

## PROPOSAL 2: RATIFICATION OF APPOINTMENT OF INDEPENDENT AUDITORS

As provided in its charter, the Audit Committee selects our independent auditors, reviews the scope of the annual audit and pre-approves all audit and non-audit services permitted under applicable law to be performed by the independent auditors. The Audit Committee has evaluated the performance of PricewaterhouseCoopers LLP and has selected them as our independent auditors for fiscal 2008. You are requested to ratify the Audit Committee's appointment of PricewaterhouseCoopers LLP. Representatives of PricewaterhouseCoopers LLP will be present at the annual meeting and will be given the opportunity to make a statement, if they desire to do so, and to respond to appropriate questions from stockholders present at the meeting. Unless stockholders specify otherwise in their proxy, proxies solicited by the Board will be voted by the proxy holders at the annual meeting to ratify the selection of PricewaterhouseCoopers LLP as our independent auditors for fiscal 2008. A majority of the votes cast at the annual meeting on this proposal is required for ratification.

### Description of Fees<sup>(1)</sup>

The following is a description of fees billed to us by PricewaterhouseCoopers LLP during 2006 and 2007. The increase in audit fees from 2006 to 2007 primarily reflects the fact that PricewaterhouseCoopers LLP began performing quarterly reviews pursuant to Statement on Auditing Standards No. 100 in 2007.

	<u>2007</u>	<u>2006</u>
Audit Fees <sup>(2)</sup> .....	\$63,963,805	\$45,075,574
Audit-Related Fees <sup>(3)</sup> .....	<u>9,419,297</u>	<u>8,898,000</u>
Total .....	\$73,383,102	\$53,973,574

(1) These fees represent amounts billed within the designated year and include reimbursable expenses of \$3,583,102 and \$3,442,574 for 2007 and 2006 respectively.

(2) Audit fees include fees billed by PricewaterhouseCoopers LLP in connection with the Statement on Auditing Standards No. 100 quarterly reviews of our interim financial information and the audit of our annual consolidated financial statements. The audit fees during 2007 include fees and expenses related to the 2006 (\$15,413,410) and 2007 (\$48,550,395) audits and preferred stock comfort letters. Fees related to preferred stock comfort letters were included in the 2007 annual audit engagement fees while, in prior years, these fees were billed as a separate engagement. In addition to the amounts shown above, approximately \$10.4 million of fees and reimbursable expenses will be billed in 2008 for the 2007 audit. The audit fees during 2006 include fees and expenses related to the 2005 (\$26,428,000) and 2006 (\$18,547,574) audits and preferred stock comfort letters (\$100,000). Audit fees of \$65,300 and \$37,400 in 2007 and 2006, respectively, related to the Freddie Mac Foundation are excluded because these fees are incurred and paid separately by the Freddie Mac Foundation.

(3) 2007 audit-related fees principally include fees and expenses related to internal control design reviews (\$7,419,297), agreed upon procedures associated with Freddie Mac-sponsored securitization transactions (\$1,982,000), and Comperio subscription services (\$18,000). 2006 audit-related fees principally include fees and expenses related to internal control design reviews (\$6,377,000), agreed upon procedures associated with Freddie Mac-sponsored securitization transactions (\$2,353,000) and agreed upon procedures with respect to Freddie Mac's option-adjusted spread fair value disclosure (\$150,000) and Comperio subscription services (\$18,000).

### Approval of Independent Auditor Services and Fees

The Sarbanes-Oxley Act and related rules adopted by the SEC require that all services provided to companies subject to the reporting requirements of the Exchange Act by their independent auditors be pre-approved by their audit committee or by authorized members of the

*Proposal 2: Ratification of Appointment of Independent Auditors*

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committee, with certain exceptions. The Audit Committee's charter requires that the Audit Committee pre-approve any audit services, and any non-audit services permitted under applicable law, to be performed by our independent auditors (or to designate one or more members of the Audit Committee to pre-approve such services and to report such pre-approval to the Audit Committee).

Audit services that are within the scope of an auditor's engagement approved by the Audit Committee prior to the performance of those services are deemed pre-approved and do not require separate pre-approval. Audit services not within the scope of an Audit Committee-approved engagement, as well as permissible non-audit services, must be separately pre-approved by the Audit Committee.

When the Audit Committee pre-approves a service, the Audit Committee typically sets a dollar limit for such service. Management endeavors to obtain pre-approval of the Audit Committee, or of the Chairman of the Audit Committee (when the Chairman of the Audit Committee has been delegated such authority), before it incurs fees in excess of the dollar limit. If the Chairman of the Audit Committee approves the increase, the Chairman will report such approval at the Audit Committee's next scheduled meeting.

The pre-approval procedure is administered by our senior financial management, which reports throughout the year to the Audit Committee. The Audit Committee pre-approved all audit and audit-related services performed in 2007. At the direction of the Audit Committee, PricewaterhouseCoopers LLP did not provide any non-audit services to us in 2007.

**We recommend that you vote *for* the ratification of the selection of PricewaterhouseCoopers LLP as our independent auditors for 2008.**

**PROPOSAL 3: APPROVAL OF AMENDED AND RESTATED  
2004 STOCK COMPENSATION PLAN**

**General**

You are being asked to approve the amended and restated Federal Home Loan Mortgage Corporation 2004 Stock Compensation Plan, or 2004 Employee Plan to increase the number of shares authorized for issuance under the 2004 Employee Plan by 15,000,000. Our Board approved the amended and restated 2004 Employee Plan on March 7, 2008, subject to stockholder approval. Stockholders initially approved the 2004 Employee Plan in 2004, and we have used the 2004 Employee Plan as our sole plan for grants of equity awards to employees since that time. The proposed amendment and restatement would also make a number of changes to the 2004 Employee Plan that are discussed below.

Currently, the shares remaining available for future awards under the 2004 Employee Plan are insufficient to meet our long-term incentive needs. The company estimates that the additional 15,000,000 shares will be sufficient to make awards under the 2004 Employee Plan for approximately the next four years.

The company believes that its future success depends heavily on its ability to attract, motivate and retain the highest caliber employees. Equity is a key component of Freddie Mac’s total compensation package and closely aligns the interests of key employees with those of the company’s stockholders. Given current compensation practice in the financial services industry, the company believes it would be unable to compete effectively for critical employees absent sufficient equity incentives without significantly increasing Freddie Mac’s cash compensation costs.

Information on the total number of shares available under our existing equity compensation plans and subject to outstanding options, warrants and rights as of December 31, 2007 is presented below under the caption “Securities Authorized for Issuance under Equity Compensation Plans.” Based on outstanding awards at March 31, 2008 under our current equity award plans for employees and non-employee directors currently in effect, but excluding our ESPP, if stockholders approve the amended and restated 2004 Employee Plan, the shares subject to outstanding awards (including restricted stock, which shares are treated as already outstanding) and shares available for future issuance under all continuing equity compensation plans, including the additional shares to be reserved under the amended and restated 2004 Employee Plan, would be as follows:

Shares subject to outstanding awards . . . . .	11,989,097
Shares available for future equity awards . . . . .	22,453,618
Total shares . . . . .	34,442,715
Percentage of outstanding shares* . . . . .	5.33%

\* Shares outstanding includes all common stock issued and outstanding at March 31, 2008, without giving effect to issuance of unissued shares reserved under the equity award plans or deliverable in the future in connection with outstanding awards.

The Board and the CHRC believe that attracting and retaining executives and other key employees of high quality has been and will continue to be essential to our growth and success. As it has in the past four years, the 2004 Employee Plan should enable us to implement a compensation program with different types of incentives for motivating leaders and key employees and encouraging them to provide long-term service. In particular, we intend to continue using awards of stock-based compensation as an important element of compensation, because such awards enable

employees to acquire or increase their proprietary interest in Freddie Mac, thereby aligning interests between employees and our stockholders. In addition, the amended and restated 2004 Employee Plan will authorize stock-based and cash-based incentive awards by which we can tie employee compensation to measures of our performance so as to provide our employees with incentives to achieve excellent performance.

The amended and restated 2004 Employee Plan will authorize a broad range of awards, including:

- options;
- stock appreciation rights, or SARs;
- restricted stock, which is an award of actual shares subject to a risk of forfeiture and restrictions on transfer;
- deferred stock, including RSUs which are, in effect, forfeitable deferred stock;
- other awards based on our common stock;
- dividend equivalents;
- stock-based performance awards, which are, in effect, deferred stock awards that may be earned by achieving specific performance objectives; and
- cash-based performance awards which may be earned by achieving specific performance objectives.

### **Changes in the Amended and Restated 2004 Employee Plan**

The amendment and restatement of the 2004 Employee Plan will make these significant changes to the current 2004 Employee Plan:

- Increase the shares reserved by 15 million shares (2.32% of the currently outstanding shares);
- Eliminate the current 50% cap on the number of shares that can be delivered under the 2004 Employee Plan in the form of restricted stock and other non-stock option/non-SAR awards;
- Authorize incentive awards in the form of cash rather than stock, subject to an annual per-person limit of \$8 million plus any unused portion of the participant's cash limit from prior years;
- Specify that the qualifications of the members of the CHRC or other committee administering the 2004 Employee Plan will be specified in the Committee's charter rather than in the 2004 Employee Plan;
- Require separate stockholder approval of:
  - Transfers of awards to third parties for value; and
  - A cash buyout of underwater options, which would be treated like other "repricing" events under the 2004 Employee Plan;
- Clarify that, because shares count against the number reserved under the 2004 Employee Plan when delivered to the participant and not if withheld for taxes or to pay an exercise

price, the CHRC can determine the number of shares expected to be delivered under outstanding awards in calculating the number of shares available for future awards;

- Increase the portion of deferred stock and other non-option/non-SAR awards that may be granted with a minimum vesting period of one year rather than three years from the current level of 5% to 15%;
- Add regulatory compliance provisions, including for purposes of:
  - Compliance with Code Section 409A, which potentially imposes early taxation, tax penalties and interest on participants if we grant an award providing for payment in a future year without meeting technical requirements of Section 409A. This includes deletion of a feature permitting participants to elect to defer receipt of shares acquired upon exercise of options, which is impractical under Section 409A; and
  - Compliance with requirements under accounting standard FAS 123R, to control the expense from stock-based awards in case of adjustments to awards resulting from equity restructuring transactions, and to permit cash settlements of share-based awards where the accounting consequences have been reviewed and considered; and
- Make explicit that an optionee's right to compensation for options cancelled in a merger is based on the intrinsic (*i.e.*, in-the-money) value of the award and not a greater fair value based on the remaining life of the option.

