Supplement dated May 15, 2000 to
Information Statement dated March 31, 2000

Freddie Mac

SELECTED FINANCIAL DATA

This Supplement updates the discussion contained in the Information Statement. The selected financial data for Freddie Mac (or the "corporation") included in this Supplement should be read in conjunction with the Consolidated Financial Statements and related notes appearing in the Information Statement.

CONSOLIDATED STATEMENTS OF INCOME
(unaudited)

	Quarter Ended		
	March 31, 2000	December 31, 1999	March 31, 1999
	(dollars in millions, except per share amounts)		
Interest income			
Mortgages	$ 1,033	$ 1,015	$ 985
Guaranteed mortgage securities	4,520	4,354	3,454
Investments and securities purchased under agreements to resell	978	800	817
	6,531	6,169	5,256
Interest expense on debt securities			
Short-term debt	(509)	(464)	(924)
Long-term debt	(5,286)	(4,949)	(3,463)
	(5,795)	(5,413)	(4,387)
Interest expense due to security program cycles	(69)	(92)	(243)
	(5,864)	(5,505)	(4,630)
Net interest income on earning assets	667	664	626
Management and guarantee income	366	362	338
Other income, net	33	23	33
Total revenues	1,066	1,049	997
Provision for mortgage losses	(10)	(15)	(15)
REO operations expense	(21)	(25)	(35)
Administrative expenses	(169)	(167)	(163)
Housing tax credit partnerships	(26)	(18)	(20)
Total non-interest expense	(226)	(225)	(233)
Income before income taxes and extraordinary item	840	824	764
Income taxes	(232)	(238)	(244)
Income before extraordinary item, net of taxes	608	586	520
Extraordinary gain (loss) on retirement of debt, net of taxes	—	8	(7)
Net income	$ 608	$ 594	$ 513
Preferred stock dividends	(45)	(42)	(36)
Net income available to common stockholders	$ 563	$ 552	$ 477
Earnings per common share before extraordinary item			
Basic	$ 0.81	$ 0.78	$ 0.70
Diluted	$ 0.81	$ 0.78	$ 0.69
Earnings per common share			
Basic	$ 0.81	$ 0.79	$ 0.69
Diluted	$ 0.81	$ 0.79	$ 0.68
Weighted average common shares outstanding (thousands)			
Basic	695,239	696,560	695,340
Diluted	698,084	700,092	700,162
Dividends per common share	$ 0.17	$ 0.15	$ 0.15
Return on realized common equity(1)	23.2%	23.7%	23.6%
Return on common equity(2)	26.5%	26.7%	23.5%

(1) Computed quarterly as annualized net income available to common stockholders divided by average realized common stockholders' equity (common stockholders' equity excluding net unrealized loss on certain investments reported at fair value).
(2) Computed quarterly as annualized net income available to common stockholders divided by average common stockholders' equity.

CONSOLIDATED BALANCE SHEETS
(unaudited)

	March 31, 2000	December 31, 1999	March 31, 1999
	(dollars in millions)		
Assets			
Retained portfolio			
Mortgages	$ 57,009	$ 56,676	$ 53,313
Reserve for losses on retained mortgages	(339)	(345)	(324)
	56,670	56,331	52,989
Guaranteed mortgage securities (GMS)	279,329	267,767	224,312
Purchase and sale premiums, discounts and deferred fees	(603)	51	370
Net unrealized loss on available-for-sale GMS	(1,726)	(1,580)	(64)
Retained portfolio, net	333,670	322,569	277,607
Cash and cash equivalents	31	5,144	2,168
Investments	43,479	31,747	26,719
Securities purchased under agreements to resell	4,848	4,961	2,191
Accounts and trading receivables	20,492	18,635	16,562
Real estate owned (REO), net	423	438	551
Other assets	3,125	3,190	1,968
Total assets	$406,068	$386,684	$327,766
Liabilities and Stockholders' Equity			
Debt securities, net			
Due within one year	$181,323	$175,525	$176,653
Due after one year	196,613	185,056	122,371
Total debt securities, net	377,936	360,581	299,024
Principal and interest due to Mortgage Participation Certificate (PC) investors	7,140	7,334	13,503
Other liabilities	8,526	6,687	3,735
	393,602	374,602	316,262
Reserve for losses on Mortgage Participation Certificates	436	427	446
Guarantees			
Total Mortgage Participation Certificates (Total PCs)	757,106	749,081	687,179
Less—Underlying mortgages	(757,106)	(749,081)	(687,179)
	—	—	—
Subordinated borrowings	138	130	172
Stockholders' equity			
Preferred stock, at redemption value	3,195	3,195	2,657
Common stock, at par value	152	152	152
Additional paid-in capital	463	474	486
Retained earnings	10,181	9,736	8,456
Net unrealized loss on certain investments reported at fair value, net of taxes	(1,247)	(1,166)	(55)
Treasury stock, at cost	(852)	(866)	(810)
Total stockholders' equity	11,892	11,525	10,886
Total liabilities and stockholders' equity	$406,068	$386,684	$327,766

CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	Quarter Ended		
	March 31, 2000	December 31, 1999	March 31, 1999
	(dollars in millions)		
Cash Flows From Operating Activities:			
Net income	$ 608	$ 594	$ 513
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Amortization of mortgage purchase and sale premiums, discounts and deferred fees	5	13	52
Amortization of discounts on short-term debt	2,313	2,320	1,967
Amortization of discounts on long-term debt	125	115	82
Extraordinary (gain) loss on debt retirement (pre-tax)	—	(13)	11
Provision for mortgage losses	10	15	15
Provision for REO disposition losses	15	15	19
Net change in payables and receivables	554	1,601	(7,463)
	3,022	4,066	(5,317)
Purchases of mortgages	(7,802)	(10,489)	(30,416)
PC issuances under Cash Program	6,547	8,351	27,857
Net cash provided by (used in) operating activities	2,375	2,522	(7,363)
Cash Flows From Investing Activities:			
Purchases of mortgage investments	(17,676)	(13,990)	(34,560)
Repayments of mortgage investments	6,795	7,460	14,219
Proceeds from sales of REO	241	215	287
Net (increase) decrease in investments	(11,726)	(8,354)	18,002
Net decrease (increase) in securities purchased under agreements to resell	113	(1,893)	(435)
Net cash used in investing activities	(22,253)	(16,562)	(2,487)
Cash Flows From Financing Activities:			
Proceeds from issuance of short-term debt	576,935	518,597	426,813
Repayments of short-term debt	(581,707)	(519,744)	(444,106)
Proceeds from issuance of long-term debt	22,334	20,116	38,604
Repayments of long-term debt	(2,637)	(1,827)	(11,571)
Proceeds from issuance of preferred stock	—	288	150
Redemption of preferred stock	—	—	(300)
Issuances of common stock, net of repurchases	3	(91)	3
Payment of cash dividends on preferred and common stock	(163)	(147)	(140)
Net cash provided by financing activities	14,765	17,192	9,453
Net (decrease) increase in cash and cash equivalents	(5,113)	3,152	(397)
Cash and cash equivalents at beginning of period	5,144	1,992	2,565
Cash and cash equivalents at end of period	$ 31	$ 5,144	$ 2,168
Supplemental Cash Flow Information			
Cash paid for:			
Interest	$ 5,779	$ 4,973	$ 4,559
Income taxes	223	483	73
Non-cash financing activities:			
PCs issued under Guarantor program	21,210	24,038	56,544
Structured securitizations	10,064	15,748	56,565
Giant PCs issued	2,792	3,364	3,966
Transfers to REO	241	194	284

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(unaudited)

	Quarter Ended		
	March 31, 2000	December 31, 1999	March 31, 1999
	(dollars in millions)		
Stockholders' equity at beginning of period	$11,525	$11,140	$10,835
Net income	608	594	513
Change in net unrealized loss on certain investments reported at fair value, net of taxes	(81)	(259)	(175)
Comprehensive income(1)	527	335	338
Cash dividends declared:			
Common stock	(118)	(105)	(104)
Preferred stock	(45)	(42)	(36)
Common stock issuances (repurchases), net	3	(91)	3
Preferred stock issuances (redemptions), net	—	288	(150)
Stockholders' equity at end of period	$11,892	$11,525	$10,886

(1) Comprehensive income, as defined by Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income," represent net income plus those changes in the fair value of certain investments that are currently reported as a component of "Stockholders' equity."

In the opinion of Freddie Mac, the preceding unaudited Consolidated Financial Statements, prepared from the corporation's books and records, contain all adjustments necessary for a fair presentation of the corporation's financial condition as of March 31, 2000, December 31, 1999 and March 31, 1999, and the results of operations and its cash flows for each of the three-month periods ended March 31, 2000, December 31, 1999 and March 31, 1999. Freddie Mac's financial reporting and accounting policies conform to generally accepted accounting principles ("GAAP"). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Adjustments included herein are of a normal and recurring nature. Certain previously reported amounts have been reclassified to conform with the current period presentation. Results of operations reported for interim periods are not necessarily indicative of results for the entire year.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD-LOOKING STATEMENTS

Freddie Mac regularly communicates information concerning its business activities to investors, securities analysts, the news media and others as part of its normal operations. Some of these communications include "forward-looking statements" pertaining to management's current expectations as to Freddie Mac's future business plans, results of operations and/or financial condition. Forward-looking statements are typically accompanied by, and identified with, such terms as "anticipates," "believes," "expects," "intends" and similar phrases. Management's expectations for the corporation's future necessarily involve a number of assumptions and estimates, and various factors could cause actual results to differ materially from these expectations.

