards*” and “NOTE 10: REGULATORY CAPITAL — Classification” to our consolidated financial statements in our 2006 Information Statement for information regarding additional potential actions OFHEO may seek to take against us.

While it is difficult to predict how long these conditions will exist and how our markets or products will ultimately be affected, these factors could adversely impact our business and results of operations, as well as our ability to provide liquidity to the mortgage markets.

We depend on our institutional counterparties to provide services that are critical to our business and our results of operations or financial condition may be adversely affected if one or more of our institutional counterparties are unable to meet their obligations to us.

We face the risk that one or more of the institutional counterparties that has entered into a business contract or arrangement with us may fail to meet its obligations. Our primary exposures to institutional counterparty risk are with:

- our mortgage loan insurers;
- mortgage seller/servicers;
- issuers, guarantors or third party providers of credit enhancements on non-Freddie Mac mortgage-related securities held in our retained portfolio;
- mortgage investors and originators;
- issuers, guarantors and insurers of investments held in our cash and investments portfolio; and
- derivatives counterparties.

In some cases, our business with institutional counterparties is concentrated. A significant failure by a major institutional counterparty could have a material adverse effect on our retained portfolio, cash and investments portfolio or credit guarantee activities. See “NOTE 15: CONCENTRATION OF CREDIT AND OTHER RISKS” in this Information Statement Supplement for additional information. As of September 30, 2007, our ten largest mortgage seller/servicers represented approximately 78% of our single-family mortgage purchase volume. We are exposed to the risk that we could lose purchase volume to the extent these arrangements are terminated or modified or replaced from other lenders. We are also exposed to risk relating to the potential insolvency or non-performance of mortgage insurers that insure mortgages we purchase or guarantee. The top seven of our third-party mortgage insurers on which we rely for credit enhancements on our single-family, guaranteed mortgage portfolio accounted for approximately 99% of our overall coverage. Some of our counterparties also may become subject to serious liquidity problems affecting, either temporarily or permanently, the viability of their business plans, which likely would adversely affect their ability to meet their obligations to us. The challenging market conditions have adversely affected and are expected to continue to adversely affect the liquidity and financial condition of a number of our counterparties, including some seller/servicers. Some of our largest seller/servicers have experienced ratings downgrades and liquidity constraints. We have terminated our arrangements with certain mortgage seller/servicers during the first nine months of 2007 because of their failure to meet our eligibility requirements. A default by a counterparty with significant obligations to us could adversely affect our ability to conduct our operations efficiently and at cost-effective rates, which in turn could adversely affect our results of operations or our financial condition.

We are subject to mortgage credit risk and increased credit costs related to these risks could adversely affect our financial condition and/or results of operations.

We are exposed to mortgage credit risk within our total mortgage portfolio, which consists of mortgage loans, PCs, Structured Securities and other mortgage guarantees we have issued in our guarantee business. Mortgage credit risk is the risk that a borrower will fail to make timely payments on a mortgage or security we own or guarantee. Factors that affect the level of our mortgage credit risk include the credit profile of the borrower, the features of the mortgage loan, the type of property securing the mortgage and local and regional economic conditions. Borrowers under the mortgage loans on our balance sheets and underlying our guarantees may fail to make required payments of principal and interest on those loans, exposing us to the risk of credit losses.

The proportion of higher risk mortgage loans that were originated in the market during the last four years increased significantly. We have increased our securitization volume of non-traditional mortgage products, such as interest-only loans as well as loans originated with lower documentation in the last two years in response to the prevalence of these

products within the origination market. Total non-traditional mortgage products, including those designated as Alt-A and interest-only loans, made up approximately 33% and 24% of our single-family mortgage purchase volume in the nine months ended September 30, 2007 and 2006, respectively. Consequently, our increased purchases of these mortgages and issuances of guarantees on them expose us to greater credit risks. We expect to experience increased delinquencies and credit losses, which will likely reduce our earnings in future periods and could adversely affect our results of operations or financial condition.

Changes in OAS could materially impact our fair value of net assets.