### **Reasons for Stockholder Approval**

The Board seeks stockholder approval of the amended and restated 2004 Employee Plan in order to satisfy certain legal requirements, including requirements of the NYSE. In addition, we seek stockholder approval so that designated stock options can qualify as incentive stock options under the Code, which gives the holder of those options more favorable tax treatment. Finally, we regard stockholder approval of the amended and restated 2004 Employee Plan and its material terms, including the business criteria that may be used in setting performance goals for awards under the 2004 Employee Plan, as desirable and consistent with corporate governance best practices. We have not in the past granted equity awards except under plans approved by our stockholders.

### **Restriction on Repricing**

Without stockholder approval, we will not amend or replace previously granted options in a transaction that constitutes a "repricing." For this purpose, "repricing" means:

- lowering the exercise price of an option or grant price of a SAR after it is granted;
- canceling an option or SAR at a time when its exercise price or grant price exceeds the fair market value of the underlying stock, in exchange for another option, SAR, award of restricted stock, other equity, or cash, unless the cancellation and exchange occurs in connection with a merger, acquisition, spin-off or other similar corporate transaction;
- any other action that is treated as a repricing under GAAP; or
- any other action that has the same effect.

An adjustment to an exercise price or other price specified in an award resulting from a stock split, equity restructuring or other extraordinary corporate transaction would not constitute a repricing.

## **Description of the Amended and Restated 2004 Employee Plan**

The following is a brief description of the material terms and features of the 2004 Employee Plan, as proposed to be amended and restated. Many terms of the current 2004 Employee Plan will not be affected by the amendment and restatement, in which case the description below refers simply to the 2004 Employee Plan without the terms “amended and restated”. This description is qualified in its entirety by reference to the full text of the proposed amended and restated 2004 Employee Plan, a copy of which is attached to this Proxy Statement as Appendix A.

*Shares Available.* The number of shares of common stock reserved and available for awards under the amended and restated 2004 Employee Plan will be 20,988,391 million shares. This includes the 15 million shares to be added by the amendment, as well as shares that remained available under the 1995 Plan and 1995 Plan shares that have become available under the 2004 Employee Plan. Shares subject to outstanding awards under the 1995 Plan have become available under the 2004 Employee Plan in cases in which such shares are not delivered to the participant and vested, and such recaptures will continue in the future. Shares available under the amended and restated 2004 Employee Plan may be delivered in connection with any type of award; a 50% cap on the portion of plan shares that could be used for full-value awards (that is, non-option/non-SAR awards) will not be continued under the amended and restated 2004 Employee Plan.

Only the number of shares actually delivered to participants upon exercise of an option or SAR or upon settlement of other awards, or, in the case of restricted stock, the number of shares that have been delivered to the participant and which have become non-forfeitable, count against the number of shares reserved under the 2004 Employee Plan. Thus, shares become available again for new awards in the following cases:

- an award expires or is forfeited;
- an award is settled in cash or is otherwise terminated without issuance of shares to the participant, in whole or in part;
- shares are withheld from an award or separately surrendered to pay the exercise price of an option or to satisfy tax withholding obligations for an award;
- fewer shares are delivered upon exercise of an SAR than the number to which the SAR related; or
- shares issued as restricted stock are forfeited.

Shares subject to outstanding 1995 Plan awards will be counted and deemed available in accordance with the share counting rules of the 2004 Employee Plan.

Shares delivered under the 2004 Employee Plan may be either newly issued or treasury shares. On April 18, 2008, the closing sale price of our common stock in consolidated trading of NYSE-listed securities was \$27.06 per share.

*Per-Person Award Limitations.* The 2004 Employee Plan includes limitations on the amount of awards that may be granted to a participant in a given year. Under the annual per-person limitations, a participant may in any year be granted share-based awards under the 2004 Employee Plan relating to no more than his or her “Annual Limit.” This Annual Limit equals two million shares plus the amount of the participant’s unused Annual Limit relating to share-based awards as of the close of the previous year, subject to adjustment for splits and other extraordinary corporate events. The amendment and restatement of the 2004 Employee Plan will add an Annual Limit for each participant applicable to the amount that may be earned under cash-based incentive awards.

This Annual Limit will be \$8 million plus the amount of the Participant's unused cash Annual Limit as of the close of the previous year. A share-based award will count against only the share-based Annual Limit and a cash incentive award will count only against the cash-based Annual Limit.

*Adjustments to Shares Reserved, Awards and Award Limits.* Adjustments to the number and kind of shares subject to the share limitations and specified in the share-based Annual Limit are authorized under the 2004 Employee Plan if a large, special or non-recurring dividend or distribution, recapitalization, stock split, stock dividend, reorganization, merger, consolidation, spin-off, combination, repurchase or share exchange, rights offering, or other similar corporate transaction or event affects the common stock. Where such an event, including any "equity restructuring" as defined under FAS 123R, affects participants such that an adjustment is necessary to prevent dilution or enlargement of the rights of participants, the CHRC is obligated to equitably adjust outstanding awards, including adjustments to the number of shares subject to an award, any exercise price or grant price, and other terms of the award to preserve the value of the award without enhancing this value. The CHRC also is authorized to provide a cash payment relating to an outstanding award if that is deemed an appropriate means to effect an adjustment. The CHRC is also authorized to adjust performance conditions and other terms of awards in response to these kinds of events or to changes in applicable laws, regulations, or accounting principles.

*Eligibility.* All of our executive officers and other employees of Freddie Mac and our subsidiaries and affiliates, including directors who are also employees, or approximately 5,361 persons as of March 31, 2008, are eligible for awards under the 2004 Employee Plan. For this purpose, an affiliate is an organization where the employees are designated by the CHRC as eligible to participate in the 2004 Employee Plan.

*Administration.* The CHRC will continue to administer the amended and restated 2004 Employee Plan, except that the Board may appoint any other committee to administer the plan and may itself act to administer the plan. The composition and governance of the committee administering the amended and restated 2004 Employee Plan will be established in the committee's charter as approved from time to time by the Board, and other corporate governance documents of Freddie Mac. The CHRC's charter provides that it must consist of at least three directors, each of whom shall be independent under NYSE rules. You may obtain a copy of the CHRC's charter from our website, [www.freddiemac.com](http://www.freddiemac.com). Subject to the terms and conditions of the amended and restated 2004 Employee Plan, the CHRC is authorized to select participants, determine the type and number of awards to be granted and the number of shares to which awards will relate or the amount of a share-based performance award or cash-based incentive award, specify times at which awards will be exercisable or settled, including performance conditions that may be required as a condition thereof, set other terms and conditions of such awards, prescribe forms of award agreements, interpret and specify rules and regulations relating to the 2004 Employee Plan, and make all other determinations which may be necessary or advisable for the administration of the 2004 Employee Plan. Nothing in the 2004 Employee Plan precludes the CHRC from authorizing payment of other compensation to executive officers and employees outside of the 2004 Employee Plan. The CHRC is permitted to delegate authority to our senior executives for the granting of awards to employees who are below the senior executive level. The 2004 Employee Plan provides that CHRC members and others acting on behalf of the CHRC shall not be personally liable, and shall be fully indemnified, in connection with any action, determination, or interpretation taken or made in good faith under the 2004 Employee Plan.

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*Proposal 3: 2004 Stock Compensation Plan*

*Minimum Vesting Requirements.* The amended and restated 2004 Employee Plan will continue the minimum vesting rules under the 2004 Employee Plan with one modification, as follows:

- Options and SARs and the proceeds of exercise will be forfeitable for at least one year after the date of grant if the participant terminates employment for reasons other than death, disability or retirement.
- Restricted stock, RSUs and other non-option/non-SAR awards for which a participant does not pay substantial value (in addition to any service requirement) will vest (that is, become non-forfeitable) as follows:
  - if the grant or vesting of the award is not performance-based, over a minimum period of three years, except that:
    - vesting over a three-year period can include periodic vesting throughout the period; and
    - to preserve flexibility, up to 15% of the shares authorized under the amended and restated 2004 Employee Plan may be delivered with a one-year minimum vesting requirement, an increase from the 5% level currently permitted under the 2004 Employee Plan.
  - if the grant or vesting of the award is performance-based, over a minimum period of one year, which may include the performance period where the award is granted at the end of a pre-set performance period.
  - the award may vest earlier in the event of the participant's death, disability, or retirement, or in the event of a change in control of Freddie Mac (as defined by the CHRC) or other special circumstances.
  - Shares and share-based awards paid for by participants with substantial consideration other than continuing services may have different vesting terms.

*Stock Options and SARs.* The CHRC is authorized to grant stock options, including both incentive stock options, or ISOs, which can result in potentially favorable tax treatment to the participant, and non-qualified stock options. SARs may also be granted, entitling the participant to receive the excess of the fair market value of a share on the date of exercise over the SAR's designated "grant price." The exercise price of an option and the grant price of an SAR are determined by the CHRC, but generally may not be less than the fair market value of the shares on the date of grant (except as described below). The maximum term of each option or SAR will be ten years. Subject to this limit and to the minimum vesting terms described above, the times at which each option or SAR will be exercisable and provisions requiring forfeiture of unexercised options at or following termination of employment or upon the occurrence of other events generally are fixed by the CHRC. Options may be exercised by payment of the exercise price in cash, shares or other property (which may include through broker-assisted cashless exercise procedures), or by withholding of option shares or the surrender of other outstanding awards having a fair market value equal to the exercise price. Methods of exercise and settlement and other terms of SARs will be determined by the CHRC. SARs may be exercisable for shares or for cash, as determined by the CHRC.

