

Credit Opinion: Federal Home Loan Mortgage Corp.

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McLean, Virginia, United States

Ratings

Category	Moody's Rating
Outlook	Stable
Bank Financial Strength	A-
Bkd Senior Secured	Aaa
Senior Unsecured	Aaa
Subordinate	Aa2
Preferred Stock	Aa3
Other Short Term	P-1
Home Ownership Funding Corporation	
Outlook	Stable
Bkd Preferred Stock	Aa2
Home Ownership Funding Corporation II	
Outlook	Stable
Bkd Preferred Stock	Aa2

Contacts

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Key Indicators

Federal Home Loan Mortgage Corp.

	YTD-2005	2004	2003	2002	2001
ROAA + Avg. Net PCs less Resales (%)	0.2	0.2	0.3	0.7	0.3
Return on Ave Common Equity (%)	12.1	10.2	17.2	47.2	20.2
Pretax Earnings/Net Revenues (%)	65.6	61.1	76.0	88.8	76.2
Net Interest Income/EBT (%)	145.0	245.2	135.3	64.3	167.2
Total Charge-offs/Avg. Mortgages + Ave REO (%)	-	0.5	0.4	0.3	0.2
Net Income (\$ mil.)	1,644	2,937	4,816	10,090	3,158
Assets + Net PCs (\$mil.)	1,694,421	1,647,554	1,555,613	1,482,058	1,272,250
Equity (\$Mil.)	31,963	31,416	31,487	31,330	19,624
Liquid Assets/ST Debt (%)	27.6	34.5	25.8	42.0	35.3
Equity/Assets (%)	3.5	3.4	3.3	3.6	2.3
SF 90 + Dels & Foreclosure % Total Mortgage Portfolio (%)	0.61	0.73	0.86	0.77	0.62

Opinion

Credit Strengths

Credit strengths for Freddie Mac include:

- Key role in housing finance and policy; GSE status
- Strong and sophisticated risk management discipline

- Substantial, high returns

Credit Challenges

Credit challenges for Freddie Mac include:

- Narrow charter and political risks may constrain growth
- Exposure to credit and especially interest rate risks is significant and complex
- Re-focusing on mission related initiatives may contain more risk

Rating Rationale

Freddie Mac's ratings reflect the application of Moody's new rating methodology for government-related issuers (GRIs), which incorporates: (1) a baseline credit assessment of 2 (on a scale of 1 to 6, where 1 represents the lowest credit risk), (2) the Aaa local currency rating of the US Government, (3) high dependence between Freddie Mac and the US Government, and (4) high support between the two.

Freddie Mac's baseline credit assessment of 2 is underpinned by the GSE's healthy financial fundamentals, strong risk management discipline and sound credit culture. While Freddie Mac's mortgage portfolio intrinsically involves substantial risks, particularly interest rate risk, these risks have been effectively managed and mitigated. The firm's prudent use of derivatives, risk analyses and risk governance procedures are material and enduring supports. Moody's believes that Freddie Mac's liquidity and capital are adequate given the company's controlled risk profile, high returns, the intrinsic liquidity of its assets, as well as the benefits of the GSE status that enhance capital markets access. Freddie Mac has a demonstrated capacity to generate sound and stable economic earnings. Much of this is due to its substantial franchise strength, and to the overall low risk characteristics of housing mortgage finance. The firm's capital levels are adequate, given its low risk appetite. Moody's believes the passage of legislation is becoming less likely in 2005. Key issues in proposed legislation include the possibility of a new regulator, receivership powers, ability to determine capital levels, and new program approval. Moody's will continue to evaluate any new legislation, but believes it is highly unlikely that such legislation will effect Freddie Mac's ratings. The firm's high dependence and support are based on its central role in serving the US housing finance system and the importance of housing finance in the US economy and as a public policy priority. Political risk remains a challenge. However, Moody's believes it is unlikely that legislation will affect the dependence and support levels.

Rating Outlook

The stable rating outlook is based on Moody's expectation that US Government support will continue for Freddie Mac and its housing mission, as well as continued strong asset/liability and credit risk management, and returns. Growth in higher risk mortgages requires monitoring, but losses should not be material. Moody's stable A- bank financial strength rating reflects the completion of the accounting restatement for 2002 and prior periods and continued progress in becoming current with financials, management's progress around governance and accounting controls, as well as reduced uncertainty surrounding investigations by regulators.

What Could Change the Rating - UP

Generation of sound, stable earnings and capital - both regulatory and economic - as well as a stabilized political environment could lead to an upgrade of the BFSR, subordinated debt or preferred stock. Conservative risk metrics - interest rate and credit - and consistent earnings would be fundamental underpinnings for any rating action.

What Could Change the Rating - DOWN

Material legislative changes that affect the company or US Government support for its housing mission could cause a downgrade. In addition, a material (over one-third) long-term decline in profitability, operating losses significant enough to result in a loss for over one year, or material governance difficulties could presage a downgrade, especially of the GSE's BFSR, subordinated debt or preferred stock. Tripping of securities covenants on junior claims, or failure to comply with any regulatory capital rules, could also create downgrade conditions.

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