OAS is an estimate of the yield spread between a given security and an agency debt yield curve. The OAS between the mortgage and agency debt sectors can significantly affect the fair value of our net assets. The fair value impact of changes in OAS for a given period represents an estimate of the net unrealized increase or decrease in the fair value of net assets arising from net fluctuations in OAS during that period. We do not attempt to hedge or actively manage the impact of changes in mortgage-to-debt OAS. Changes in market conditions, including changes in interest rates, may cause fluctuations in the OAS. A widening of the OAS on a given asset typically causes a decline in the current fair value of that asset, but may increase the number of attractive opportunities to purchase new assets for our retained portfolio. See “MD&A — CONSOLIDATED FAIR VALUE BALANCE SHEETS ANALYSIS — Discussion of Fair Value Results.” Consequently, a widening of the OAS may adversely affect current earnings or financial condition. Conversely, a narrowing or tightening of the OAS typically causes an increase in the current fair value of that asset, but may reduce the number of attractive opportunities to purchase new assets for our retained portfolio. Consequently, a tightening of the OAS may adversely affect future earnings or financial condition. See “MD&A — CONSOLIDATED FAIR VALUE BALANCE SHEETS ANALYSIS — Discussion of Fair Value Results” for a more detailed description of the impacts of changes in mortgage-to-debt OAS.

The loss of business volume from key lenders could result in a decline in our market share and revenues.

Our business depends on our ability to acquire a steady flow of mortgage loans from the originators of those loans. We purchase a significant percentage of our single-family mortgages from several large mortgage originators. During the nine months ended September 30, 2007, approximately 78% of our guaranteed mortgage securities issuances originated from purchase volume associated with our ten largest customers. Two of our customers each accounted for greater than 10% of our mortgage securitization volume for the nine months ended September 30, 2007. We enter into mortgage purchase volume commitments with many of our customers that are renewed annually and provide for a minimum level of mortgage volume that these customers will deliver to us. One of our customers, which accounted for more than 10% of our mortgage purchase volume for the nine months ended September 30, 2007, reduced its minimum mortgage volume commitments to us upon renewal of its contract at July 1, 2007. In addition, ABN Amro Mortgage Group, Inc., which accounted for more than 8% of our guaranteed securitization volume for the six months ended June 30, 2007, was acquired and, as a result, the contract was not renewed when it expired in the third quarter of 2007. The mortgage industry has been consolidating and a decreasing number of large lenders originate most single-family mortgages. The loss of business from any one of our major lenders could adversely affect our market share, our revenues and the performance of our guaranteed mortgage-related securities.

Regulation and initiatives regarding non-traditional and subprime mortgage products may adversely affect our profitability or our ability to achieve our affordable housing goals and subgoals.

The actions we are taking in connection with the Interagency Guidance and the Subprime Statement are described in “MD&A — QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK — Credit Risks — *Mortgage Credit Risk — Guidance on Non-traditional Mortgage Product Risks and Subprime Mortgage Lending.*” These changes to our underwriting and disclosure requirements and investment standards could reduce the number of these mortgage products available to us for purchase. Reductions in our purchases of these mortgage products may adversely affect our profitability and are likely to make it more difficult to achieve our affordable housing goals and subgoals. Furthermore, in April 2007, we announced that we will purchase up to \$20 billion in fixed-rate and hybrid ARM products that will provide lenders with more choices to offer subprime borrowers. These initiatives may also adversely affect our profitability or our ability to achieve our affordable housing goals and subgoals.

UNREGISTERED SALES OF EQUITY SECURITIES

Recent Sales of Unregistered Securities

The securities we issue are “exempted securities” under the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended. As a result, we do not file registration statements with the SEC with respect to offerings of our securities.