*Restricted Stock and Deferred Stock/Restricted Stock Units.* The CHRC is authorized to grant restricted stock and deferred stock (which includes restricted stock units). Prior to the end of

the restricted period, shares granted as restricted stock may not be sold, and may be forfeited in the event of termination of employment. The minimum vesting periods described above apply to restricted stock granted for continuing services, and the CHRC can establish additional restricted periods for those awards or set restricted periods for other awards of restricted stock. Aside from the risk of forfeiture and non-transferability, an award of restricted stock entitles the participant to the rights of a stockholder of Freddie Mac, including the right to vote the shares and to receive dividends or equivalents, unless otherwise determined by the CHRC.

Deferred stock gives a participant the right to receive shares at the end of a specified deferral period. Deferred stock subject to forfeiture conditions constitutes an award of RSUs. The minimum vesting periods described above apply to deferred stock/RSUs granted for continuing services, and the CHRC can establish additional vesting periods for those awards or set vesting periods for other awards of RSUs. One advantage of RSUs, as compared to restricted stock, is that the period during which the award is forfeitable need not extend as long as the deferral period, so the CHRC can require or permit a participant to continue to hold an interest in our stock on a tax-deferred basis. Prior to settlement, deferred stock awards, including RSUs, carry no voting or dividend rights or other rights associated with stock ownership, but dividend equivalents generally will be paid.

*Other Stock-Based Awards, Stock Bonus Awards, and Awards in Lieu of Other Obligations.* The 2004 Employee Plan authorizes the CHRC to grant awards denominated or payable in, valued in whole or in part by reference to, or otherwise based on or related to shares of our common stock. The CHRC will determine the terms and conditions of such awards, including the consideration to be paid to exercise awards in the nature of purchase rights, the periods during which awards will be outstanding, and any forfeiture conditions and restrictions on awards. In addition, the CHRC is authorized to grant shares as a bonus free of restrictions, or to grant shares or other awards in lieu of our obligations under other plans or compensatory arrangements, subject to such terms as the CHRC may specify. Under the minimum vesting requirements described above, bonus shares generally can be granted without a minimum vesting period only if granted in substitution for other awards or rights to payment having substantial value.

*Performance Awards.* The CHRC may grant share-based and cash-based performance awards under the amended and restated 2004 Employee Plan (also referred to as incentive awards). Generally, performance awards require satisfaction of pre-established performance goals, consisting of one or more business criteria and a targeted performance level with respect to such criteria, as a condition of awards being granted or becoming exercisable or settleable, or as a condition to accelerating the timing of such events. Performance may be measured over a period specified by the CHRC. Cash-based performance awards could include annual incentive awards or long-term incentive awards.

The 2004 Employee Plan authorizes the CHRC to grant performance awards that have the performance terms specified in advance, and which limit our discretion to make payouts except based on the level of performance achieved. The business criteria to be used by the CHRC in establishing performance goals applicable to those performance awards will be selected from among the following:

- 1) Mission measures: affordable housing goals, low-cost financing initiatives, quality-of-business measures, customer initiatives and customer satisfaction;

- 2) Operational improvement measures: risk management, enhancing operational stability, improving or otherwise advancing disclosure controls, cost reductions, productivity, and legal and regulatory compliance;
- 3) Capital management measures; and
- 4) Financial measures: interest income, revenues, income before income taxes, extraordinary items and/or cumulative effect of changes in accounting principles, revenues, net income or net income per common share (basic or diluted), return on assets (gross or net), return on investment, return on capital, or return on equity, cash flow, free cash flow, cash flow return on investment (discounted or otherwise), net cash provided by operations, or cash flow in excess of cost of capital, interest expense or non-interest expense, non-GAAP metrics including economic value created or other measurement of maximizing long-term value, operating margin or profit margin, and stock price or total stockholder return.

The CHRC may set the levels of performance required in connection with performance awards as fixed amounts, goals relative to performance in prior periods, goals compared to the performance of one or more comparable companies or an index covering multiple companies, or in any other way the CHRC may determine.

*Other Terms of Awards.* Awards may be settled in cash, shares, other awards or other property, in the discretion of the CHRC. The CHRC may require or permit participants to defer the settlement of all or part of an award, including shares issued upon exercise of an option or SAR, in accordance with such terms and conditions as the CHRC may establish, including payment or crediting of interest or dividend equivalents on any deferred amounts. The CHRC may condition awards on the payment of taxes, which may include by withholding a portion of the shares or other property to be distributed in order to satisfy tax obligations. Awards granted under the 2004 Employee Plan generally may not be pledged or otherwise encumbered and are not transferable except by will or by the laws of descent and distribution, or to a designated beneficiary upon the participant's death, except that, under the amended and restated 2004 Employee Plan, the CHRC may permit transfers during the participant's lifetime other than transfers to third parties for value. The CHRC may impose forfeiture conditions on any award, including provisions that the award, or amounts of cash, common stock or other property realized by the participant as income or gain as a result of the award, shall be forfeited or repaid to us if the participant fails to comply with conditions relating to non-solicitation of employees, customers and suppliers, non-competition, preservation and appropriate use of proprietary and confidential information of Freddie Mac and our affiliates, return of property, non-disparagement of Freddie Mac and our affiliates, cooperation in litigation, and other restrictions protecting us and our affiliates. Such forfeiture conditions may apply to events occurring following termination.

Awards under the 2004 Employee Plan generally will be granted without a requirement that the participant pay consideration in the form of cash or property for the grant (as distinguished from the exercise). The CHRC could require payment of consideration, however, or grant awards in substitution for, exchange for or as a buyout of other awards under the 2004 Employee Plan, awards under our other plans, or other rights to payment from us, or may exchange or buy out outstanding awards for cash or other property. The CHRC also may grant awards in addition to and in tandem with other awards or rights. In granting a new award, the CHRC may determine that the in-the-money value of any surrendered award may be applied to reduce the exercise price of any option, grant price of any SAR, or purchase price of any other award, and the fair value of a surrendered

award may be applied to the purchase price based on fair value of any new award. Any of these transactions that would be a “repricing” would be subject to the stockholder approval requirement described under the caption “Restriction on Repricing” above.

*Dividend Equivalents.* The CHRC may grant dividend equivalents. These are rights to receive payments equal in value to the amount of dividends paid on a specified number of shares of common stock while an award is outstanding. These amounts may be in the form of cash or rights to receive additional awards or additional shares of common stock having a value equal to the cash amount. The awards may be granted on a stand-alone basis or in conjunction with another award. Typically, we have granted rights to dividend equivalents in connection with options and RSUs, so that the participant can earn amounts equal to dividends paid on the number of shares covered by the award while the award is outstanding. Under our current practice, dividend equivalents on stock options are accrued on options that vested on or prior to December 31, 2004 and are payable in cash upon exercise or expiration of the option, and dividend equivalents on RSUs and stock options unvested on December 31, 2004 and outstanding December 31, 2005 are paid in cash at the time dividends are paid on common stock. Stock options granted after December 31, 2005 are not entitled to receive dividend equivalents.

*Amendment and Termination of the 2004 Employee Plan.* The CHRC may amend, alter, suspend, discontinue, or terminate the 2004 Employee Plan without stockholder approval, except that an amendment would require stockholder approval if it is required to be approved by stockholders under NYSE rules, our bylaws or any applicable law or regulation. The CHRC may, in its discretion, submit other amendments to stockholders for approval. Board approval is required also for any amendment that requires stockholder approval or exceeds the authority of the CHRC under its charter and other corporate governance documents. Under these provisions, stockholder approval will not be required for all possible amendments that might increase the cost of the 2004 Employee Plan. Outstanding awards may be amended, but the CHRC cannot modify or waive award terms that would be mandatory if it were then granting a new award, and modifications remain subject to the provision governing repricing. In addition, for awards that are intended to be settled in common stock according to their written terms, cash settlements under the amended and restated 2004 Employee Plan must receive prior approval by our Chief Financial Officer. A restriction on such cash settlements, requiring that they be rare and in response to unique circumstances outside of the participant’s control and constituting a hardship to the participant, would be eliminated in the amended and restated 2004 Employee Plan, as not necessary in order to ensure share-based awards meet applicable accounting standards.

No new award may be granted under the 2004 Employee Plan after the tenth anniversary of the most recent approval of the 2004 Employee Plan, including an amendment and restatement of the 2004 Employee Plan, by stockholders. Unless earlier terminated by the Board, the 2004 Employee Plan will terminate thereafter at such time that we have no further rights or obligations with respect to any outstanding award.

## **Federal Income Tax Consequences**

We believe that under current law the following federal income tax consequences generally would arise with respect to awards under the amended and restated 2004 Employee Plan. The grant of an option or an SAR will create no federal income tax consequences for the participant or for us. A participant will not have taxable income upon exercising an option that is an ISO, except that

the alternative minimum tax may apply. Upon exercising an option that is not an ISO, the participant generally must recognize ordinary income equal to the difference between the exercise price and the fair market value of the freely transferable or nonforfeitable shares acquired on the date of exercise. Upon exercising an SAR, the participant must generally recognize ordinary income equal to the cash or the fair market value of the shares received. This discussion assumes that the option or SAR would not be deemed to be a deferral arrangement subject to Section 409A.

Upon a disposition of shares acquired upon exercise of an ISO before the end of the applicable ISO holding periods, the participant must generally recognize ordinary income equal to the lesser of (i) the fair market value of the ISO shares at the date of exercise minus the exercise price or (ii) the amount realized upon the disposition of the ISO shares minus the exercise price. Otherwise, a participant's sale of shares acquired by exercise of an option generally will result in short-term or long-term capital gain or loss measured by the difference between the sale price and the participant's tax "basis" in such shares. The tax "basis" normally is the exercise price plus any amount the participant recognized as ordinary income in connection with the option's exercise. A participant's sale of shares acquired by exercise of an SAR generally will result in short-term or long-term capital gain or loss measured by the difference between the sale price and the tax "basis" in the shares, which normally is the amount that the participant recognized as ordinary income in connection with the SAR's exercise.

We normally can claim a tax deduction equal to the amount recognized as ordinary income by a participant in connection with an option or SAR, but no tax deduction relating to a participant's capital gains. Accordingly, we will not be entitled to any tax deduction with respect to an ISO if the participant holds the shares for the applicable ISO holding periods before selling the shares.