Management's discussion and analysis includes forward-looking statements addressing the corporation's prospects for earnings and mortgage portfolio growth, trends in credit losses and net interest yield, changes in capital position and other business and financial matters. Factors that could cause actual results to differ from the expectations expressed in these and other forward-looking statements by management include: substantial changes in interest rates, employment rates, house-price appreciation and the general economy; changes in the corporation's strategies for and results of credit loss mitigation, interest-rate and other market risk management activities, and investment activities; the availability of debt funding in sufficient quantity and at attractive spreads to support continued growth in the retained portfolio; the availability of call options in the derivatives market comparable to those provided by callable debt; the availability of equity funding in sufficient quantity to support continued growth of the retained portfolio; the rate of growth in total outstanding U.S. residential mortgage debt; the size of the conforming residential mortgage market; borrower preferences for fixed-rate mortgages or adjustable-rate mortgages ("ARMs") / floating-rate mortgages; preferences of originators to sell mortgages into the secondary market; changes in investor preferences for mortgage-backed securities and debt versus other investments; competition in the purchase of mortgages and sale of mortgage-backed and debt securities; the corporation's ability to implement innovative solutions to business processing systems issues; the occurrence of a major natural or other disaster in a geographic area in which the total mortgage portfolio is heavily concentrated; the degree to which the corporation's business and financial forecasting methods accurately predict actual results; the impact of new accounting standards, particularly Statement of Financial Accounting Standards ("SFAS") No. 133 on the accounting for derivative financial instruments, which Freddie Mac will implement effective January 1, 2001; and changes in the corporation's regulatory environment, regulatory capital requirements or Congressional charter.

BUSINESS REVIEW

Freddie Mac's principal business activity is the purchase and financing of single-family and multifamily residential mortgages and mortgage-related securities. Freddie Mac uses two principal methods to finance its mortgage-related investments: securitization financing and debt financing.

When financing the purchase of mortgages through the securitization process, Freddie Mac issues guaranteed mortgage passthrough securities (referred to as Mortgage Participation Certificates or "PCs") in exchange for mortgages, or sells PCs to investors for cash. The corporation assumes mortgage credit risk on the mortgages underlying PCs (the risk that mortgage borrowers will default on their payment obligations) by guaranteeing the payment of principal and interest to holders of its PCs. As compensation for enhancing liquidity, assuming mortgage credit risk and administering principal and interest payments, Freddie Mac receives guarantee fees recorded as "Management and guarantee income."

Freddie Mac principally issues debt securities to finance mortgage-related investments held in the retained portfolio. In financing mortgage-related investments with debt, Freddie Mac issues a mixture of short-term debt and long-term callable and non-callable debt. This funding mix enables Freddie Mac to manage its interest-rate risk effectively by giving it the flexibility to closely match the cash outflows from debt financing with the expected cash inflows from its mortgage-related investments. Freddie Mac more closely matches the cash flows associated with its debt financing by using derivative financial instruments that effectively modify the interest rate, maturity or callability of the corporation's contractual short-term and long-term debt. The corporation recognizes net interest income earned on the retained portfolio, which is the interest income earned on these investments less the interest expense on the interest-bearing liabilities funding them.

Each of the two methods of financing mortgage-related investments exposes the corporation to different types and degrees of risk and requires the commitment of different levels of capital. A detailed discussion of these financing methods is contained in "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS ("MD&A") — BUSINESS REVIEW" included in the Information Statement. See "BUSINESS SEGMENT REPORTING" included herein for Freddie Mac's financial operating results as segmented on the basis of the two methods by which it finances mortgage-related investments.

RISK MANAGEMENT

Freddie Mac is subject to two primary business risks: (*i*) credit risk associated with the mortgages it purchases ("mortgage credit risk") and the institutions with which the corporation conducts business ("institutional credit risk") and (*ii*) interest-rate and other market risks. Management of these risks affects both the level and stability of the corporation's long-term value and short-term earnings.

Mortgage Credit Risk

Freddie Mac's primary exposure to credit risk is associated with the mortgages it purchases. Mortgage credit risk is the risk that the corporation will not receive amounts due from mortgage borrowers because of borrower defaults, potentially resulting in a loss if Freddie Mac is unable to collect amounts due through restructuring of the mortgage, sale of the underlying property or other loss mitigation activities.

Credit Risk Management Strategies

Freddie Mac's management of mortgage credit risk comprises three broad areas: (*i*) establishing and enforcing sound underwriting standards; (*ii*) obtaining credit enhancements on higher risk mortgages and (*iii*) executing loss mitigation activities to resolve non-performing loans. See "MD&A — RISK MANAGEMENT — Credit Risk — Mortgage Credit Risk — Credit Risk Management Strategies" included in the Information Statement for further discussion.

Table 1 presents the composition of Freddie Mac's credit-enhanced mortgage investments.

Table 1 — Credit-Enhanced Mortgage Investments

	March 31, 2000	December 31, 1999	March 31, 1999
	(dollars in millions)		
Credit-enhanced mortgages(1)	$204,335	$200,602	$183,477
Non-Freddie Mac securities	62,053	56,569	36,889
Total	$266,388	$257,171	$220,366
Credit risk distribution of total mortgage portfolio:			
At-risk	70%	70%	72%
Credit-enhanced(1)	30%	30%	28%

(1) Includes loans for which the lender or a third party has retained primary default risk by pledging collateral or agreeing to accept losses on loans that default. Freddie Mac retains secondary default risk on credit-enhanced mortgages to the extent losses exceed the level covered by the applicable credit enhancement.

Over the past several years, Freddie Mac has increased the credit-enhanced portion of its total mortgage portfolio to manage the credit risk related to higher loan-to-value ("LTV") mortgages. As shown in *Table 1*, a significant portion, or 30 percent, of Freddie Mac's total mortgage portfolio at March 31, 2000 was composed of credit-enhanced mortgage investments. These investments have two components: credit-enhanced mortgages and non-Freddie Mac securities. Freddie Mac obtains credit enhancements for certain mortgage investments primarily through pool insurance to supplement primary mortgage insurance coverage for these investments. In addition to pool-insured loans, Freddie Mac's credit-enhanced mortgages include loans protected by reinsurance, collateral (including cash or marketable securities) pledged by a lender or recourse agreements under which the lender repurchases loans that default. Non-Freddie Mac securities held in the retained portfolio are protected by the credit guarantee of various agencies, bond insurance policies or senior/subordinated bond structures (see "RISK MANAGEMENT — Institutional Credit Risk").

Credit Performance

Delinquencies and credit losses, key indicators of credit performance, continued to improve during first quarter 2000. First quarter 2000 delinquency rates declined significantly from the same period in 1999. Total credit losses (which consist of charge-offs and REO operations expense) for first quarter 2000 were significantly reduced, down $7 million from fourth quarter 1999, and almost one-half the level experienced during first quarter 1999. Annualized credit losses represented 1.4 basis points of the average total mortgage portfolio (excluding non-Freddie Mac securities) for first quarter 2000, down from 1.8 basis points and 2.7 basis points for fourth quarter 1999 and first quarter 1999, respectively. Effective risk management and favorable economic conditions, particularly house-price appreciation, during the periods presented were key drivers of Freddie Mac's credit performance. The corporation expects continued improvement in credit performance, with lower credit losses anticipated for full-year 2000 than experienced for full-year 1999, although there may be some modest variability in credit results from quarter to quarter (see "FORWARD-LOOKING STATEMENTS").

Table 2 and the following discussion address the credit performance of Freddie Mac's single-family and multifamily mortgage portfolios.

Table 2 — Credit Performance

	Quarter Ended		
	March 31, 2000	December 31, 1999	March 31, 1999
	(dollars in millions)		
Delinquencies, end of period (1)			
Single-family: (2)			
At-risk portfolio (3)	0.36%	0.39%	0.46%
Total portfolio	0.42%	0.43%	0.46%
Multifamily: (4)			
Net carrying value	$ 14	$ 23	$ 35
Percentage	0.08%	0.14%	0.29%
REO, end of period			
Single-family	$ 423	$ 437	$ 545
Multifamily	—	1	6
Total	$ 423	$ 438	$ 551
REO activity for period			
Properties in inventory — beginning of period	5,619	5,835	6,781
Properties acquired	2,546	2,559	3,052
Properties disposed	(2,769)	(2,775)	(3,197)
Properties in inventory — end of period	5,396	5,619	6,636
Net charge-offs (recoveries) for period			
Single-family:			
Northeast	$ 6	$ 7	$ 17
Southeast	—	(1)	(2)
North Central	(2)	—	(2)
Southwest	(1)	(1)	(3)
West	5	4	4
Total single-family	8	9	14
Multifamily	(1)	1	(1)
Total	$ 7	$ 10	$ 13
Number of single-family foreclosure alternatives settled (5)	1,392	1,311	1,281
Single-family charge-offs related to foreclosure alternatives	$ 4	$ 4	$ 5
Credit-related expenses			
Provision for mortgage losses	$ 10	$ 15	$ 15
REO operations expense:			
Single-family	21	24	35
Multifamily	—	1	—
Total	21	25	35
Total credit-related expenses	$ 31	$ 40	$ 50
Credit losses (6)			
Single-family	$ 29	$ 33	$ 49
Multifamily	(1)	2	(1)
Total credit losses	$ 28	$ 35	$ 48
Annualized credit losses/average total mortgage portfolio (excluding non-Freddie Mac securities) (7)	1.4bp	1.8bp	2.7bp
Reserve for mortgage losses, end of period	$ 775	$ 772	$ 770

(1) Includes only mortgages and Freddie Mac PCs purchased for Freddie Mac's total mortgage portfolio.
(2) Based on the number of mortgages 90 days or more delinquent.
(3) Includes only those loans for which Freddie Mac has assumed primary default risk. Excludes loans for which the lender or a third party has retained primary default risk by pledging collateral or agreeing to accept losses on loans that default.
(4) Based on net carrying value of mortgages 60 days or more delinquent.
(5) Primarily consists of loan modifications and pre-foreclosure sales.
(6) Equal to charge-offs plus REO operations expense.
(7) Effective first quarter 2000, computation was changed to include only mortgages and Freddie Mac PCs purchased for the total mortgage portfolio. All prior periods have been restated to reflect the revised computation.

Single-family

The single-family at-risk delinquency rate was 0.36 percent at March 31, 2000, down 3 basis points from December 31, 1999 and down 10 basis points from March 31, 1999. Single-family credit losses totaled $29 million in first quarter 2000, down $4 million and $20 million from fourth quarter 1999 and first quarter 1999, respectively. The decline in credit losses was due primarily to lower loss severity rates on defaulted mortgages and declining REO acquisitions. Lower loss severities reflect continued strong house-price appreciation, as well as increased recoveries through credit enhancements.