During the nine months ended September 30, 2007, we completed four preferred stock offerings. On January 16, 2007, we sold 44 million shares of 5.57% non-cumulative, perpetual preferred stock in an offering underwritten by a syndicate of dealers headed by Goldman, Sachs & Co. and J.P. Morgan Securities Inc. for aggregate offering proceeds of \$1.1 billion and an aggregate underwriting discount of \$11 million. On April 16, 2007, we sold 20 million shares of 5.66% non-cumulative, perpetual preferred stock in an offering underwritten by a syndicate of dealers headed by Banc of America Securities LLC and Morgan Stanley & Co. Inc for aggregate offering proceeds of \$500 million and an aggregate underwriting discount of \$5 million. On July 24, 2007, we sold 20 million shares of 6.02% non-cumulative, perpetual preferred stock in an offering underwritten by Merrill Lynch, Pierce, Fenner and Smith Incorporated for offering proceeds of \$500 million and an underwriting discount of \$5 million. On September 28, 2007, we sold 20 million shares of 6.55% non-cumulative, perpetual preferred stock in an offering underwritten by a syndicate of dealers headed by Banc of America Securities LLC for aggregate offering proceeds of \$500 million and an aggregate underwriting discount of \$5 million. See “NOTE 8: STOCKHOLDERS’ EQUITY” to our consolidated financial statements for more information regarding our preferred stock offerings.

We regularly provide stock compensation to our employees and members of our board of directors. We have three stock-based compensation plans under which grants are currently being made: (a) the Employee Stock Purchase Plan, or ESPP; (b) the 2004 Stock Compensation Plan, or 2004 Employee Plan; and (c) the 1995 Directors’ Stock Compensation Plan, as amended and restated, or Directors’ Plan. Prior to the stockholder approval of the 2004 Employee Plan, employee stock-based compensation was awarded in accordance with the terms of the 1995 Stock Compensation Plan, or 1995 Employee Plan. Although grants are no longer made under the 1995 Employee Plan, we currently have awards outstanding under this plan. We collectively refer to the 2004 Employee Plan and 1995 Employee Plan as the Employee Plans.

During the nine months ended September 30, 2007, options for 377,236 shares of common stock were exercised and no stock options were granted under our Employee Plans and Directors’ Plan. Under our ESPP, options to purchase 169,662 shares of common stock were exercised and options to purchase 194,525 shares of common stock were granted during the nine months ended September 30, 2007. Further, for the nine months ended September 30, 2007, under the Employee Plans and Directors’ Plan, 1,503,512 restricted stock units were granted and restrictions lapsed on 594,902 restricted stock units. See “NOTE 11: STOCK-BASED COMPENSATION” to our consolidated financial statements in our 2006 Information Statement for more information.

See “NOTE 10: REGULATORY CAPITAL” to our consolidated financial statements in our 2006 Information Statement for a description of our regulatory capital requirements and possible regulatory restrictions on our ability to pay dividends.

Issuer Purchases of Equity Securities

During the three months ended September 30, 2007, we repurchased common stock in connection with our \$1.0 billion stock repurchase plan authorized in March 2007. Table 32 sets forth our common share repurchase activity during the three months ended September 30, 2007. See “MD&A — LIQUIDITY AND CAPITAL RESOURCES — Capital Resources” for additional information.

Table 32 — Common Share Repurchase Activity for the Three Months Ended September 30, 2007

Period	Total Number of Shares Purchased (in millions)	Average Price Paid per Share	Total Number of Shares Purchased as Part of a Publicly Announced Program (in millions)	Approximate Dollar Value of Shares That May Yet be Purchased Under the Program ⁽¹⁾ (in millions)
July	1.8	\$59.57	1.8	\$143
August	2.4	58.13	2.4	—
September	—	—	—	—
Total	<u>4.2</u>	<u>\$58.74</u>	<u>4.2</u>	

(1) On March 23, 2007, we announced that our board of directors had authorized us to repurchase up to \$1 billion of outstanding shares of common stock. The repurchase program was completed in August 2007.