Awards other than options and SARs that result in a transfer to the participant of cash or shares or other property generally will be structured under the amended and restated 2004 Employee Plan to meet applicable requirements under Code Section 409A. If no restriction on transferability or substantial risk of forfeiture applies to amounts distributed to a participant, the participant generally must recognize ordinary income equal to the cash or the fair market value of shares actually received. Thus, for example, if we grant an award of deferred stock or RSUs, the participant should not become subject to income tax until the time at which shares or cash are actually distributed, and we will become entitled to claim a tax deduction at that time.

On the other hand, if a restriction on transferability and substantial risk of forfeiture applies to shares or other property actually distributed under an award (as in the case of restricted stock, for example), the participant generally must recognize ordinary income equal to the fair market value of the distributed amounts at the earliest time either the transferability restriction or risk of forfeiture lapses. In the usual case, we can claim a tax deduction in an amount equal to the ordinary income recognized by the participant. A participant may elect to be taxed at the time of grant of restricted stock or other property rather than upon lapse of restrictions on transferability or the risk of forfeiture, but if the participant subsequently forfeits such shares or property he or she would not be entitled to any tax deduction, including as a capital loss, for the value of the shares or property on which he or she previously paid tax.

Any award that is deemed to be a deferral arrangement (excluding certain exempted short-term deferrals) will be subject to Section 409A. Participant elections to defer compensation under such awards and the timing of distributions relating to such awards must meet requirements under

Section 409A in order for income taxation to be deferred upon vesting of the award and tax penalties to be avoided by the participant.

The foregoing provides only a general description of the application of federal income tax laws to certain types of awards under the amended and restated 2004 Employee Plan. This discussion is intended for the information of stockholders considering how to vote at the annual meeting and not as tax guidance to participants with respect to the 2004 Employee Plan, as the consequences may vary with the types of awards made, the tax status of the participant, variations on transactions as permitted under the amended and restated 2004 Employee Plan, and other circumstances. Different tax rules may apply, including in the case of variations in transactions that are permitted under the amended and restated 2004 Employee Plan (such as payment of the exercise price of an option by surrender of previously acquired shares). This summary does not address the effects of other federal taxes, including possible “golden parachute” excise taxes, FICA and taxes imposed under state, local, or foreign tax laws. Because of the complexities of the tax laws, a participant should consult a tax advisor as to his or her individual circumstances.

### **New Plan Benefits Under the Amended and Restated 2004 Employee Plan**

Because future awards under the amended and restated 2004 Employee Plan will be granted at the discretion of the CHRC, the type, number, recipients, and other terms of such awards cannot be determined at this time. Information regarding our recent practices with respect to stock-based compensation under the current 2004 Employee Plan is presented elsewhere in this Proxy Statement and in our financial statements for the fiscal year ended December 31, 2007, included in our Annual Report. If stockholders decline to approve the amended and restated 2004 Employee Plan, the amendment and restatement will not become effective, but the current 2004 Employee Plan will remain in effect in accordance with its terms.

Currently, we grant equity awards to employees only under the 2004 Employee Plan, although some awards granted under the 1995 Plan before the 2004 Employee Plan became effective remain outstanding. The adoption of the amended and restated 2004 Employee Plan would not restrict us from adopting other plans providing for grants of equity-based compensation or cash-based incentive awards in the future.

### **Vote Required for Approval**

Approval of the amended and restated 2004 Employee Plan will require the affirmative vote of a majority of the votes cast on the proposal at the annual meeting, provided that the total vote cast on the proposal (both for and against) represents over 50% in interest of all securities entitled to vote on the proposal.

*The Board considers the amended and restated 2004 Employee Plan to be in the best interests of Freddie Mac and its stockholders and therefore recommends that the stockholders vote to approve the amended and restated 2004 Employee Plan at the annual meeting.*

## SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

The following table provides information about our common stock that may be issued upon the exercise of options, warrants and rights under our existing equity compensation plans at December 31, 2007. Our stockholders have approved the ESPP, the 2004 Employee Plan, the 1995 Stock Compensation Plan, or 1995 Plan, and the Directors' Plan.

<u>Plan Category</u>	<u>(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights</u>	<u>(b) Weighted average exercise price of outstanding options, warrants and rights</u>	<u>(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))</u>
Equity compensation plans approved by stockholders . . .	8,075,314 <sup>(1)</sup>	\$37.62 <sup>(2)</sup>	17,935,055 <sup>(3)</sup>
Equity compensation plans not approved by stockholders . . .	None	N/A	None

(1) Includes 2,897,893 RSUs issued under the Directors' Plan, the 1995 Plan and the 2004 Employee Plan and options to purchase 82,566 shares under the ESPP.

(2) For the purpose of calculating this amount, the RSUs are assigned a value of zero.

(3) Includes 10,323,179 shares, 6,135,671 shares and 1,476,205 shares available for issuance under the 2004 Employee Plan, the ESPP and the Directors' Plan, respectively. No shares are available for issuance under the 1995 Plan.

## OTHER PROPOSED ACTIONS

As of the date of this Proxy Statement, there are no matters that the Board intends to present, or has reason to believe others will present, for a vote at the annual meeting other than those described in this Proxy Statement. If any other matters come before the annual meeting, the persons designated as proxies will vote on those matters in accordance with their best judgment.

## AVAILABILITY OF ANNUAL REPORT

Our Information Statement and Annual Report, which contains audited consolidated financial statements for 2007 and other information, accompanies this Proxy Statement. Additional copies of the Information Statement and Annual Report and any Information Statement Supplements may be obtained without charge by visiting our Internet website ([www.freddiemac.com/investors](http://www.freddiemac.com/investors)) or by writing or calling us at:

Freddie Mac  
Investor Relations Department  
Mailstop 486  
8200 Jones Branch Drive  
McLean, VA 22102-3110  
Telephone: (703) 903-3883 or 1-800-FREDDIE (800-373-3343)  
[shareholder@freddiemac.com](mailto:shareholder@freddiemac.com)

## SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING

Section 16(a) of the Exchange Act requires directors and certain officers of reporting companies, and persons who own more than 10% of a registered class of such company's equity securities, to file reports of ownership and changes in ownership with the SEC and the exchange on which such company's securities trade, and to furnish the company with copies of the reports. Until we complete voluntary registration with the SEC, our directors and executive officers are not

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*Other Matters*

subject to these requirements. However, our directors and executive officers provide the equivalent of Section 16(a) reports to us, and we make them available on our website at [www.freddiemac.com](http://www.freddiemac.com) within the same time frames required for Section 16(a) reports. Based solely on a review of such reports, we believe that during 2007, our directors and executive officers complied with such reporting obligations.

### **STOCKHOLDER PROPOSALS AND NOMINATIONS FOR NEXT ANNUAL MEETING OF STOCKHOLDERS**

To be considered for inclusion in the next proxy statement, stockholder proposals must be submitted in writing to the Corporate Secretary, Freddie Mac, 8200 Jones Branch Drive, McLean, Virginia 22102 no later than December 30, 2008. The written notice must be accompanied by specific information regarding the proposal and the interest of the stockholder. If the stockholder does not comply with the requirements as set forth in applicable SEC rules and regulations, the chair of the next annual meeting may declare the proposal not properly brought before the meeting.

In order for business not included in the proxy statement for the 2009 annual meeting to be brought before the meeting by a stockholder, the stockholder must, pursuant to our bylaws, give timely written notice to the Corporate Secretary, Freddie Mac, 8200 Jones Branch Drive, McLean, Virginia 22102. To be timely, the Corporate Secretary must receive written notice of the proposal no fewer than 75 days prior to the 2009 annual meeting. If fewer than 90 days' notice or prior public disclosure of the 2009 annual meeting is given or made to the stockholders, to be timely, notice by the stockholder must be received no later than the close of business on the 15th day following the day on which such notice of the date of the annual meeting was mailed or such public disclosure was made, whichever first occurs. The written notice must include or be accompanied by a brief description of the proposal, the reasons for bringing the proposal before the annual meeting, the stockholder's name and address, any material interest of the stockholder in the proposal and documentation to verify the class and number of shares beneficially owned by the stockholder. If a stockholder does not comply with our bylaws, the chair of the annual meeting may declare the proposal defective and it will be disregarded.

Stockholder nominations of candidates for election as directors must be submitted in writing to the Corporate Secretary, Freddie Mac, 8200 Jones Branch Drive, McLean, Virginia 22102 by the same deadlines as for stockholder proposals to be introduced from the floor of the 2009 annual meeting. The written notice must include (i) the name, age, business address and residential address of the nominee, (ii) the principal occupation or employment of the nominee, (iii) a description of all arrangements or understandings between the stockholder and the nominee and any other person relating to the nomination, and (iv) all other information about the nominee that would be required to be included in a proxy statement soliciting proxies for the election of directors under the rules promulgated under the Exchange Act, including a written consent from the nominee to being named in the proxy statement and to serve if elected. The stockholder also must provide his, her or its name and record address, the number of shares beneficially owned and a representation that the stockholder intends to appear in person or by proxy at the meeting to make the nomination. If the stockholder does not comply with the requirements of our bylaws, the chair of the annual meeting may declare the nomination defective and it will be disregarded.

## SOLICITATION BY BOARD; EXPENSES OF SOLICITATION

Our Board has sent you this Proxy Statement. We will pay all expenses in connection with the solicitation of the enclosed proxy. In addition to solicitation by mail, our officers and employees, who will receive no extra compensation for their services, may solicit proxies by telephone, in writing or in person. We also have retained Morrow & Co. Inc., a proxy soliciting firm, to assist in the solicitation of proxies for an estimated fee of \$15,000, plus reimbursement of reasonable out-of-pocket expenses. We also will reimburse brokers and nominees who hold shares in their names for their reasonable out-of-pocket expenses to furnish proxy materials to the beneficial owners of such shares.