REO properties in inventory continued to decline during first quarter 2000, both in terms of dollar amount and number of properties held, with dispositions outpacing acquisitions. The single-family REO balance was $423 million at March 31, 2000, down $14 million and $122 million from December 31, 1999 and March 31, 1999, respectively.

Management's expectation for continued strong credit performance for 2000 is based, in part, on the significant levels of credit enhancements which Freddie Mac has purchased or required on its mortgage portfolio since 1995. *Table 3* presents the distribution of the single-family mortgage portfolio and at-risk delinquencies by year of origination. As shown in *Table 3,* mortgages originated in 1995 or later represented 75 percent of the corporation's single-family mortgage portfolio at March 31, 2000. These mortgages have significant credit enhancement protection, and therefore are expected to reduce Freddie Mac's credit losses even as they move through their peak default years (generally, three to five years after origination) (see "FORWARD-LOOKING STATEMENTS").

Table 3 — Single-Family Mortgage Portfolio and At-Risk Delinquencies By Year of Origination (1)

	March 31, 2000		December 31, 1999		March 31, 1999	
Year of Origination	**Dollars in Millions (2)**	**At-Risk Delinquency Rate (3)**	**Dollars in Millions (2)**	**At-Risk Delinquency Rate (3)**	**Dollars in Millions (2)**	**At-Risk Delinquency Rate (3)**
Pre-1992	$ 34,466	0.94%	$ 35,897	1.00%	$ 44,140	1.13%
1992	36,058	0.41%	37,475	0.45%	45,960	0.47%
1993	93,768	0.28%	96,961	0.29%	111,150	0.33%
1994	38,049	0.60%	39,289	0.66%	45,888	0.69%
1995	34,705	0.84%	35,660	0.87%	41,591	0.92%
1996	54,764	0.74%	56,252	0.77%	65,482	0.78%
1997	69,968	0.29%	71,715	0.29%	80,631	0.23%
1998	244,210	0.10%	248,673	0.09%	258,283	0.03%
1999	179,496	0.07%	167,018	0.04%	35,254	0.00%
2000	10,507	0.00%	—	—	—	—
Total	$795,991	0.36%	$788,940	0.39%	$728,379	0.46%

(1) Includes only mortgages and Freddie Mac PCs purchased for Freddie Mac's total mortgage portfolio.
(2) Balance of total single-family mortgage portfolio (at-risk and non-at-risk mortgages combined) for respective period presented by year of origination.
(3) At-risk delinquency statistics are based on loans 90 days or more delinquent plus foreclosures in process and approved, as a percentage of the total number of loans in the year of origination. Includes only those loans for which Freddie Mac has assumed primary default risk. Excludes loans for which the lender or a third party has retained primary default risk by pledging collateral or agreeing to accept losses on loans that default. In some cases, the lender's or third party's risk is limited to a specific level of losses at the time the credit enhancement becomes effective.

Multifamily

The multifamily delinquency rate was 0.08 percent at March 31, 2000, down from 0.14 percent and 0.29 percent at December 31, 1999 and March 31, 1999, respectively. The declines from both December 31, 1999 and March 31, 1999 reflect decreases of $9 million and $21 million, respectively, in the net carrying value of non-performing multifamily mortgages.

Multifamily net recoveries totaled $1 million in first quarter 2000, as compared to net charge-offs of $1 million in fourth quarter 1999 and net recoveries of $1 million in first quarter 1999. Net recoveries resulted from the collection of certain amounts previously deemed uncollectible.

Institutional Credit Risk

Freddie Mac is subject to credit risk from institutional counterparties to the extent they do not fulfill their obligations to Freddie Mac under the terms of specific contracts or agreements. Freddie Mac's primary institutional credit risk exposure arises from agreements with the following counterparties: mortgage servicers, mortgage insurers, guarantors of non-Freddie Mac securities held in the retained portfolio, issuers and guarantors of investments held in the liquidity and contingency portfolio and counterparties to derivative financial instruments entered into by the corporation. See "MD&A — Institutional Credit Risk" included in the Information Statement for further discussion.

Guarantors of Non-Freddie Mac Securities

Freddie Mac's retained portfolio is exposed to institutional credit risk to the extent that guarantors of non-Freddie Mac securities held in this portfolio become insolvent. Non-Freddie Mac securities held in the retained portfolio consist of agency and non-agency mortgage-related securities. *Table 4* presents the composition of non-Freddie Mac securities held in the retained portfolio by product type.

Table 4 — Non-Freddie Mac Securities

	March 31, 2000	December 31, 1999	March 31, 1999
	(dollars in millions)		
Agency Securities	$23,578	$19,860	$12,090
Non-Agency Securities:			
Home equity	13,498	13,808	7,990
Commercial mortgage-backed securities(1)	8,679	7,822	6,476
Mortgage revenue bonds	6,377	5,690	4,838
Manufactured housing	4,568	4,693	2,294
Other mortgage-related securities	5,353	4,696	3,201
Total	$62,053	$56,569	$36,889

(1) Consists of securities backed by pools of loans that include significant amounts of multifamily mortgages.

Agency mortgage-related securities present minimal institutional credit risk exposure to Freddie Mac due to the high credit quality of issuers and guarantors such as the Government National Mortgage Association ("Ginnie Mae"). Ginnie Mae's guarantee is backed by the full faith and credit of the U.S. government. Non-agency mortgage-related securities are exposed to both mortgage and institutional credit risk. The corporation mitigates the mortgage credit risk associated with these securities through the use of senior/subordinated bond structures, bond insurance or a combination of both. The institutional credit risk associated with non-agency mortgage-related securities arises from the insolvency of bond insurers that guarantee these securities. Freddie Mac manages this risk by only purchasing securities meeting the corporation's investment guidelines, and by continually monitoring the creditworthiness of bond insurers.

At March 31, 2000, 95 percent of non-Freddie Mac securities held by the corporation were rated "AAA" by independent credit rating agencies. With the exception of mortgage revenue bonds, substantially all of the remaining securities not rated "AAA" had an independent credit rating of "AA" or better at March 31, 2000. Mortgage revenue bonds, which are bonds issued by state and local municipalities, were rated "A" or better at March 31, 2000. Freddie Mac often obtains secondary bond insurance for securities that are not rated "AAA."

Derivative Financial Instruments

Freddie Mac uses derivative financial instruments primarily in connection with its interest-rate risk management activities. While derivative financial instruments reduce Freddie Mac's overall exposure to interest-rate and/or foreign currency risk, they increase the corporation's exposure to institutional credit risk. Institutional credit risk arises from the possibility that a counterparty will be unable to perform according to the terms of the derivatives contract. Certain derivative financial instruments that are traded on an exchange, such as futures contracts, do not increase the corporation's exposure to institutional credit risk since changes in the value of open exchange-traded contracts are settled daily. For non-exchange traded (over-the-counter) derivative financial instruments, Freddie Mac mitigates its exposure to institutional credit risk by using master netting agreements. These agreements provide for the netting of amounts receivable and payable under all transactions covered by the master netting agreement between Freddie Mac and a single counterparty. As of March 31, 2000, 94 percent of Freddie Mac's outstanding notional balance that related to over-the-counter derivatives contracts were governed by master netting agreements.

In addition to using master netting agreements, Freddie Mac manages institutional credit risk associated with derivative financial instruments by limiting its counterparties to only those institutions having credit ratings among the highest available from major rating agencies, limiting its exposure to any one counterparty, regularly monitoring financial positions and, in many cases, requiring collateral. At March 31, 2000, approximately 91 percent of the notional or contractual amounts outstanding of the corporation's over-the-counter derivative financial instruments involved counterparties having an independent credit rating of "A+" or better, with the four largest counterparties (based on notional or contractual amounts outstanding) accounting for approximately 59 percent.

The corporation's aggregate exposure to institutional credit risk for over-the-counter derivative financial instruments can be estimated by calculating the "net replacement value" of, or cost to replace, all outstanding over-the-counter derivative financial instruments for each counterparty with which the corporation was in a net gain or "positive fair value" position, after taking into account the offsetting provided by master netting agreements. The corporation's estimated exposure to credit risk, based on net replacement values, was $3.9 billion at March 31, 2000 compared to $4.7 billion at December 31, 1999. The decrease in the corporation's credit risk exposure reflects both the termination or maturity of certain derivative financial instruments, as well as changes in interest rates that decreased the net gain position on contracts with several of Freddie Mac's largest counterparties. Freddie Mac's exposure to institutional credit risk can fluctuate from period to period due to changes in interest rates and/or foreign exchange rates.

Of the total estimated exposure to institutional credit risk on derivative financial instruments in a net gain position, $3.4 billion was fully collateralized at March 31, 2000. Most of the corporation's uncollateralized exposure of $0.5 billion at March 31, 2000 resulted from derivatives contracts with counterparties having an independent credit rating of "AAA." Freddie Mac's policy for requiring collateral from counterparties is based on independent credit ratings, estimated credit risk exposure on net replacement values and internal assessments of counterparty credit quality. In addition, it is the corporation's policy to limit its uncollateralized risk-adjusted credit risk exposure to any one counterparty from all investment and derivative activities to less than 1 percent of its "Stockholders' equity." To date, Freddie Mac has not incurred any institutional credit losses on derivative financial instruments or set aside specific reserves for institutional credit risk exposure. Management does not believe such reserves are necessary, given the corporation's collateral and counterparty policy requirements.

Interest-Rate Risk

Interest-rate risk is the risk that changes in the level of interest rates could adversely affect the market value or future earnings of Freddie Mac. Managing interest-rate risk includes consistently maintaining acceptable levels of interest-rate risk exposure while ensuring that investments meet the corporation's thresholds for return on equity and achieving annual net interest income targets set by management.