RISK MANAGEMENT AND DISCLOSURE COMMITMENTS

In October 2000, we announced our voluntary adoption of a series of commitments designed to enhance market discipline, liquidity and capital. In September 2005, we entered into a written agreement with OFHEO that updated these commitments and set forth a process for implementing them. The letters between the company and OFHEO dated September 1, 2005 constituting the written agreement are available on the Investor Relations page of our website at www.freddiemac.com/investors/reports.html#commit. As noted in these letters, disclosures may be affected by situations for which current financial statements are not available. The status of our commitments at September 30, 2007 follows:

Description	Status
<p>1. <i>Periodic Issuance of Subordinated Debt:</i></p> <ul style="list-style-type: none"> • We will issue Freddie SUBS[®] securities for public secondary market trading that are rated by no less than two nationally recognized statistical rating organizations. • Freddie SUBS[®] securities will be issued in an amount such that the sum of total capital (core capital plus general allowance for losses) and the outstanding balance of “Qualifying subordinated debt” will equal or exceed the sum of (i) 0.45% of outstanding PCs and Structured Securities we guaranteed; and (ii) 4% of total on-balance sheet assets. Qualifying subordinated debt is discounted by one-fifth each year during the instrument’s last five years before maturity; when the remaining maturity is less than one year, the instrument is entirely excluded. We will take reasonable steps to maintain outstanding subordinated debt of sufficient size to promote liquidity and reliable market quotes on market values. • Each quarter, we will submit to OFHEO calculations of the quantity of qualifying Freddie SUBS[®] securities and total capital as part of our quarterly capital report. • Every six months, we will submit to OFHEO a subordinated debt management plan that includes any issuance plans for the six months following the date of the plan. 	<ul style="list-style-type: none"> • During the nine months ended September 30, 2007, we did not issue any Freddie SUBS[®] securities; however, we called \$1.2 billion of Freddie SUBS[®] securities. • We reported to OFHEO that at September 30, 2007, we had \$41.1 billion in total capital plus qualifying subordinated debt, resulting in a surplus of \$3.5 billion. We have submitted our September 30, 2007 quarterly total capital plus qualifying subordinated debt report to OFHEO. • We have submitted our semi-annual subordinated debt management plan to OFHEO.
<p>2. <i>Liquidity Management and Contingency Planning:</i></p> <ul style="list-style-type: none"> • We will maintain a contingency plan providing for at least three months’ liquidity without relying upon the issuance of unsecured debt. We will also periodically test the contingency plan in consultation with OFHEO. 	<ul style="list-style-type: none"> • We have in place a liquidity contingency plan, upon which we report to OFHEO on a weekly basis. We periodically test this plan in accordance with our agreement with OFHEO.
<p>3. <i>Interest-Rate Risk Disclosures:</i></p> <ul style="list-style-type: none"> • We will provide public disclosure of our duration gap, PMVS-L and PMVS-YC interest-rate risk sensitivity results on a monthly basis. See “MD&A — RISK MANAGEMENT — Interest-Rate Risk and Other Market Risks — <i>Portfolio Market Value Sensitivity and Measurement of Interest-Rate Risk</i>” in our 2006 Information Statement for a description of these metrics. 	<ul style="list-style-type: none"> • For the nine months ended September 30, 2007, our duration gap averaged zero months, PMVS-L averaged 1% and PMVS-YC averaged —%. Our 2007 monthly average duration gap, PMVS results and related disclosures are provided in our Monthly Volume Summary which is available on our website, www.freddiemac.com/investors/volsum.