By Order of the Board of Directors,



Robert E. Bostrom  
*Executive Vice President, General Counsel and Corporate Secretary*

April 29, 2008

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*Other Matters*

**FEDERAL HOME LOAN MORTGAGE CORPORATION  
2004 STOCK COMPENSATION PLAN**

**As Amended and Restated as of June 6, 2008**

## TABLE OF CONTENTS

	<u>Page</u>
ARTICLE I — Establishment of the Plan .....	A-4
1.1 Purposes .....	A-4
1.2 Effective Date .....	A-4
1.3 Plan Name .....	A-4
ARTICLE II — Definitions .....	A-4
2.1 Affiliate .....	A-4
2.2 Annual Limit .....	A-4
2.3 Award .....	A-4
2.4 Award Document .....	A-4
2.5 Beneficiary .....	A-4
2.6 Board .....	A-4
2.7 Code .....	A-5
2.8 Committee .....	A-5
2.9 Common Stock .....	A-5
2.10 Corporation .....	A-5
2.11 Deferred Stock .....	A-5
2.12 Disability .....	A-5
2.13 Dividend Equivalent .....	A-5
2.14 Employee .....	A-5
2.15 Fair Market Value .....	A-5
2.16 Incentive Awards .....	A-5
2.17 Incentive Stock Option or ISO .....	A-5
2.18 1995 Plan .....	A-5
2.19 Nonqualified Stock Option .....	A-5
2.20 Option .....	A-6
2.21 Other Stock-Based Award .....	A-6
2.22 Participant .....	A-6
2.23 Performance Award .....	A-6
2.24 Plan .....	A-6
2.25 Restricted Stock .....	A-6
2.26 Restricted Stock Unit or RSU .....	A-6
2.27 Retirement .....	A-6
2.28 Senior Executive .....	A-6
2.29 Stock Appreciation Right or SAR .....	A-6
2.30 Stock Bonus .....	A-6
2.31 Termination .....	A-6
ARTICLE III — Administration .....	A-7
3.1 Authority of the Committee Generally .....	A-7
3.2 Scope of Committee Authority .....	A-7
3.3 Delegation of Committee Authority .....	A-8
3.4 Limitation on Repricing .....	A-8
3.5 Good Faith Reliance .....	A-8
3.6 Indemnification .....	A-8

	<u>Page</u>
ARTICLE IV — Common Stock Available Under the Plan; Adjustments .....	A-9
4.1 Common Stock Available for Delivery .....	A-9
4.2 Share Counting .....	A-9
4.3 Source of Common Stock .....	A-10
4.4 Adjustments .....	A-10
ARTICLE V — Eligibility .....	A-11
5.1 Persons Eligible .....	A-11
5.2 Annual Per-Person Award Limitations .....	A-11
5.3 No Rights to Awards .....	A-11
ARTICLE VI — Terms of Awards .....	A-11
6.1 General .....	A-11
6.2 Minimum Vesting Requirements .....	A-11
6.3 Stand-Alone, Additional, Tandem, and Substitute Awards .....	A-12
6.4 Maximum Term Awards .....	A-12
6.5 Form of Payment Under Awards .....	A-12
6.6 Limitations on Transferability .....	A-13
6.7 No Stockholder Rights .....	A-13
6.8 Insider Trading Policies Apply; Additional Forfeiture Conditions .....	A-13
ARTICLE VII — Forms of Awards .....	A-14
7.1 Options .....	A-14
7.2 Stock Appreciation Rights .....	A-14
7.3 Restricted Stock .....	A-14
7.4 Deferred Stock .....	A-15
7.5 Stock Bonus; Awards in Lieu of Other Obligations .....	A-16
7.6 Dividend Equivalents .....	A-16
7.7 Other Stock-Based Awards .....	A-16
7.8 Incentive Awards .....	A-16
ARTICLE VIII — Performance Awards .....	A-16
8.1 Performance Awards Generally .....	A-16
8.2 Performance Awards Subject to Pre-Established Terms .....	A-17
8.3 Settlement of Performance Awards; Other Terms .....	A-17
8.4 Written Determinations .....	A-18
ARTICLE IX — General Provisions .....	A-18
9.1 Compliance With Laws and Obligations .....	A-18
9.2 Limitation of Participant Rights .....	A-18
9.3 Tax Provisions .....	A-18
9.4 Changes to the Plan and Awards .....	A-19
9.5 Unfunded Status of Awards other than Restricted Stock .....	A-20
9.6 Nonexclusivity of the Plan .....	A-20
9.7 Fractional Shares .....	A-20
9.8 Awards Not Compensation Under Plans .....	A-21
9.9 Repayments to Participants in Connection with Forfeitures .....	A-21
9.10 Governing Law .....	A-21
9.11 Termination of Authority to Grant Awards Under the 1995 Plan .....	A-21
9.12 Stockholder Approval, Termination of Authority to Grant Awards and Termination of the Plan .....	A-21

**FEDERAL HOME LOAN MORTGAGE CORPORATION  
2004 STOCK COMPENSATION PLAN  
As Amended and Restated as of June 6, 2008**

**ARTICLE I  
Establishment of the Plan**

1.1 *Purposes.* The purposes of this 2004 Stock Compensation Plan, as amended and restated, of the Federal Home Loan Mortgage Corporation are to promote the success of the Corporation and its stockholders by providing an additional means to attract, retain, motivate, and reward officers and employees of the Corporation and its Affiliates, to link compensation of such persons to measures of the Corporation's performance in order to provide incentives for high levels of performance, to enable such persons to acquire or increase a proprietary interest in the Corporation in order to promote a closer identity of interests between such persons and the Corporation's stockholders.

1.2 *Effective Date.* This Plan became effective upon the approval of the Corporation's stockholders on November 4, 2004.

1.3 *Plan Name.* The name of the Plan is the Federal Home Loan Mortgage Corporation 2004 Stock Compensation Plan.

**ARTICLE II  
Definitions**

2.1 *Affiliate.* An organization some or all of the employees of which are designated by the Committee as eligible to participate in this Plan.

2.2 *Annual Limit.* The number of shares used to determine a Participant's per-person Award limitation for share-denominated Awards and the cash amount used to determine a Participant's per-person Award limitation for other Awards under Section 5.2.

2.3 *Award.* Any Option, Stock Appreciation Right, Restricted Stock, Deferred Stock, Stock Bonus, Dividend Equivalent, Performance Award, Other Stock-Based Award or Incentive Award, or any combination thereof, granted under the Plan.

2.4 *Award Document.* Any written or electronic agreement, contract, notice, or other instrument or document evidencing an Award. The use of an "electronic record" and an "electronic signature" in connection with any Award Document shall be governed by the federal Electronic Signatures in Global and National Commerce Act of 2000 (E-SIGN) or the Uniform Electronic Transactions Act (UETA) as enacted by the Commonwealth of Virginia, as applicable. The terms "electronic records" and "electronic signature" shall have the meanings ascribed to such terms in E-SIGN or the Virginia UETA, as applicable.

2.5 *Beneficiary.* The person(s) or trust(s) which have been designated by a Participant in his or her most recent written beneficiary designation filed with the Committee to receive the benefits in connection with an Award upon such Participant's death, or to whom or to which an Award or rights relating thereto are transferred if and to the extent permitted under Section 6.6. If, upon a Participant's death, there is no designated Beneficiary or surviving designated Beneficiary, then the term Beneficiary means the person(s) or trust(s) entitled by will or the laws of descent and distribution to receive such benefits.

2.6 *Board.* The Board of Directors of the Corporation.

2.7 *Code.* The Internal Revenue Code of 1986, as amended from time to time.

2.8 *Committee.* The Compensation and Human Resources Committee of the Board, or such other Board committee as may be designated by the Board to administer the Plan. The composition and governance of the Committee shall be established in the Committee's Charter as approved from time to time by the Board, and other corporate governance documents of the company. The full Board may perform any function of the Committee hereunder in which case the term "Committee" shall refer to the Board.

2.9 *Common Stock.* The Common Stock, \$0.21 par value, of the Corporation and such other common stock as may be substituted or resubstituted for Common Stock pursuant to an adjustment under Section 4.4.

2.10 *Corporation.* The Federal Home Loan Mortgage Corporation.

2.11 *Deferred Stock.* An Award under Section 7.4 representing a contractual right to receive delivery of a specified number of shares of Common Stock, or shares of Common Stock having a specified Fair Market Value at a specified date, at the expiration of a period or periods of deferral, and subject to terms and conditions as the Committee may specify. These terms and conditions can include a risk of forfeiture, which need not extend for the entire period of deferral; in such case, for purposes of the Plan the Award will be referred to as a "Restricted Stock Unit."

2.12 *Disability.* A condition resulting in a Participant's Termination and which is a disability under the terms of the Corporation's Long-Term Disability Plan as in effect at the time of the Participant's termination of employment; *provided, however,* that the Committee may specify a different definition of "Disability" in the Award Document.

2.13 *Dividend Equivalent.* An Award under Section 7.6 giving the Participant a right (which may be conditional) to receive cash, Common Stock, other Awards, or other property equal in value to dividends paid with respect to a specified number of shares of Common Stock, and subject to such other conditions as the Committee may specify.

2.14 *Employee.* Any officer or employee of the Corporation or an Affiliate who is not a Senior Executive.

2.15 *Fair Market Value.* The average of the high and the low sale prices of a share of Common Stock reported for composite transactions in the New York Stock Exchange listed securities in print or electronically by The Wall Street Journal or by another recognized provider designated by the Committee for such date or, if no such prices are reported for such date, on the most recent trading day prior to such date for which such prices were reported; provided, however, that the Committee may, in good faith, establish alternative methods or procedures for determining Fair Market Value.

2.16 *Incentive Award.* An Award under Section 7.8 denominated and/or payable in cash. An Incentive Award with a performance period of up to one year may be designated an "Annual Incentive Award," and an incentive award with a performance period longer than one year may be designated a "Long-Term Incentive Award."

2.17 *Incentive Stock Option or ISOs.* Any Option that is designated as an incentive stock option and qualifies as such within the meaning of Section 422 of the Code.

2.18 *1995 Plan.* The Corporation's 1995 Stock Compensation Plan that became effective May 2, 1995.

2.19 *Nonqualified Stock Option.* Any Option which is not an Incentive Stock Option.

2.20 *Option.* An Award under Section 7.1 representing a conditional right to purchase, upon the exercise of the right by the Participant or his or her Beneficiary, a specified number of shares of Common Stock at a fixed price during a specified period or periods, and subject to such other conditions as the Committee may specify.