Freddie Mac's interest-rate risk exposure results largely from the uncertainty of when mortgages will prepay. Mortgage borrowers may prepay their mortgage loans, in most cases without penalty, before the scheduled maturity date of the loan ("prepayment risk"). This feature makes the timing and amount of mortgage prepayments very sensitive to interest rates. A significant decline in interest rates could lead to high prepayments, which result in a shorter expected life for the mortgage than originally projected. Conversely, a significant increase in interest rates could lead to lower than anticipated prepayments and a longer expected life for the mortgage than originally projected.

Debt financing is Freddie Mac's principal source of financing mortgage-related investments held in the retained portfolio. Investment, funding and hedging decisions made for the retained portfolio are sensitive to prepayment uncertainty. As a result, differences between prepayment estimates and actual prepayments could lead to mismatches in the expected cash flows between assets and liabilities. This risk is partially mitigated by

Freddie Mac's funding strategy of using a mix of short-term debt, callable and non-callable debt and derivative financial instruments to provide flexibility for adjusting the duration of the portfolio when these mismatches occur.

The effects of interest-rate risk on Freddie Mac's mortgage-related investments and how well this risk is managed will be realized over time through reported net interest income. The potential variability of this income is driven by changes in interest rates and the resulting changes in mortgage prepayment rates which can create mismatches between the income on mortgage-related investments in the retained portfolio and the expense on liabilities funding these investments. In a low interest-rate environment, higher mortgage prepayment levels reduce net interest income to the extent that mortgage-related investments are repaid and replaced with lower-yielding investments and the corporation's funding costs cannot be correspondingly reduced. In a high interest-rate environment, lower prepayment levels can reduce net interest income to the extent that mortgage-related investments are repaid more slowly than expected, and the associated debt reprices and can only be replaced by higher-cost debt.

Interest-Rate Risk Measurement

As an investor in mortgage-related securities, Freddie Mac's most significant market risk exposure relates to changes in the level of interest rates. To assess this risk, Freddie Mac measures, on a daily basis, its risk exposure resulting from an immediate, adverse 50 basis-point parallel shift in the current yield curve (the greatest loss that would result from an upward or downward 50 basis-point parallel shift). Risk exposure is stated in terms of Portfolio Market Value Sensitivity ("PMVS"), which is the estimated percentage decline in the net market value of the corporation's interest-earning assets and liabilities (referred to as "portfolio market value"). This methodology includes the effects of derivative financial instruments on Freddie Mac's assets and liabilities, treats preferred stock as a debt equivalent and takes into account the market value of projected future cash flows from mortgage securitization financing. Through the PMVS process, Freddie Mac is able to closely monitor and limit potential mismatches between the terms of assets and liabilities due to changes in interest rates.

Interest-Rate Risk Management Strategies

Freddie Mac issues debt and actively rebalances its funding mix to protect the corporation's portfolio market value.

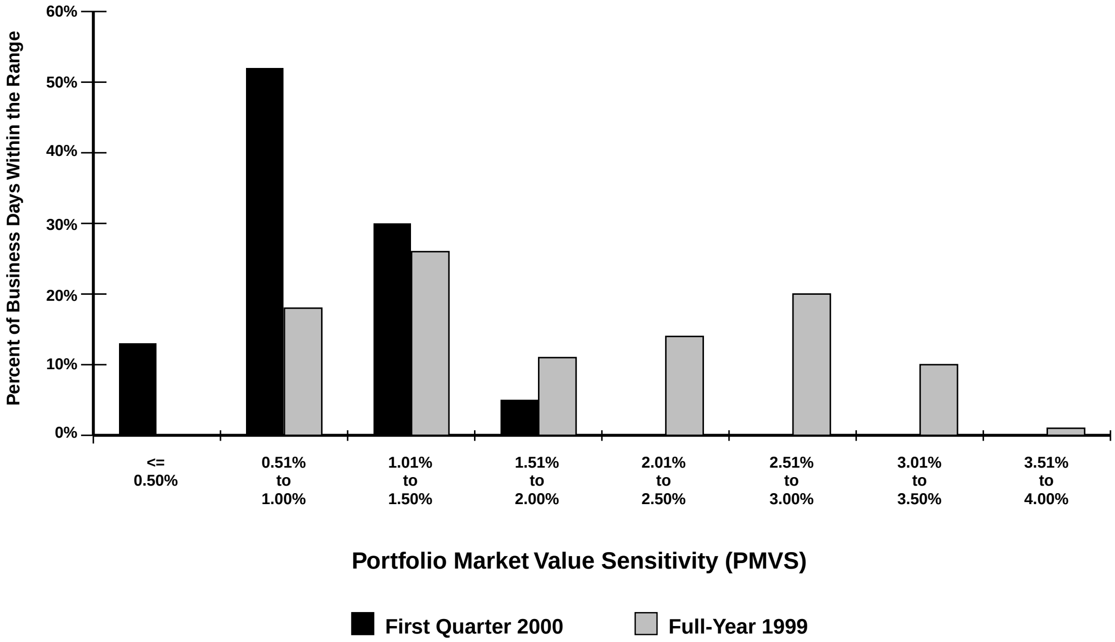
Funding Transactions—For acquisitions of mortgage-related investments, Freddie Mac obtains financing with a mix of debt and derivative financial instruments that provide the ability to closely match cash outflows from this financing with the cash inflows from the corporation's investments. Freddie Mac uses a mix of short-term debt, long-term callable and non-callable debt and derivative financial instruments to maximize its ability to reprice debt when mortgages prepay faster than expected. Freddie Mac's ability to maintain this flexibility depends on its ability to issue debt and enter into derivative financial instruments on acceptable terms.

Rebalancing Transactions—Freddie Mac executes interest-rate risk management (or "rebalancing") transactions to provide short-term and long-term protection. To provide short-term protection, Freddie Mac typically buys or sells derivative financial instruments, such as U.S. Treasury futures or interest-rate swaps, in order to closely match the expected life of its assets and liabilities. In addition, Freddie Mac obtains long-term protection from wider swings in interest rates by purchasing call options to change the characteristics of the debt used to finance the mortgages purchased. Through these transactions, Freddie Mac's objective is to maximize the amount of debt that it has the option to reprice when interest rates are rapidly declining, and to minimize the amount of debt that must be repriced when interest rates are rapidly increasing.

Interest-Rate Risk Management Results

Exhibit 1 illustrates the percentage of business days PMVS was within certain ranges during the three months ended March 31, 2000 as compared to full-year 1999.

Exhibit 1—Portfolio Market Value Sensitivity Ranges



As shown in *Exhibit 1*, PMVS was 1.50 percent or less for approximately 95 percent of the business days during the first three months of 2000, compared to 44 percent of the business days during full-year 1999. At March 31, 2000, PMVS was 1.36 percent compared to 0.80 percent at December 31, 1999. At March 31, 2000 and December 31, 1999, each 1 percent of PMVS equated to a potential dollar value loss of approximately $113 million and $128 million, respectively.

The generally lower PMVS during first quarter 2000 compared to full-year 1999 reflects the corporation's ongoing actions to protect its portfolio market value against changes in interest rates which have been significantly rising since second quarter 1999. Over the past two years, Freddie Mac executed funding and rebalancing actions which significantly reduced its interest-rate risk exposure throughout the later half of 1999 and first quarter 2000. When short-term debt and derivative financial instruments were priced at attractive levels in 1998, Freddie Mac purchased substantial amounts of protection against rising interest rates, including purchases of derivative financial instruments to reduce short-term funding exposure, and purchases of option-based derivatives designed to adjust future funding costs for purposes of offsetting mortgage lengthening. Freddie Mac further reduced its interest-rate risk exposure by executing rebalancing transactions (including issuances of Reference Notes^{SM}, the use of derivatives contracts involving U.S. Treasury securities and the use of interest-rate swaps) that lengthened the duration of its debt portfolio to match the lengthened duration of its mortgage portfolio. Freddie Mac's operating results for first quarter 2000 and fourth quarter 1999 reflect the effects of the 1998 protection and the additional protection purchased in 1999 (see "FIRST QUARTER 2000 vs. FOURTH QUARTER 1999—Net Interest Income on Earning Assets").

The corporation also measures and monitors interest-rate risk assuming more severe changes in interest rates. To quantify the potential effect of a more dramatic shift in interest rates, estimates of PMVS at the end of March 31, 2000, and December 31, 1999 and March 31, 1999, assuming a 100 basis-point rather than a 50 basis-point adverse parallel shift of the current yield curve, are presented in *Table 5*. *Table 5* also provides the potential dollar loss in portfolio market value as a percentage of interest-earning assets.

Table 5 — Portfolio Market Value Sensitivity (Assuming a 100 Basis-Point Parallel Shift of the Yield Curve)

As of	PMVS	Potential Dollar Value Loss as a Percent of Interest-Earning Assets
March 31, 2000	5.0%	0.2%
December 31, 1999	2.9%	0.1%
March 31, 1999	10.3%	0.3%

Other Market Risks

In addition to parallel shifts of the yield curve, Freddie Mac also monitors and manages its exposure to other interest-rate and market risks, including (*i*) yield curve risk (the risk of loss in portfolio market value resulting from non-parallel shifts of the yield curve); (*ii*) basis risk (the risk of loss in portfolio market value primarily resulting from changes in the spread between certain interest-rate indexes) and (*iii*) volatility risk (the risk of loss in portfolio market value resulting from changes in market expectations regarding the volatility of future interest rates). See "MD&A—RISK MANAGEMENT—Interest-Rate Risk and Other Market Risks—Other Market Risks" in the Information Statement for further discussion.

Derivative Financial Instruments

Freddie Mac enters into derivative financial transactions as an end user. The corporation uses derivative financial instruments in combination with underlying liabilities or assets to synthetically create debt instruments or interest-earning assets that achieve lower effective financing costs or higher effective asset yields than those available on alternative instruments. Additionally, through the use of derivative financial instruments, Freddie Mac is better able to match the expected duration of its assets and liabilities and reduce the corporation's exposure to interest-rate and/or foreign currency risk than through the issuance of debt.

Tables 6 and 7 summarize the activity and notional or contractual amounts outstanding of derivative financial instruments.