Description	Status																																												
<p>4. <i>Credit Risk Disclosures:</i></p> <ul style="list-style-type: none"> We will make quarterly assessments of the expected impact on credit losses from an immediate 5% decline in single-family home prices for the entire U.S. We will disclose the impact in present value terms and measure our estimated losses both before and after receipt of private mortgage insurance claims and other credit enhancements. 	<ul style="list-style-type: none"> Our quarterly credit risk sensitivity estimates are as follows: <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th rowspan="2"></th> <th colspan="2" style="text-align: center;">Before Receipt of Credit Enhancements⁽¹⁾</th> <th colspan="2" style="text-align: center;">After Receipt of Credit Enhancements⁽²⁾</th> </tr> <tr> <th style="text-align: center;">Net Present Value, or NPV⁽³⁾</th> <th style="text-align: center;">NPV Ratio⁽⁴⁾</th> <th style="text-align: center;">NPV⁽³⁾</th> <th style="text-align: center;">NPV Ratio⁽⁴⁾</th> </tr> </thead> <tbody> <tr> <td colspan="5" style="text-align: center;">(dollars in millions)</td> </tr> <tr> <td>At:</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>09/30/07</td> <td style="text-align: right;">\$1,959</td> <td style="text-align: right;">11.7 bps</td> <td style="text-align: right;">\$1,415</td> <td style="text-align: right;">8.4 bps</td> </tr> <tr> <td>06/30/07</td> <td style="text-align: right;">\$1,768</td> <td style="text-align: right;">11.0 bps</td> <td style="text-align: right;">\$1,292</td> <td style="text-align: right;">8.1 bps</td> </tr> <tr> <td>03/31/07</td> <td style="text-align: right;">\$1,327</td> <td style="text-align: right;">8.6 bps</td> <td style="text-align: right;">\$ 929</td> <td style="text-align: right;">6.0 bps</td> </tr> <tr> <td>12/31/06</td> <td style="text-align: right;">\$1,128</td> <td style="text-align: right;">7.6 bps</td> <td style="text-align: right;">\$ 770</td> <td style="text-align: right;">5.2 bps</td> </tr> <tr> <td>09/30/06</td> <td style="text-align: right;">\$1,071</td> <td style="text-align: right;">7.4 bps</td> <td style="text-align: right;">\$ 724</td> <td style="text-align: right;">5.0 bps</td> </tr> </tbody> </table> <p>(1) Assumes that none of the credit enhancements currently covering our mortgage loans has any mitigating impact on our credit losses. (2) Assumes we collect amounts due from credit enhancement providers after giving effect to certain assumptions about counterparty default rates. (3) Based on single-family mortgage portfolio, excluding Structured Securities backed by Ginnie Mae Certificates. (4) Calculated as the ratio of NPV of increase in credit losses to the single-family total mortgage portfolio, defined in footnote (3) above.</p>		Before Receipt of Credit Enhancements ⁽¹⁾		After Receipt of Credit Enhancements ⁽²⁾		Net Present Value, or NPV ⁽³⁾	NPV Ratio ⁽⁴⁾	NPV ⁽³⁾	NPV Ratio ⁽⁴⁾	(dollars in millions)					At:					09/30/07	\$1,959	11.7 bps	\$1,415	8.4 bps	06/30/07	\$1,768	11.0 bps	\$1,292	8.1 bps	03/31/07	\$1,327	8.6 bps	\$ 929	6.0 bps	12/31/06	\$1,128	7.6 bps	\$ 770	5.2 bps	09/30/06	\$1,071	7.4 bps	\$ 724	5.0 bps
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<p>5. <i>Public Disclosure of Risk Rating:</i></p> <ul style="list-style-type: none"> We will seek to obtain a rating, that will be continuously monitored by at least one nationally recognized statistical rating organization, assessing our “risk-to-the-government” or independent financial strength. 	<ul style="list-style-type: none"> At both November 1, 2007 and September 30, 2007, our “risk-to-the-government” rating from S&P was “AA-” and our Moody’s Bank Financial Strength Rating was “A-”. 																																												

EXHIBITS
CERTIFICATION*

I, Richard F. Syron, certify that:

1. I have reviewed this Information Statement Supplement of Freddie Mac;
2. Based on my knowledge, this Information Statement Supplement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Information Statement Supplement; and
3. Based on my knowledge, the unaudited consolidated financial statements, and other financial information included in this Information Statement Supplement, fairly present in all material respects the financial condition, results of operations and cash flows of Freddie Mac as of, and for, the periods presented in this Information Statement Supplement.

Date: November 20, 2007



Richard F. Syron
Chairman and Chief Executive Officer

CERTIFICATION*

I, Anthony S. Pizsel, certify that:

1. I have reviewed this Information Statement Supplement of Freddie Mac;
2. Based on my knowledge, this Information Statement Supplement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Information Statement Supplement; and
3. Based on my knowledge, the unaudited consolidated financial statements, and other financial information included in this Information Statement Supplement, fairly present in all material respects the financial condition, results of operations and cash flows of Freddie Mac as of, and for, the periods presented in this Information Statement Supplement.