2.21 *Other Stock-Based Award.* An Award under Section 7.7 denominated or payable in, valued in whole or in part by reference to, or otherwise based on, or related to, Common Stock or factors that may influence the value of Common Stock, as determined by the Committee, and subject to such other conditions as may be specified by the Committee.

2.22 *Participant.* A person who, as a Senior Executive or Employee of the Corporation or any Affiliate, has been granted an Award under the Plan.

2.23 *Performance Award.* An Award that is subject to any performance condition or conditions imposed by the Committee under Article VIII.

2.24 *Plan.* This 2004 Stock Compensation Plan.

2.25 *Restricted Stock.* An Award under Section 7.3 pursuant to which a specified number of shares of Common Stock are granted to the Participant, subject to a risk of forfeiture and restrictions on transferability until the expiration of a specified restricted period or periods, and subject to such other conditions as the Committee may specify.

2.26 *Restricted Stock Unit or RSU.* An Award of Deferred Stock that is subject to a risk of forfeiture until the expiration of a specified restricted period or periods, with settlement on the date the risk of forfeiture lapses or at a later specified date.

2.27 *Retirement.* A Termination that is a retirement in accordance with the eligibility provisions and retirement benefit provisions of Articles V and VI, respectively, of the Federal Home Loan Mortgage Corporation Employees' Pension Plan as in effect at the time of the Participant's termination of employment; *provided, however*, the Committee may specify a different definition of Retirement in the Award Document.

2.28 *Senior Executive.* An employee of the Corporation or an Affiliate who is a Senior Vice President or who is senior to such an officer.

2.29 *Stock Appreciation Right or SAR.* An Award under Section 7.2 representing a right to receive cash, Common Stock, other Awards, or other property equal in value to the excess of (a) the Fair Market Value of one share of Common Stock on the date of exercise, over (b) the grant price of the SAR as determined by the Committee as of the date of grant of the SAR. SARs shall be subject to such other conditions as the Committee may specify.

2.30 *Stock Bonus.* An Award of Common Stock granted as a bonus under Section 7.5, subject to such conditions as the Committee may specify.

2.31 *Termination.* A termination of employment of the Participant immediately after which the Participant is not an employee of either the Corporation or any Affiliate. Conversion from full-time to part-time employment shall not be deemed to be a Termination. The foregoing notwithstanding, the Committee may specify a different definition of "Termination" in the Award Document, including for purposes of compliance with Code Section 409A.

### **ARTICLE III Administration**

3.1 *Authority of the Committee Generally.* The Plan shall be administered by the Committee. The Committee shall have full and final authority to take the following actions, in each case subject to and consistent with the provisions of the Plan:

- (a) to select Senior Executives and Employees to whom Awards may be granted;
- (b) to determine the type or types of Awards to be granted to each person selected to become a Participant, and the time or times at which Awards may be granted;
- (c) to determine the number of Awards to be granted, the number of shares of Common Stock subject to an Award, the terms and conditions of any Award granted under the Plan including, but not limited to, any exercise price, grant price, or purchase price, automatic exercise of Options, any restriction or condition, any schedule or performance conditions for the lapse of restrictions or conditions relating to transferability, forfeiture, exercisability, or settlement of an Award (subject to Section 6.2), and waivers, accelerations, or modifications of any such schedule or performance conditions (subject to Section 9.4(b)), based in each case on such considerations as the Committee shall determine, and all other matters to be determined in connection with an Award;
- (d) to determine whether, to what extent, and under what circumstances an Award may be settled or an Award may be canceled, forfeited, or surrendered, and the method of payment of the exercise price or purchase price of an Award, including but not limited to cash, Common Stock, other Awards, or other property;
- (e) to determine whether, to what extent, and under what circumstances cash, Common Stock, other Awards, or other property payable with respect to an Award will be deferred either automatically, at the election of the Committee, or at the election of the Participant;
- (f) to prescribe the form of each Award Document, which need not be identical for each Participant;
- (g) to adopt, amend, suspend, waive, and rescind such rules and regulations as the Committee may deem necessary or advisable to administer the Plan;
- (h) to correct any defect or supply any omission or reconcile any inconsistency in the Plan;
- (i) to construe and interpret the Plan and any Award, rules and regulations, Award Document, or other instrument hereunder, and to determine the rights and benefits pertaining to any Participant or Beneficiary;
- (j) to retain experts to advise and assist the Committee in performing its functions hereunder and otherwise in the administration of the Plan; and
- (k) to make all other decisions and determinations as may be required under the terms of the Plan or as the Committee may deem necessary or advisable for the administration of the Plan.

3.2 *Scope of Committee Authority.* Unless authority is specifically reserved to the Board under the terms of the Plan, the Corporation's Charter or Bylaws, or applicable law, the Committee may exercise its authority under the Plan in its sole discretion. Any action of the Committee with respect to the Plan shall be final, conclusive, and binding on all persons, including the Corporation,

Participants, any Beneficiary or other person claiming any rights under the Plan from or through any Participant, and stockholders. The express grant of any specific power to the Committee, and the taking of any action by the Committee, shall not be construed as limiting any power or authority of the Committee. The foregoing notwithstanding, a grant made by the Committee or other action taken by the Committee may be made contingent upon approval of the Board or a majority of the independent directors serving on the Board as a condition of the effectiveness of such grant or action.

3.3 *Delegation of Committee Authority.* The Committee may delegate any or all of its authority under this Article III relating to the selection of Employees for participation, the grant of Awards to Employees, and other actions under the Plan relating to Employees, to the extent permitted by applicable law. Such delegation shall be made only to the Chief Executive Officer, another Senior Executive or a committee of two or more Senior Executives (which may include the Chief Executive Officer). In the case of any such delegation, references in the Plan to the Committee shall be deemed to include the Chief Executive Officer, Senior Executive or committee to which authority has been delegated with respect to Employees; provided, however, that the Committee may impose any term or limitation upon the exercise of such delegated authority hereunder not inconsistent with the Plan. The Committee may not make such delegation with respect to any Senior Executive, except as to ministerial functions. In this regard, the Committee may delegate to officers or other employees of the Corporation, subject to such terms as the Committee shall determine, the duty to perform ministerial functions under the Plan.

3.4 *Limitation on Repricing.* Without the prior approval of the Corporation's stockholders, the Committee will not amend or replace previously granted Options or SARs in a transaction that constitutes a "repricing." "Repricing" means: (a) lowering the exercise price of an Option or grant price of a SAR after it is granted, (b) canceling an Option or SAR at a time when its exercise price or grant price exceeds the fair market value of the underlying stock, in exchange for another Option, SAR, Restricted Stock, other equity, or cash unless the cancellation and exchange occurs in connection with a merger, acquisition, spin-off or other similar corporate transaction, (c) any other action that is treated as a repricing under generally accepted accounting principles, or (d) any other action that has the same effect as those itemized in (a) — (c); provided, however, that any adjustment authorized by Section 4.4 shall under no circumstances be considered a "repricing."

3.5 *Good Faith Reliance.* Each member of the Committee shall be entitled to, in good faith, rely or act upon any report or other information furnished to him or her by any officer or other employee of the Corporation, the Corporation's independent public accountants, or any compensation consultant, legal counsel, or other professional retained by the Corporation to assist in the administration of the Plan.

3.6 *Indemnification.* In the event and to the extent the members of the Committee, and any Employee or Senior Executive acting on behalf of the Committee, are not insured by any insurance company pursuant to provisions of any applicable insurance policy, the Corporation shall indemnify and hold harmless each such person against all liability (including the obligation to pay a judgment, settlement, penalty or fine, including any excise tax assessed with respect to an employee benefit plan) and expense (including attorneys' fees) reasonably incurred by him, her or it in connection with any and all claims, demands, suits or proceedings in connection with the Plan that may be brought by the Corporation's Senior Executives, Employees, Participants or their Beneficiaries or legal representatives, or by any other person, corporation, entity, government or agency thereof, except such liabilities and expenses as are incurred because of the Committee member's, Senior Executive's or Employee's willful misconduct or knowing violation of the criminal law; provided, however, that the Corporation may not indemnify any person in connection with any proceeding

charging improper personal benefit to the person, whether or not involving action in his or her official capacity, to the extent that such person is adjudged liable on the basis that the personal benefit was improperly received by such person. This right of indemnification shall be in addition to any other rights to which any member of the Committee may be entitled to as a matter of law.

#### **ARTICLE IV**

##### **Common Stock Available Under the Plan; Adjustments**

4.1 *Common Stock Available for Delivery.* Subject to adjustment as hereinafter provided, the number of shares of Common Stock authorized for delivery in connection with Awards under the Plan shall be (i) 25,000,000 plus (ii) that number of shares of Common Stock that, immediately prior to the effectiveness of this Plan, remain authorized and available for awards under the 1995 Plan (without regard to the termination of the 1995 Plan) or thereafter become available as provided in Section 4.2 below.

#### 4.2 *Share Counting.*

(a) *Generally.* No Award may be granted if the number of shares the Committee determines to be deliverable under such Award, when added to the number of shares determined to be deliverable under then-outstanding Awards, exceeds the Committee's determination of the number of shares then remaining available for delivery or other applicable limitation under this Article IV. Thus, the Committee may determine that Awards may be outstanding that relate to more shares than the aggregate remaining available under the Plan so long as Awards will not in fact result in delivery and vesting of shares in excess of the number then available under the Plan. The Committee's determinations under this Section 4.2 may be based on its good faith estimates of the shares deliverable and remaining available for delivery under this Article IV.