Table 6 — Derivative Financial Instrument Activity

	Quarter Ended Notional or Contractual Amount		
	March 31, 2000	December 31, 1999	March 31, 1999
	(dollars in millions)		
Balance at beginning of period	$ 424,244	$ 365,116	$ 313,238
New contracts	120,964	178,824	67,325
Calls	—	(125)	—
Maturities and terminations	(179,608)	(119,571)	(105,552)
Balance at end of period	$ 365,600	$ 424,244	$ 275,011

Table 7 — Outstanding Derivative Financial Instruments

	Notional or Contractual Amount		
	March 31, 2000	December 31, 1999	March 31, 1999
	(dollars in millions)		
Outstanding at period end:			
Interest-rate contracts:			
Interest-rate swaps			
Receive floating	$126,709	$101,243	$ 44,036
Receive fixed	43,276	22,375	13,906
Basis(1)	2,853	2,962	3,829
Interest-rate caps	16,141	17,811	17,785
Interest-rate floors	403	403	603
Interest-rate corridors	1,674	1,722	1,886
Futures and options(2)	161,669	267,737	176,722
Treasury-based contracts(3)	11,779	8,894	14,829
Foreign currency swaps	1,096	1,097	1,415
Total	$365,600	$424,244	$275,011

(1) Interest-rate swaps in which Freddie Mac pays and receives a floating rate, but which are based on two different indexes.
(2) All options held by Freddie Mac were options to enter into interest-rate contracts (or swaptions).
(3) Excludes exchange-traded derivative financial instruments, such as Treasury-based futures contracts.

The use of derivative financial instruments has become increasingly important in Freddie Mac's overall strategy of managing interest-rate risk. Through derivative financial instruments, Freddie Mac hedges anticipated debt issuance transactions and changes the effective repricing date of outstanding short-term and long-term debt in rebalancing its mix of total outstanding debt. The notional balance of Freddie Mac's derivative financial instruments decreased from $424 billion at December 31, 1999 to $366 billion at March 31, 2000, primarily reflecting the termination and maturity of certain futures and options contracts. This decrease was offset by an increased use of interest-rate swaps to lengthen the duration of Freddie Mac's existing debt in order to match the lengthened duration of its mortgage portfolio. Of the total notional balance of derivative financial instruments outstanding at March 31, 2000, $360 billion were associated with debt financing ("debt-linked"), and $6 billion were associated with the purchase of mortgage-related investments ("asset-linked").

Table 8 — Effective Debt Balances

	March 31, 2000	December 31, 1999	March 31, 1999
	(dollars in millions)		
Debt securities due within one year	$ 181,323	$175,525	$176,653
Fixed-rate debt due within one year	(17,579)	(9,322)	(8,723)
Floating-rate long-term debt	—	—	205
Derivative financial instruments converting short-term debt to long-term debt, net	(135,754)	(139,332)	(118,448)
Effective short-term debt	$ 27,990	$ 26,871	$ 49,687
Debt securities due after one year(1)	$ 196,751	$185,186	$122,543
Fixed-rate debt due within one year	17,579	9,322	8,723
Floating-rate long-term debt	—	—	(205)
Derivative financial instruments converting short-term debt to long-term debt, net	135,754	139,332	118,448
Effective long-term debt	$ 350,084	$333,840	$249,509

(1) Includes subordinated borrowings.

As *Table 8* illustrates, Freddie Mac typically uses derivative financial instruments to effectively convert short-term financing to long-term fixed-rate debt. Due to rising interest rates during 1999 and the first three months of 2000, Freddie Mac changed its mix of debt funding by shifting from short-term to effective long-term debt funding to match the lengthened duration of its mortgage-related investments. At March 31, 2000, Freddie Mac converted 75 percent of its contractual short-term debt to effective long-term debt, as compared to 67 percent at March 31, 1999.

BUSINESS SEGMENT REPORTING

Table 9 presents Freddie Mac's financial performance as segmented on the basis of the two methods by which the corporation finances mortgage-related investments: securitization financing (the "Securitization Financing Segment") and debt financing (the "Debt Financing Segment"). See Note 12 to the Consolidated Financial Statements included in the Information Statement for further discussion of Freddie Mac's allocation of revenues and expenses to these financing segments.

Table 9 — Business Segment Reporting

	Quarter Ended March 31, 2000			
	Securitization Financing	Debt Financing	Elimination(1)	Consolidated
	(dollars in millions)			
Net interest income(2)	$ 76	$ 550	$ 41	$ 667
Management and guarantee income	407	—	(41)	366
Other income, net	11	22	—	33
Total revenues	494	572	—	1,066
Credit-related expenses	(31)	—	—	(31)
Administrative expenses	(142)	(27)	—	(169)
Housing tax credit partnerships	(26)	—	—	(26)
Income before income taxes	295	545	—	840
Provision for income taxes	(77)	(155)	—	(232)
Net income	$ 218	$ 390	$ —	$ 608

	Quarter Ended December 31, 1999			
	Securitization Financing	Debt Financing	Elimination(1)	Consolidated
	(dollars in millions)			
Net interest income(2)	$ 62	$ 563	$ 39	$ 664
Management and guarantee income	401	—	(39)	362
Other income, net	21	2	—	23
Total revenues	484	565	—	1,049
Credit-related expenses	(40)	—	—	(40)
Administrative expenses	(137)	(30)	—	(167)
Housing tax credit partnerships	(18)	—	—	(18)
Income before income taxes and extraordinary item	289	535	—	824
Provision for income taxes	(83)	(155)	—	(238)
Income before extraordinary item, net of taxes	206	380	—	586
Extraordinary gain on retirement of debt, net of taxes	—	8	—	8
Net income	$ 206	$ 388	$ —	$ 594

	Quarter Ended March 31, 1999			
	Securitization Financing	Debt Financing	Elimination(1)	Consolidated
	(dollars in millions)			
Net interest income(2)	$ 80	$ 508	$ 38	$ 626
Management and guarantee income	376	—	(38)	338
Other income, net	62	(29)	—	33
Total revenues	518	479	—	997
Credit-related expenses	(50)	—	—	(50)
Administrative expenses	(137)	(26)	—	(163)
Housing tax credit partnerships	(20)	—	—	(20)
Income before income taxes and extraordinary item	311	453	—	764
Provision for income taxes	(89)	(155)	—	(244)
Income before extraordinary item, net of taxes	222	298	—	520
Extraordinary loss on retirement of debt, net of taxes	—	(7)	—	(7)
Net income	$ 222	$ 291	$ —	$ 513

(1) Reflects the elimination of fees earned by the Securitization Financing Segment for the credit guarantee it provides on unsecuritized mortgages retained by the Debt Financing Segment, and a corresponding elimination of the cost of this credit guarantee charged to the Debt Financing Segment for purposes of deriving consolidated amounts.

(2) Net interest income for the Debt Financing Segment includes interest expense on debt securities and other liabilities that finance mortgage-related investments. Included on interest expense on debt securities is non-cash amortization of debt discounts totaling $2.438 billion, $2.435 billion and $2.049 billion for the quarters ended March 31, 2000, December 31, 1999 and March 31, 1999, respectively, which principally represents the contractual cost of funds associated with issuing short-term debt at a discount. This cost of funds is paid when the debt matures.

LIQUIDITY AND CAPITAL MANAGEMENT

Liquidity

The corporation's sources of cash to meet the needs of its business activities and general operations include issuance of long-term and short-term borrowings, issuance of stock offerings, mortgage repayments and cash flows from operations. During first quarter 2000, Freddie Mac issued a total of $22 billion and $577 billion in long-term and short-term debt, respectively, to support its business activities. A significant portion of debt issued in first quarter 2000 occurred through the corporation's debt financing programs: Reference Notes[SM] and Callable Reference Notes[SM] for long-term financing, and Reference Bills[SM] for short-term financing. These debt financing programs enable the corporation to sell large issues of long-term and short-term debt that provide investors with high-quality, liquid debt securities. During first quarter 2000, Freddie Mac issued $16 billion of debt under its Reference Notes program. Reference Notes were issued in accordance with the corporation's $65 billion Reference Notes financing calendar for 2000 that was announced in fourth quarter 1999. This financing calendar provides clarity and transparency with regard to the timing of new debt issues and reopenings of prior issues, the anticipated size of individual offerings and exact settlement dates. Under the corporation's new Reference Bill program, which commenced in January 2000, the corporation issued $160 billion of short-term debt. As investor demand continues to grow for these debt securities, management believes its debt financing programs could, over the long-term, produce a reduction in the corporation's debt financing costs (see "FORWARD-LOOKING STATEMENTS").

Capital Management

Freddie Mac manages its capital resources to provide attractive returns on common equity while maintaining sufficient capital to satisfy internal capital adequacy standards and regulatory capital requirements, and to absorb unforeseen losses that might arise in fulfilling its mortgage guarantee obligations and conducting its business programs.

Capital Transactions

At March 31, 2000, Freddie Mac's primary capital base ("Stockholder's equity" plus the reserve for mortgage losses) was $12.667 billion, an increase of $1.011 billion, or 9 percent, from March 31, 1999. The increase in primary capital base from March 31, 1999 was driven by earnings growth and two preferred stock issuances totaling $538 million. The primary capital base increased $370 million from December 31, 1999 primarily as a result of earnings growth.

Due to the availability of attractive growth opportunities for the retained portfolio, the corporation did not repurchase any of its common stock during first quarter 2000, other than those common stock repurchases made to satisfy obligations under the corporation's stock-based compensation plans. Management believes that common stock repurchases may be an important component of earnings per share in future periods. The amount of capital actually available to repurchase common stock will be affected primarily by opportunities for portfolio growth, Freddie Mac's internal assessment of capital adequacy and implementation of regulatory risk-based capital standards (see "FORWARD-LOOKING STATEMENTS").

Table 10 below sets forth Freddie Mac's capitalization at March 31, 2000.

Table 10 — Total Capitalization

	March 31, 2000
	(dollars in millions)
Debt securities:	
Notes and bonds payable due within one year:	
Discount notes, medium-term notes and securities sold under agreements to repurchase	$163,744
Current portion of long-term debt	17,579
	181,323
Notes and bonds payable due after one year	196,613
Total debt securities, net	377,936
Subordinated borrowings	138
Stockholders' equity	11,892
Total capitalization	$389,966

Table 11 below provides a reconciliation of "Weighted average common shares outstanding–basic" to "Weighted average common shares outstanding–diluted."