Date: November 20, 2007



Anthony S. Pizsel
Executive Vice President and Chief Financial Officer

* For a discussion of our progress with respect to our internal control over financial reporting and disclosure controls and procedures, see “MD&A — CONTROLS AND PROCEDURES” in this Information Statement Supplement and “MD&A — RISK MANAGEMENT — Operational Risks — *Internal Control over Financial Reporting*” section of our 2006 Information Statement.

RATIO OF EARNINGS TO FIXED CHARGES

	Nine Months Ended		Year Ended December 31,				
	September 30,		2006	2005	2004	2003	2002
	2007 ⁽¹⁾	2006					
(dollars in millions)							
Net income (loss) before cumulative effect of changes in accounting principles	\$(1,476)	\$ 2,691	\$ 2,211	\$ 2,189	\$ 2,937	\$ 4,816	\$10,090
Add:							
Income tax expense (benefit)	(1,706)	(96)	(108)	367	790	2,202	4,713
Minority interests in earnings of consolidated subsidiaries	21	47	58	96	129	157	184
Low-income housing tax credit partnerships	354	317	407	320	281	200	160
Total interest expense	29,099	27,686	37,270	29,899	26,566	26,509	26,876
Interest factor in rental expenses	5	5	6	6	6	5	5
Earnings, as adjusted	<u>\$26,297</u>	<u>\$30,650</u>	<u>\$39,844</u>	<u>\$32,877</u>	<u>\$30,709</u>	<u>\$33,889</u>	<u>\$42,028</u>
Fixed charges:							
Total interest expense	\$29,099	\$27,686	\$37,270	\$29,899	\$26,566	\$26,509	\$26,876
Interest factor in rental expenses	5	5	6	6	6	5	5
Capitalized interest	—	—	—	—	1	—	1
Total fixed charges	<u>\$29,104</u>	<u>\$27,691</u>	<u>\$37,276</u>	<u>\$29,905</u>	<u>\$26,573</u>	<u>\$26,514</u>	<u>\$26,882</u>
Ratio of earnings to fixed charges ⁽²⁾	—	1.11	1.07	1.10	1.16	1.28	1.56

(1) For the Ratio of earnings to fixed charges to equal 1.00, Earnings, as adjusted must increase by \$2,807 million.

(2) Ratio of earnings to fixed charges is computed by dividing Earnings, as adjusted by Total fixed charges.

RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS

	Nine Months Ended		Year Ended December 31,				
	September 30,		2006	2005	2004	2003	2002
	2007 ⁽¹⁾	2006					
(dollars in millions)							
Net income (loss) before cumulative effect of changes in accounting principles	\$(1,476)	\$ 2,691	\$ 2,211	\$ 2,189	\$ 2,937	\$ 4,816	\$10,090
Add:							
Income tax expense (benefit)	(1,706)	(96)	(108)	367	790	2,202	4,713
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Fixed charges:							
Total interest expense	\$29,099	\$27,686	\$37,270	\$29,899	\$26,566	\$26,509	\$26,876
Interest factor in rental expenses	5	5	6	6	6	5	5
Capitalized interest	—	—	—	—	1	—	1
Preferred stock dividends ⁽²⁾	286	189	270	261	266	315	351
Total fixed charges including preferred stock dividends	<u>\$29,390</u>	<u>\$27,880</u>	<u>\$37,546</u>	<u>\$30,166</u>	<u>\$26,839</u>	<u>\$26,829</u>	<u>\$27,233</u>
Ratio of earnings to combined fixed charges and preferred stock dividends ⁽³⁾	—	1.10	1.06	1.09	1.14	1.26	1.54

(1) For the Ratio of earnings to combined fixed charges and preferred stock dividends to equal 1.00, Earnings, as adjusted must increase by \$3,093 million.

(2) Preferred stock dividends represent pre-tax earnings required to cover any preferred stock dividend requirements computed using our effective tax rate, whenever there is an income tax provision, for the relevant periods.

(3) Ratio of earnings to combined fixed charges and preferred stock dividends is computed by dividing Earnings, as adjusted by Total fixed charges including preferred stock dividends.