(b) *Shares Available for Grants.* Only the number of shares actually delivered to the Participant upon exercise of an Option or SAR or upon settlement of other Awards, or, in the case of Restricted Stock, the number of shares that have been delivered to the Participant and which have become non-forfeitable, will be counted against the number of shares reserved under the Plan. Thus, for example, if an Award expires or is forfeited, an Award is settled in cash, shares are withheld from an Award or separately surrendered to pay the exercise price of an Option or to satisfy tax withholding obligations relating to an Award, fewer shares are delivered upon exercise of a SAR than the number to which the SAR related, or shares that had been issued as Restricted Stock are forfeited, those shares will again be available for Awards under the Plan and will not count against share limitations under Section 4.1. Shares subject to outstanding awards under the 1995 Plan will be counted and deemed available in accordance with the share counting provisions set forth in this Section 4.2. The Committee may adopt procedures for the counting of shares relating to any Award to ensure appropriate counting and avoid double counting (as in the case of tandem or substitute awards), and, for administrative convenience, the Corporation may implement share counting under this Section 4.2(b) in a manner that diverges from the share counting rules set forth herein so long as any such divergence results only in a greater number of shares being counted against the share limitations under Section 4.1. Shares will be available under clause (ii) of Section 4.1 and this Section 4.2 for the grant of ISOs only to the extent consistent with applicable regulations relating to ISOs under the Code.

4.3 *Source of Common Stock.* Any shares of Common Stock delivered pursuant to an Award may consist, in whole or in part, of authorized but previously unissued shares, treasury shares, or shares acquired in market transactions on behalf of the Participant.

4.4 *Adjustments.*

(a) *Adjustments In Response to Corporate Events.* In the event that the Committee shall determine that any large, special and non-recurring dividend or other distribution (whether in the form of cash or other property), recapitalization, forward or reverse split, dividend of Common Stock, reorganization, merger, consolidation, spin-off, combination, repurchase or share exchange, rights offering, or other similar corporate transaction or event affects the Common Stock, then the Committee shall, in such manner as it may deem equitable, adjust any or all of (i) the number and kind of shares of Common Stock then authorized for delivery for Awards under Section 4.1 and under each Participant's Annual Limit under Section 5.2, and (ii), if an adjustment is necessary in order to prevent dilution or enlargement of the rights of Participants under the Plan, as determined by the Committee, (A) the number and kind of shares of outstanding Restricted Stock or other outstanding Award in connection with which shares have been issued or delivered, (B) the number and kind of shares that may be issued or delivered in respect of other outstanding Awards, (C) the exercise price, grant price, or purchase price relating to any Award (or, if deemed appropriate, the Committee may make provision for a cash payment with respect to any outstanding Award) and (D) any other term relating to an Award. In furtherance of this authorization, with respect to outstanding Awards, upon the occurrence of an event constituting an "equity restructuring" as defined under Statement of Financial Accounting Standards No. 123R with respect to Shares, each Participant shall have a legal right to the equitable adjustment of the Participant's outstanding Awards, with the manner of such adjustment to be determined by the Committee as provided in this Section 4.4. Unless otherwise determined by the Committee, in the event of a forward split of Common Stock or a dividend in the form of Common Stock, each adjustment specified in 4.4(a)(i) and (ii)(A), (B) and (C) shall be effected automatically by multiplying the relevant pre-transaction number of shares by the ratio of the number of shares deliverable in respect of each outstanding share, and multiplying the exercise price of each outstanding Option by the inverse of that ratio. If, in a transaction triggering an adjustment hereunder, public shareholders of the Corporation receive cash for their entire equity interest in the Corporation, an adjustment providing for cancellation of a share-denominated Award in exchange for a cash payment based solely on the then intrinsic value of the Award shall be deemed to meet the requirements of this Article IV.

(b) *Other Adjustments to Award Terms.* The Committee is further authorized to make adjustments in the terms and conditions of, and the criteria included in, Awards in recognition of unusual or nonrecurring events (including, without limitation, events described in the preceding Section) affecting the Corporation or any Affiliate or the financial statements of the Corporation or any Affiliate, or in response to changes in applicable laws, regulations, or accounting principles.

(c) *Limitation on Adjustments Affecting ISOs.* The foregoing notwithstanding, no adjustments shall be authorized under this Section 4.4 with respect to Incentive Stock Options or Awards in tandem therewith to the extent that such authority would cause an Incentive Stock Option to fail to comply with Section 422(b) of the Code.

## **ARTICLE V**

### **Eligibility**

5.1 *Persons Eligible.* Senior Executives and Employees, including directors of the Corporation who are also employees, are eligible to be granted Awards under the Plan.

5.2 *Annual Per-Person Award Limitations.* In each calendar year during any part of which the Plan is in effect, an eligible person may be granted Awards relating to shares up to but not exceeding his or her Annual Limit. A Participant's Annual Limit shall equal two million shares plus the amount, if any, of the Participant's unused Annual Limit relating to such share-denominated Awards as of the close of the previous year, subject to adjustment as provided in Section 4.4. In the case of a cash-denominated Award (for which the limitation on Awards relating to shares would not be calculable at the time of grant), a Participant may not be granted Awards authorizing the earning during any calendar year of an amount that exceeds the Participant's Annual Limit, which for this purpose shall equal \$8 million plus the amount of the Participant's unused cash Annual Limit as of the close of the previous year (this limitation is separate and not affected by the number of Awards granted during such calendar year subject to the limitation on Awards relating to shares). For this purpose, (i) "earning" means satisfying performance conditions so that an amount becomes payable under an Award, without regard to whether the amount is to be paid currently or on a deferred basis or continues to be subject to any service requirement or other non-performance condition, and (ii) a Participant's Annual Limit is used to the extent a number of shares or other amount may be potentially earned or paid under an Award, regardless of whether such shares or amount are in fact earned or paid.

5.3 *No Rights to Awards.* No Senior Executive or Employee shall have any claim to be granted any Award under the Plan, absent a valid written commitment or electronic record of commitment of the Committee or an authorized delegate to grant such Award, and there is no obligation for uniformity of treatment of Participants. Any such commitment shall contain the written or "electronic signatures" (as defined in Section 2.4) of an authorized representative of the Corporation.

## **ARTICLE VI**

### **Terms of Awards**

6.1 *General.* Awards may be granted generally on the terms and conditions set forth in Articles VI and VII. In addition, the Committee may impose on any Award or the exercise thereof, at the date of grant or thereafter, subject to Section 9.4 and Article III, such additional terms and conditions, not inconsistent with the provisions of the Plan, as the Committee shall determine and specify in an Award Document whether in writing or in electronic form.

6.2 *Minimum Vesting Requirements.*

(a) *Options and SARs.* Options, SARs and any other Award carrying a right to exercise shall be forfeitable for at least one year after the date of grant, except in the event of a Participant's death, Disability or Retirement or in the event of a change in control of the Corporation (as such change may be defined by the Committee) or other special circumstances. Except as provided herein, Options, SARs and any other Award carrying a right to exercise shall not be exercisable prior to the time the risk of forfeiture on the Award shall lapse, except in cases in which all net proceeds of exercise remain subject to substantially the same risk of forfeiture.

(b) *Restricted Stock, RSUs and Other Non-Option/Non-SAR Awards.* If the vesting of Restricted Stock, RSUs, and other non-Option/non-SAR Awards for which the Participant does not make a payment or surrender rights to payment having substantial value is not based on the achievement of one or more performance conditions, such Awards will vest (*i.e.*, become non-forfeitable) over a minimum period of three years after the date of the grant, except in the event of a Participant's death, Disability, or Retirement, or in the event of a change in control of the Corporation (as such change may be defined by the Committee) or other special circumstances. If the vesting of such Awards is based on the achievement of one or more performance conditions, such Awards will vest (*i.e.*, become non-forfeitable upon the satisfaction of a performance condition) over a minimum period of one year after the date of the grant, except in the event of a Participant's death, Disability or Retirement, or in the event of a change in control of the Corporation (as such change may be defined by the Committee) or other special circumstances.

(c) *Other Vesting Terms.* For purposes of this Section 6.2, (i) vesting over a three-year period will include periodic vesting over such period, (ii) a pre-announced period in which service is required as a condition to the grant of any Award may count toward the minimum vesting period required under this Section 6.2, if so determined by the Committee, or (iii) with respect to Awards that otherwise would be subject to the minimum vesting requirements of Section 6.2(b) and notwithstanding those requirements, up to 15% of the shares of Common Stock authorized for issuance under the Plan may be granted as non-performance based Awards with vesting terms not conforming to the three-year minimum vesting requirement of this Section 6.2 and instead may be granted with a one-year minimum vesting requirement identical to the requirement in Section 6.2(a).

6.3 *Stand-Alone, Additional, Tandem, and Substitute Awards.* Awards granted under the Plan may, in the discretion of the Committee, be granted on a stand-alone basis or in addition to, in tandem with, or in substitution for any other Award, for any option or other equity award granted under another plan, or for any other right of a Participant to receive payment from the Corporation or an Affiliate, subject to Section 3.4 (relating to repricing) and Section 9.4(b). Thus, Awards may be granted in substitution for outstanding options or other equity awards of a business entity being acquired by the Corporation or an Affiliate. Subject to Section 3.4 and Section 9.4(b), the Committee may determine that, in granting a new Award, an amount not exceeding the in-the-money value of any surrendered Award or award granted under another plan may be applied to reduce the exercise price of any Option, grant price of any SAR, or purchase price of any other Award, or that the fair value of any surrendered Award or award may be applied to reduce the fair-value purchase price of any other Award, and the vesting requirement of the new Award may be reduced by taking into account the vesting period that has been satisfied with respect to the surrendered Award or award (in proportion to the value of the awards).

6.4 *Maximum Term of Awards.* The term of each Award shall be for such period as may be determined by the Committee, except that the term of any Option or SAR shall not exceed ten years from the date of grant of the Award.

6.5 *Form of Payment Under Awards.* Subject to the terms of the Plan and any applicable Award Document, payments to be made by the Corporation or an Affiliate upon the grant, exercise, or settlement of an Award may be made in such forms as the Committee shall determine, including, without limitation, cash, Common Stock, other Awards, or other property, and may be made in a single payment or transfer, in installments, or on a deferred basis as determined by the Committee. Such payments may include, without limitation, provisions for (i) the payment or

crediting of reasonable interest on installment or deferred payments or (ii) the grant or crediting of Dividend Equivalents in respect of installment or deferred payments denominated in Common Stock.