Table 11 — Weighted Average Common Shares Outstanding

	Quarter Ended		
	March 31, 2000	December 31, 1999	March 31, 1999
	(shares in thousands)		
Weighted average common shares outstanding — basic	695,239	696,560	695,340
Effect of dilutive common equivalent shares — outstanding	2,845	3,532	4,822
Weighted average common shares outstanding — diluted	698,084	700,092	700,162

See notes 1, 7 and 8 to the Consolidated Financial Statements included in the Information Statement for further information about Freddie Mac's debt securities, subordinated borrowings, stockholders' equity and common equivalent shares pursuant to the corporation's stock-based compensation plans.

Capital Adequacy

Freddie Mac regularly assesses the adequacy of its capital. Management believes that at any point in time, capital should be sufficient to ensure that Freddie Mac can satisfy its financial obligations in a timely manner with its own resources even if economic circumstances deteriorate unexpectedly and severely. Maintaining adequate levels of capital protects the value of Freddie Mac as a going concern.

Freddie Mac assesses its capital adequacy using a stress test methodology, a type of scenario analysis used by many firms to evaluate their financial strength under adverse business conditions. The customized stress test methodology employed by Freddie Mac is designed to estimate the amount of capital the corporation would need to satisfy its obligations over a 10-year period of extremely adverse economic conditions. See "MD&A—LIQUIDITY AND CAPITAL MANAGEMENT — Capital Management — Capital Adequacy" included in the Information Statement for further discussion.

In addition to its internal assessment of capital adequacy, Freddie Mac ensures that capital is sufficient to comply with regulatory capital standards. Under the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (the "GSE Act"), Freddie Mac and Fannie Mae are subject to certain minimum and risk-based capital standards issued by the Office of Federal Housing Enterprise Oversight ("OFHEO"). Until a final risk-based capital regulation has been issued and in effect for one year, the capital levels of Freddie Mac and Fannie Mae are to be classified only against the minimum capital standard. The minimum capital standard sets forth a methodology for computing minimum capital requirements as follows: minimum capital is equal to the sum of 2.50 percent of aggregate on-balance sheet assets, as measured under GAAP, 0.225 percent of average mortgage purchase commitments and, generally, 0.45 percent of other aggregate off-balance sheet obligations, including Total PCs, net of PCs held by Freddie Mac in its retained and trading portfolios. At March 31, 2000, Freddie Mac's estimated minimum capital requirement, as reported to OFHEO, was $12.756 billion, up from $12.287 billion and $10.595 billion at December 31, 1999 and

March 31, 1999, respectively. Capital surplus, the excess of Freddie Mac's regulatory core capital over the minimum capital requirement, was estimated at $383 million at March 31, 2000, compared to $405 million and $345 million at December 31, 1999 and March 31, 1999, respectively. Freddie Mac actively manages its capital surplus by investing these funds in highly rated, short-term instruments.

The Director of OFHEO has issued a proposed regulation to implement a risk-based capital standard, which would set forth capital requirements using a stress test model. In early March 2000, Freddie Mac submitted to OFHEO detailed, written comments on the proposal. Freddie Mac commented that it believes the basic framework proposed by OFHEO is sound, but a number of changes in the components of the stress tests are necessary in order to align capital to risk as envisioned in the GSE Act. The corporation's comments in this regard included recommendations regarding the measurement of the benchmark for regional credit loss experience for single-family mortgages, single-family and multifamily credit risk and prepayment models, treatment of non-borrower credit risk, projection of the U.S. Treasury yield curve and non-U.S. Treasury interest rates, and assumptions as to refunding and operation expenses. The comments emphasized the importance of implementing the infrastructure systems and procedures, including treatment of new activities, that are needed to make the stress test operational and the proposal workable. Freddie Mac's comments also identified options to make the implementation of the proposed regulation accurate, predictable and timely. Copies of those comments are available upon request. OFHEO has stated that, after it considers all of the comments submitted, it will determine whether to re-propose or to issue a final regulation. Freddie Mac believes that a reasonable implementation of the risk-based capital standard, when finalized, would be consistent with the corporation's internal assessment of capital adequacy.

QUARTERLY VOLUME STATISTICS

Table 12 summarizes Freddie Mac's purchase, liquidation and securitization activity for the quarters ended March 31, 2000, December 31, 1999 and March 31, 1999.

Table 12 — Volume Statistics

	Quarter Ended					
	March 31, 2000		December 31, 1999		March 31, 1999	
	(dollars in millions)					
New business purchases(1)						
Mortgages and Freddie Mac PCs						
30-year fixed-rate	$23,004	64%	$24,466	59%	$58,379	64%
15-year fixed-rate	2,389	7%	4,349	10%	20,371	22%
ARMs/floating-rate	2,016	5%	2,697	7%	1,752	2%
Balloon/resets	389	1%	829	2%	921	1%
Total single-family	27,798	77%	32,341	78%	81,423	89%
Multifamily	1,214	3%	2,186	5%	1,403	2%
Total mortgages and Freddie Mac PCs	29,012	80%	34,527	83%	82,826	91%
Non-Freddie Mac securities:(2)						
Fixed-rate	6,058	17%	4,760	11%	7,031	8%
ARMs/floating-rate	1,034	3%	2,388	6%	1,496	1%
Total non-Freddie Mac securities	7,092	20%	7,148	17%	8,527	9%
Total new business purchases	$36,104	100%	$41,675	100%	$91,353	100%
Credit risk distribution of purchases						
Freddie Mac at-risk(3)	$19,875	55%	$25,193	60%	$62,562	68%
Credit-enhanced(4)	$16,229	45%	$16,482	40%	$28,791	32%
Purchase market share(5)	41%		39%		42%	
Percentage of purchases represented by mortgage purchases	28%		31%		71%	
Mortgage liquidations	$22,262		$24,539		$47,325	
Mortgage liquidation rate (annualized)	10.3%		11.6%		25.8%	
Original-issue securities settlements						
Single-family PCs	$27,478		$31,129		$84,392	
Multifamily PCs	279		1,260		9	
Total	$27,757		$32,389		$84,401	
Structured securitizations(6)	$10,064		$15,748		$56,565	

(1) Includes mortgages exchanged for Freddie Mac PCs and purchased for cash, and non-Freddie Mac securities. Excludes repurchased Freddie Mac PCs since repurchases do not affect the unpaid principal balance of the total mortgage portfolio.
(2) Non-Freddie Mac securities are categorized based upon the product type of the mortgage collateral underlying the security.
(3) Includes only those mortgages for which Freddie Mac has assumed primary default risk.
(4) Includes loans for which the lender or a third party has retained primary default risk by pledging collateral or agreeing to accept losses on loans that default. In some cases, the lender's or third party's risk is limited to a specific level of losses at the time the credit enhancement becomes effective. Also includes non-Freddie Mac securities held in the total mortgage portfolio.
(5) Based on mortgage purchase and PC issuance activity relative to Fannie Mae.
(6) Includes issuances of mortgage-related securities in which the cash flows are structured into various classes having a variety of features, the majority of which qualify for treatment as Real Estate Mortgage Investment Conduits ("REMICs") under the Internal Revenue Code.

Freddie Mac's first quarter 2000 purchase volumes decreased by 13 percent and 60 percent compared to fourth quarter 1999 and first quarter 1999, respectively. Lower purchase volumes reflect decreased mortgage refinancing activity as a result of rising interest rates throughout 1999 and first quarter 2000. In first quarter 2000, refinanced mortgage represented 28 percent of Freddie Mac's total purchases, down from 31 percent in fourth quarter 1999 and 71 percent in first quarter 1999. Despite lower purchase volumes, Freddie Mac's goal is to continue growing its total mortgage portfolio more rapidly than the expected rate of growth in total outstanding U.S. residential mortgage debt. Actual results, however, may differ from those anticipated due to changes in interest rates, the shape of the yield curve and other factors discussed in "FORWARD-LOOKING STATEMENTS."

Although interest rates continued to trend upward during the first three months of 2000, interest rates continued to be low compared to historical standards. As a result, borrower preferences for fixed-rate mortgages remained strong as spreads between fixed-rate mortgages and ARMs/floating-rate mortgages remained relatively narrow. Fixed-rate mortgage-related investments represented 88 percent of Freddie Mac purchases for first quarter 2000, up from 80 percent for fourth quarter 1999 and down from 94 percent for first quarter 1999. Purchase volumes also reflect an increased proportion of non-Freddie Mac security purchases for the retained portfolio during first quarter 2000. These purchases also drove, in part, the increase in the percentage of credit-enhanced purchases to 45 percent for first quarter 2000, as compared to 40 percent and 32 percent for fourth quarter 1999 and first quarter 1999, respectively.

During first quarter 2000, the corporation's market share, as a percentage of the combined Freddie Mac and Fannie Mae purchases of both new mortgage originations and seasoned mortgages, returned to a more typical level of 41 percent, compared to 39 percent and 42 percent for fourth quarter 1999 and first quarter 1999, respectively. While the corporation anticipates that its market share will remain at typical levels, there could be some variability from quarter to quarter (see "FORWARD-LOOKING STATEMENTS"). Freddie Mac competes for mortgages primarily on the basis of the relative strength of its mortgage purchase programs, security products, customer service, ease of mortgage purchase processing and price.

The annualized liquidation rate on the total mortgage portfolio decreased to 10 percent for first quarter 2000 compared to 12 percent and 26 percent for fourth quarter 1999 and first quarter 1999, respectively. The decrease in the portfolio liquidation rate represents a decline in borrower prepayments due to rising interest rates.

First quarter 2000 structured securitization activity fell to $10 billion, compared to $16 billion and $57 billion for fourth quarter 1999 and first quarter 1999, respectively. Structured securitization volumes vary based on market conditions which impact investor demand for REMIC securities.

QUARTERLY REVENUE ANALYSIS, RATE/VOLUME ANALYSIS AND CONSOLIDATED RESULTS OF OPERATIONS

Freddie Mac's revenue base consists of "Net interest income on earning assets," "Management and guarantee income" and "Other income, net." *Table 13* presents a revenue analysis that reflects daily weighted average balances and related yields earned on assets and rates paid on liabilities. *Table 13* also contains a rate/volume analysis that details changes to Freddie Mac's revenues.

Table 13 — Quarterly Revenue Analysis and Rate/Volume Analysis

	Quarter Ended								
	March 31, 2000			December 31, 1999			March 31, 1999		
	Average Balance	Interest Income/ Expense	Average Rate	Average Balance	Interest Income/ Expense	Average Rate	Average Balance	Interest Income/ Expense	Average Rate
				(dollars in millions)					
Interest-earning assets:									
Mortgages	$ 56,337	$1,033	7.33%	$ 55,886	$1,015	7.27%	$ 54,303	$ 985	7.26%
Guaranteed mortgage securities (1)	270,146	4,520	6.69%	265,017	4,354	6.57%	209,650	3,454	6.59%
Total retained portfolio	326,483	5,553	6.80%	320,903	5,369	6.69%	263,953	4,439	6.73%
Investments (2)	67,050	978	5.79%	56,878	800	5.54%	65,641	817	4.98%
Total interest-earning assets	$393,533	$6,531	6.63%	$377,781	$6,169	6.52%	$329,594	$5,256	6.38%
Interest-bearing liabilities:									
Effective short-term debt	$ 33,857	$ 509	5.94%	$ 33.442	$ 464	5.43%	$ 77,321	$ 924	4.78%
Effective long-term debt	340,042	5,286	6.19%	324,249	4,949	6.05%	225,507	3,463	6.14%
Total debt securities	373,899	5,795	6.17%	357,691	5,413	5.99%	302,828	4,387	5.80%
PC variance:									
Due to prepayments (3)	4,373	75	6.88%	5,365	94	7.00%	13,568	239	7.04%
Due to ARM/floating-rate adjustments (4)	—	(6)	—	—	(2)	—	—	4	—
Net cost of PC variance	4,373	69	6.31%	5,365	92	6.83%	13,568	243	7.17%
Total interest-bearing liabilities	378,272	5,864	6.17%	363,056	5,505	6.00%	316,396	4,630	5.85%
Net non-interest-bearing funding	15,261	—	—	14,725	—	—	13,198	—	—
Total funding of interest-earning assets	$393,533	$5,864	5.93%	$377,781	$5,505	5.77%	$329,594	$4,630	5.62%
Net interest income/yield		$ 667	0.70%		$ 664	0.75%		$ 626	0.76%
Management and guarantee income	$753,084	$ 366	19.4bp	$743,399	$ 362	19.5bp	$666,741	$ 338	20.3bp
Other income, net (5)		$ 33			$ 23			$ 33	
Total revenues		$1,066			$1,049			$ 997	
Net interest income/yield (fully taxable equivalent basis)		$ 724	0.76%		$ 709	0.80%		$ 673	0.82%

	1st Quarter 2000 vs. 4th Quarter 1999 Increase or (Decrease) Due to				1st Quarter 2000 vs. 1st Quarter 1999 Increase or (Decrease) Due to			
	Rate	Volume	Total $ Change	Total % Change	Rate	Volume	Total $ Change	Total % Change
Interest-earning assets:								
Mortgages	$ 10	$ 8	$ 18	2 %	$ 11	$ 37	$ 48	5 %
Guaranteed mortgage securities	82	84	166	4 %	69	997	1,066	31 %
Total retained portfolio	92	92	184	3 %	80	1,034	1,114	25 %
Investments	36	142	178	22 %	143	18	161	20 %
Total interest-earning assets	$128	$ 234	$ 362	6 %	$ 223	$1,052	$1,275	24 %
Interest-bearing liabilities:								
Effective short-term debt	$ 39	$ 6	$ 45	10 %	$ 110	$ (525)	$ (415)	(45)%
Effective long-term debt	98	239	337	7 %	65	1,758	1,823	53 %
Total debt securities	137	245	382	7 %	175	1,233	1,408	32 %
PC variance	(6)	(17)	(23)	(25)%	(9)	(165)	(174)	(72)%
Total interest-bearing liabilities	$131	$ 228	$ 359	7 %	$ 166	$1,068	$1,234	27 %
Net interest income	$ (3)	$ 6	$ 3	— %	$ 57	$ (16)	$ 41	7 %
Management and guarantee income	$ (1)	$ 5	$ 4	1 %	$ (16)	$ 44	$ 28	8 %
Other income, net			$ 10	43 %			$ —	— %
Total revenues			$ 17	2 %			$ 69	7 %

(1) Rates calculated on a fully taxable equivalent basis were 6.77%, 6.63% and 6.65% for quarters ended March 31, 2000, December 31, 1999 and March 31, 1999, respectively, based upon related income of $4.570 billion, $4.393 billion, and $3.489 billion, respectively.
(2) Rates calculated on a fully taxable equivalent basis were 5.89%, 5.66% and 5.07% for quarters ended March 31, 2000, December 31, 1999 and March 31, 1999, respectively, based upon related income of $994 million, $816 million, and $832 million, respectively.
(3) Mortgage liquidations on which interest continues accruing to the security holder.
(4) Rate changes on ARMs/floating-rate mortgages for which the related security rate changes one month later.
(5) Includes recognized gains on hedging activities totaling $30 million, $5 million and $0 million for first quarter 2000, fourth quarter 1999 and first quarter 1999, respectively.

Table 14 summarizes Freddie Mac's results of operations for first quarter 2000 as compared to first quarter 1999 and fourth quarter 1999.

Table 14 — Summary of Results

	First Quarter 2000	First Quarter 1999	Dollar Change	Percent Change	Fourth Quarter 1999	Dollar Change	Percent Change
	(dollars in millions, except per share amounts)						
Net interest income on earning assets	$ 667	$ 626	$ 41	7 %	$ 664	$ 3	— %
Management and guarantee income	366	338	28	8 %	362	4	1 %
Other income, net(1)	33	33	—	— %	23	10	43 %
Total revenues	1,066	997	69	7 %	1,049	17	2 %
Credit-related expenses	(31)	(50)	(19)	(38)%	(40)	(9)	(23)%
Administrative expenses	(169)	(163)	6	4 %	(167)	2	1 %
Housing tax credit partnerships(2)	(26)	(20)	6	30 %	(18)	8	44 %
Total non-interest expense	(226)	(233)	(7)	(3)%	(225)	1	— %
Income before income taxes and extraordinary item	840	764	76	10 %	824	16	2 %
Income taxes	(232)	(244)	(12)	(5)%	(238)	(6)	(3)%
Extraordinary (loss) gain, net of taxes	—	(7)	(7)	(100)%	8	8	100%
Net income	$ 608	$ 513	$ 95	19 %	$ 594	$ 14	2 %
Earnings per common share(3)							
Basic	$ 0.81	$ 0.69	$ 0.12	17 %	$ 0.79	$0.02	3 %
Diluted	$ 0.81	$ 0.68	$ 0.13	19 %	$ 0.79	$0.02	3 %
Retained portfolio (in billions)	$336.3	$277.6	$ 58.7	21 %	$324.4	$11.9	4 %
Total mortgage portfolio (in billions)(4)	$876.2	$777.4	$ 98.8	13 %	$862.3	$13.9	2 %

(1) Includes recognized gains on hedging activities totaling $30 million, $0 million and $5 million for the quarters ended March 31, 2000, March 31, 1999 and December 31, 1999, respectively.
(2) Represents costs associated with Freddie Mac's investment in housing tax credit partnerships. Tax credits generated by these investments reduce the corporation's tax liability.
(3) After payments of preferred stock dividends of $45 million, $36 million and $42 million for quarters ended March 31, 2000, March 31, 1999 and December 31, 1999, respectively.
(4) Equal to the retained portfolio plus Total PCs, net of Freddie Mac PCs held in the retained portfolio.

"Net income" and diluted earnings per common share for first quarter 2000 both increased 19 percent compared to first quarter 1999. The increases in "Net income" and diluted earnings per common share were primarily due to an increase in "Net interest income on earning assets," coupled with lower "Credit-related expenses." The increase in net interest income from first quarter 1999 to first quarter 2000 was driven by retained portfolio growth, while improved credit results reflect effective risk management and favorable economic conditions, particularly house-price appreciation (see "RISK MANAGEMENT — Mortgage Credit Risk"). "Net income" and diluted earnings per common share for first quarter 2000 compared to fourth quarter 1999 increased 2 percent and 3 percent, respectively. Additionally, earnings for first quarter 1999 and fourth quarter 1999 reflect the early retirement of debt that resulted in an after-tax extraordinary loss of $7 million and an after-tax extraordinary gain of $8 million for first quarter 1999 and fourth quarter 1999, respectively.

FIRST QUARTER 2000 vs. FIRST QUARTER 1999

Net Interest Income on Earning Assets

"Net interest income on earning assets" totaled $667 million for first quarter 2000 compared to $626 million for first quarter 1999. On a fully taxable equivalent ("FTE") basis, net interest income totaled $724 million, an 8 percent increase over first quarter 1999 FTE net interest income of $673 million. Growth in FTE net interest income reflects an increase of $63 billion, or 24 percent, in the average balance of the retained portfolio from first quarter 1999.

FTE net interest yield on earning assets (excluding net gains on hedging activities) was 0.76 percent for first quarter 2000 compared to 0.82 percent for first quarter 1999. The 6 basis-point decline in FTE net interest yield from first quarter 1999 primarily reflects the effect of funding and rebalancing actions taken by Freddie Mac to protect the corporation's portfolio market value. Debt costs for first quarter 2000 reflect a significantly increased proportion of higher-cost, longer-term funding than in first quarter 1999. This shift in the corporation's debt funding mix, which commenced in second quarter 1999 and continued through first quarter 2000, was made to better match expected asset and liability durations in a rising interest-rate environment.

Management and Guarantee Income

"Management and guarantee income," the fee Freddie Mac earns on Total PCs, increased $28 million, or 8 percent, compared to first quarter 1999. This increase was due to an $86 billion, or 13 percent, increase in the average balance of Total PCs, partially offset by a 0.9 basis-point decrease in the average guarantee fee rate for first quarter 2000 compared to the same period of the previous year.

The average guarantee fee rate continued to be affected by portfolio turnover, with fee rates on new PC issuances typically below the average fee rate of the Total PC portfolio, combined with liquidations of existing PC balances having comparatively higher fee rates. Lower average guarantee fee rates on new issuances primarily reflect increased competitive pressures, the continued use of credit enhancements on mortgage investments and changes in the mix of mortgage products purchased by Freddie Mac. The impact of portfolio turnover was diminished relative to first quarter 1999 due to the decline in mortgage prepayments experienced in a rising interest-rate environment.

Other Income, Net

"Other income, net," which tends to fluctuate from period to period, consists primarily of fees earned from resecuritization activity, gains and losses associated with certain investment-related activities, and gains and losses from certain hedging activities that must be reported in "Other income, net" rather than "Net interest income from earning assets." "Other income, net" totaled $33 million for first quarter 2000, unchanged from first quarter 1999. Included in first quarter 2000 were recognized net gains from certain hedging activities totaling $30 million. Lower fees earned from resecuritization activity offset most of the increased income.

Credit-Related Expenses

"Credit-related expenses" (which consist of the "Provision for mortgage losses" and "REO operations expense") decreased $19 million, or 38 percent, compared to first quarter 1999. This decrease was due to a $5 million reduction in the "Provision for mortgage losses," coupled with a $14 million reduction in "REO operations expense." Both reductions were driven primarily by house-price appreciation and the continued use of credit enhancements on mortgage investments (see "RISK MANAGEMENT — Mortgage Credit Risk — *Credit Performance"*).

Administrative Expenses

"Administrative expenses" increased $6 million, or 4 percent, compared to first quarter 1999. This increase was due primarily to continued investment in business process improvements, as well increased costs associated with recruiting and retaining skilled employees in a tight labor market. The ratio of administrative expenses to fully taxable equivalent revenues was 15 percent for first quarter 2000, down from 16 percent for first quarter 1999. Annualized administrative expenses as a percentage of the average total mortgage portfolio were 7.8 basis points for first quarter 2000 compared to 8.6 basis points for first quarter 1999.

Housing Tax Credit Partnerships

The costs associated with Freddie Mac's investment in housing tax credit partnerships increased $6 million compared to first quarter 1999. These investments are used to develop multifamily low-income rental properties. While these investments create operating losses, they also generate tax credits which reduce the corporation's federal income tax liability.

Income Taxes

"Income taxes," excluding the tax effect of the extraordinary loss on retirement of debt, totaled $232 million for first quarter 2000 compared to $244 million for first quarter 1999. The effective income tax rate decreased to 27.6 percent for first quarter 2000 from 31.9 percent for first quarter 1999. The effective federal income tax rate may fluctuate primarily based on the relative proportion of taxable versus tax-advantaged investments held by Freddie Mac and the amount of tax credits generated by the corporation's investments in housing tax credit partnerships.

FIRST QUARTER 2000 vs. FOURTH QUARTER 1999

Net Interest Income on Earning Assets

"Net interest income on earning assets" totaled $667 million for first quarter 2000 compared to $664 million for fourth quarter 1999. FTE net interest income was $724 million for first quarter 2000, a $15 million increase over fourth quarter 1999 FTE net interest income of $709 million. The increase in net interest income on earning assets compared to fourth quarter 1999 reflects a $6 billion increase in the average balance of the retained portfolio. During first quarter 2000, the retained portfolio grew by $12 billion, with the majority of this growth occurring in the last month of the quarter. Looking ahead, management believes there will be profitable investment opportunities to grow the retained portfolio throughout the remainder of 2000 (see "FORWARD-LOOKING STATEMENTS").

FTE net interest yield on earning assets (excluding net gains on hedging activities) was 0.76 percent for first quarter 2000 compared to 0.80 percent for fourth quarter 1999. The 4 basis-point decline in FTE net interest yield reflects rising debt costs in first quarter 2000, coupled with a higher proportion of lower-yielding investments. The downward trend in net interest yield also resulted from non-recurring benefits included in the fourth quarter 1999 yield that were derived primarily from the corporation's extension of short-term debt maturities and the termination or maturity of certain derivative transactions. Despite the decline in FTE net interest yield, Freddie Mac's operating results for first quarter 2000 were favorably affected by retained portfolio hedging activities. Recognized net gains on hedging activities, which are reported as part of "Other income, net," totaled $30 million in first quarter 2000, equivalent to 3 basis points on first quarter 2000 interest-earning assets (see "FIRST QUARTER 2000 vs. FOURTH QUARTER 1999 — Other Income, Net").

Management and Guarantee Income

The $4 million increase in "Management and guarantee income" compared to fourth quarter 1999 was due to a $10 billion increase in the average balance of Total PCs, partially offset by a 0.1 basis-point decrease in the average guarantee fee rate. The decline of the average guarantee fee rate from fourth quarter 1999 was driven by the continued impact of portfolio turnover (see "FIRST QUARTER 2000 vs. FIRST QUARTER 1999—Management and Guarantee Income").

Other Income, Net

"Other income, net" increased $10 million compared to fourth quarter 1999, primarily reflecting a $25 million increase in gains from certain hedging activities that must be reported in "Other income, net" rather than in "Net interest income on earning assets." Increased losses associated with certain investment-related activities, as well as lower fees from resecuritization activity, partially offset the increased income.

Credit-Related Expenses

"Credit-related expenses" decreased $9 million, or 23 percent, compared to fourth quarter 1999. This decrease was due to a $5 million reduction in the "Provision for mortgage losses," coupled with a $4 million reduction in "REO operations expense" (see "RISK MANAGEMENT — Mortgage Credit Risk — Credit Performance").

Administrative Expenses

"Administrative expenses" increased $2 million compared to fourth quarter 1999. The ratio of administrative expenses to fully taxable equivalent revenues of 15 percent remained unchanged from fourth quarter 1999. Annualized administrative expenses as a percentage of the average total mortgage portfolio of 7.8 basis points also remained unchanged from fourth quarter 1999.

Housing Tax Credit Partnerships

The costs associated with Freddie Mac's investment in housing tax credit partnerships were $26 million for first quarter 2000, an increase of $8 million over fourth quarter 1999.

Income Taxes

"Income taxes," excluding the tax effect of the extraordinary gain on retirement of debt, totaled $232 million for first quarter 2000 compared to $238 million for fourth quarter 1999. The effective federal income tax rate decreased to 27.6 percent for first quarter 2000 from 28.9 percent for fourth quarter 1999.

RATIO OF EARNINGS TO FIXED CHARGES AND EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS

The ratios of Freddie Mac's earnings to fixed charges, and earnings to combined fixed charges and preferred stock dividends were 1.14:1 and 1.13:1, respectively, for the quarter ended March 31, 2000.

EFFECT OF NEW ACCOUNTING STANDARD

In June 1998, the Financial Accounting Standards Board ("FASB") issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," which Freddie Mac will implement on January 1, 2001. Management anticipates that the adoption of SFAS No. 133 may increase earnings volatility for the corporation. As a result, implementation strategies are currently being evaluated in order to develop effective solutions that are consistent with business fundamentals, mitigate earnings volatility and accommodate growth and change in risk management strategies. The cumulative effects of this implementation will be reported as a change in accounting principle. Management is continuing to assess the potential impact of this accounting standard on the corporation's reported results of operations and financial position. See Note 1 to the Consolidated Financial Statements included in the Information Statement for further information regarding this new accounting standard.

RECENT EVENTS

Meeting Of Stockholders

Freddie Mac's 2000 Annual Meeting of Stockholders (the "Meeting") was held on May 4, 2000. The following matters were presented for stockholder vote at the Meeting: (*i*) election of 13 members to Freddie Mac's Board of Directors each for a term ending on the date of the next annual meeting of Freddie Mac's stockholders; and (*ii*) ratification of the appointment of Arthur Andersen LLP as Freddie Mac's independent public accountant for 2000. Of the 695,552,145 shares of common stock outstanding on the record date for the Meeting, 621,658,304 shares were present in person or by proxy at the Meeting. At the Meeting, the following persons were elected to the Board of Directors of Freddie Mac by the respective votes indicated:

	Votes For	Votes Withheld
Leland C. Brendsel	617,987,586	3,670,718
David W. Glenn	618,007,041	3,651,263
George D. Gould	617,965,476	3,692,828
Thomas W. Jones	613,803,820	7,854,484
Henry Kaufman	617,980,897	3,677,407
John B. McCoy	524,928,412	96,729,892
James F. Montgomery	618,100,937	3,557,367
Russell E. Palmer	618,049,822	3,608,482
Ronald F. Poe	618,108,217	3,550,087
Stephen A. Ross	618,121,516	3,536,788
Donald J. Schuenke	617,975,325	3,682,979
Christina Seix	618,143,247	3,515,057
William J. Turner	618,037,082	3,621,222

The appointment of Arthur Andersen LLP was ratified at the Meeting by the following votes:

Votes for	Votes Against	Abstentions
619,498,070	431,046	1,510,344

Management

Edward Golding was appointed Senior Vice President — Financial Research and Housing Economics in May 2000. Mr. Golding previously served as Vice President of Financial Research since 1993.

CUSTOMER AND MARKET SUPPORT ACTIVITIES

Market Support for PCs

Freddie Mac continues to support the market for its PCs relative to Fannie Mae passthrough securities through various activities. These activities include participating with external money management firms to buy and sell PCs, marketing to dealers and investors the relative merits of trading and investing in PCs, participating in the dollar roll market, introducing new mortgage-related securities products and related initiatives. Freddie Mac anticipates that it will continue its market support activities for both 30-year and 15-year Gold PCs, and initiate and expand new efforts in the future. Freddie Mac may increase, reduce or discontinue these or other related activities at any time.

Freddie Mac