6.6 *Limitations on Transferability.* Awards and any other rights under the Plan will not be transferable by a Participant except by will or the laws of descent and distribution (or to a designated Beneficiary in the event of the Participant's death), and, if exercisable, shall be exercisable during the lifetime of a Participant only by such Participant or his guardian or legal representative. No transfer by will or the laws of descent and distribution shall be effective to bind the Corporation unless the Corporation shall have been furnished with a copy of such will or other evidence as the Corporation may deem necessary to establish the validity of the transfer. Awards and other rights under the Plan may not be pledged, mortgaged, hypothecated, or otherwise encumbered, and shall not be subject to the claims of creditors. The foregoing notwithstanding, if and to the extent expressly permitted by the Committee, and subject to such terms and conditions as established by the Committee, such Awards and other rights (other than Incentive Stock Options, Awards in tandem therewith, and Awards that constitute a deferral of compensation under Code Section 409A) may be transferred by a Participant to one or more Beneficiaries, and may be exercised by such Beneficiaries in accordance with the terms of such Award, except that no such transfers may be made to any third party for value unless separately approved by stockholders of the Corporation. Awards that constitute a deferral of compensation under Code Section 409A shall be subject to the additional limitations on transferability specified in Treasury Regulation § 1.409A-3(f).

6.7 *No Stockholder Rights.* No Award shall confer on any Participant any of the rights of a stockholder of the Corporation unless and until Common Stock is duly issued or transferred to the Participant in accordance with the terms of the Award or, in the case of an Option, at such time at or after the exercise of the Option as may be specified by the Committee in order to facilitate exercise procedures.

6.8 *Insider Trading Policies Apply; Additional Forfeiture Conditions.* A Participant's rights under any Award, including rights to exercise or receive settlement and rights to sell any Common Stock delivered in connection with an Award, are subject to the terms of the Corporation's Code of Conduct (or any successor thereof) and related policies on insider trading and may be restricted by those documents. Such restrictions currently include limitations on the times at which the Participant may engage in such transactions. In addition, the Committee may impose on any Award additional forfeiture conditions that protect the Corporation and its Affiliates. Such additional forfeiture conditions may include provisions that the Award, or amounts of cash, Common Stock, or other property realized by the Participant as income or gain as a result of the Award, shall be forfeited or repaid to the Corporation if the Participant fails to comply with conditions relating to non-solicitation of employees, customers and suppliers, non-competition, preservation and appropriate use of proprietary and confidential information of the Corporation and Affiliates, return of property, non-disparagement of the Corporation and Affiliates, cooperation in litigation, and other restrictions protecting the Corporation and Affiliates. Such conditions may apply to events occurring following Termination.

## **ARTICLE VII**

### **Forms of Awards**

7.1 *Options.* The Committee is authorized to grant Options, which may be either Incentive Stock Options or Nonqualified Stock Options, to Participants on the following terms and conditions:

(a) *Exercise Price.* The exercise price per share of Common Stock purchasable under an Option shall be determined by the Committee; provided, however, that such exercise price shall be not less than the Fair Market Value of a share on the date of grant of such Option (subject to Section 6.3).

(b) *Time and Method of Exercise.* The Committee shall determine the time or times at which an Option may be exercised in whole or in part (subject to Section 6.2 and Section 6.4); the methods by which such exercise price may be paid or deemed to be paid, the form of such payment, including, without limitation, cash, Common Stock (including through withholding of Common Stock deliverable upon exercise, if such withholding will not result in additional accounting expense to the Corporation), other Awards or awards granted under other plans of the Corporation, or other property, or through broker-assisted “cashless exercise” arrangements to the extent permitted by applicable law (subject to Section 3.4); and the methods by which Common Stock will be delivered or deemed to be delivered to Participants.

(c) *Incentive Stock Options.* The terms of any Incentive Stock Option granted under the Plan shall comply in all respects with the provisions of Section 422 of the Code.

7.2 *Stock Appreciation Rights.* The Committee is authorized to grant SARs to Participants on the following terms and conditions:

(a) *Grant Price.* The grant price of a SAR shall be determined by the Committee as of the date of grant of the SAR, provided, however, that the grant price of a SAR shall be not less than the Fair Market Value of one share of Common Stock on the date of grant (subject to Section 6.3).

(b) *Exercise of SAR and Other Terms.* The Committee shall determine the time or times at which a SAR may be exercised in whole or in part (subject to Section 6.2 and Section 6.4), the method of exercise, method of settlement, form of consideration payable in settlement, method by which Common Stock will be delivered or deemed to be delivered to Participants, whether a SAR shall be in tandem with any other Award or shall be free-standing, and any other terms and conditions of any SAR. A SAR may be exercised by the Participant, his or her Beneficiary, or automatically during a specified period or periods.

7.3 *Restricted Stock.* The Committee is authorized to grant Restricted Stock to Participants on the following terms and conditions:

(a) *Restrictions Generally.* Restricted Stock shall be subject to such restrictions on transferability and other restrictions, if any, as the Committee may impose, which restrictions may lapse separately or in combination at such times, under such circumstances, in such installments, or otherwise as the Committee may determine (subject to Section 6.2). Except to the extent restricted under the terms of the Plan and any Award Document relating to the Restricted Stock, a Participant granted Restricted Stock shall have all of the rights of a stockholder including, without limitation, the right to vote Restricted Stock and the right to receive dividends thereon.

(b) *Forfeiture.* In addition to the risk of forfeiture imposed under Section 6.2, upon Termination during the applicable restriction period Restricted Stock that is at that time subject to restrictions shall be forfeited and reacquired by the Corporation; provided, however, that the Committee may provide, by rule or regulation or in any Award Document, or may determine in any individual case, that restrictions or forfeiture conditions relating to Restricted Stock will be waived in whole or in part in the event of death, Disability, Retirement or other Terminations resulting from specified causes or in the event of a change in control of the Corporation (as such change may be defined by the Committee), except as otherwise provided in Section 6.2.

(c) *Certificates or other Evidence of Ownership of Common Stock.* Restricted Stock granted under the Plan may be evidenced in such manner as the Committee shall determine. If certificates representing Restricted Stock are registered in the name of the Participant, such certificates shall bear an appropriate legend referring to the terms, conditions, and restrictions applicable to such Restricted Stock, or shall be required to be transferred into the name of a custodian designated by the Corporation. In either case, the Corporation or such custodian shall retain physical possession of the certificate, and the Participant shall, upon the request of the Corporation at any time, deliver a stock power to the Corporation, endorsed in blank if so requested by the Corporation, relating to the Restricted Stock.

(d) *Dividends and Distributions.* Dividends paid on Restricted Stock shall be either paid at the dividend payment date in cash or in shares of unrestricted Common Stock having a Fair Market Value equal to the amount of such dividends, or the payment of such dividends shall be deferred and/or the amount or value thereof automatically reinvested in additional Restricted Stock, other Awards, or other investment vehicles, as the Committee shall determine or permit the Participant to elect. Unless otherwise determined by the Committee, Common Stock distributed in connection with a Common Stock split or Common Stock dividend, and other property distributed as a dividend, shall be subject to restrictions and a risk of forfeiture to the same extent as the Restricted Stock with respect to which such Common Stock or other property is distributed.

7.4 *Deferred Stock.* The Committee is authorized to grant Deferred Stock to Participants, subject to the following terms and conditions:

(a) *Deferral of Delivery and Restrictions.* Delivery of Common Stock will occur upon expiration of the deferral period specified for an Award of Deferred Stock by the Committee (or, if permitted by the Committee, as elected by the Participant). In addition, Deferred Stock shall be subject to such restrictions as the Committee may impose, if any, which restrictions may lapse at the expiration of the deferral period or at earlier specified times, separately or in combination, under such circumstances, in such installments, or otherwise as the Committee may determine.

(b) *Forfeiture.* Deferred Stock that is subject to a risk of forfeiture is referred to as RSUs. In addition to the risk of forfeiture imposed under Section 6.2, upon Termination during the applicable deferral period or portion thereof to which forfeiture conditions apply (as specified by the Committee in the Award Document evidencing the RSUs), all RSUs that are at that time subject to such risk of forfeiture shall be forfeited; provided, however, that the Committee may provide, by rule or regulation or in any Award Document, or may determine in any individual case, that restrictions or forfeiture conditions relating to RSUs will be waived in whole or in part in the event of death, Disability, Retirement or other Terminations resulting

from specified causes or in the event of a change in control of the Corporation (as such change may be defined by the Committee), except as otherwise provided in Section 6.2.

*7.5 Stock Bonus; Awards in Lieu of Other Obligations.* Stock Bonuses granted hereunder shall be subject to the provisions of Section 6.2 and to other terms and conditions as shall be determined by the Committee; *provided, however*, that the Committee is authorized to grant Stock Bonuses (or other Awards) which are not subject to the provisions of Section 6.2, so long as the Committee has determined that such Awards are in lieu of obligations that the Corporation or an Affiliate otherwise owes to an Employee or Senior Executive who makes a payment or surrenders a right to payment having substantial value.

*7.6 Dividend Equivalents.* The Committee is authorized to grant Dividend Equivalents to a Participant. Dividend Equivalents may be awarded on a free-standing basis or in connection with another Award. The Committee may provide that Dividend Equivalents shall be paid or distributed when accrued or upon the settlement of the underlying Award. The Committee also may provide that Dividend Equivalents shall be reinvested or deemed reinvested in additional Common Stock, Awards, or other investment vehicles, and shall be subject to such restrictions on transferability and risks of forfeiture, as the Committee may specify.

*7.7 Other Stock-Based Awards.* The Committee is authorized, subject to limitations under applicable law, to grant to Participants such other Awards that may be denominated or payable in, valued in whole or in part by reference to, or otherwise based on, or related to, Common Stock and factors that may influence the value of Common Stock, as deemed by the Committee to be consistent with the purposes of the Plan. The Committee shall determine the terms and conditions of such Awards. Common Stock delivered pursuant to an Award in the nature of a purchase right granted under this Section 7.7 shall be purchased for such consideration, paid for at such times, by such methods, and in such forms, including, without limitation, cash, Common Stock, other Awards, or other property, as the Committee shall determine.

*7.8 Incentive Awards.* Incentive Awards, under which a Participant may earn a cash amount through performance and/or service, may be granted pursuant to this Section 7.8. An Incentive Award may be a stand-alone Award or an element of or supplement to another Award.

## **ARTICLE VIII Performance Awards**

*8.1 Performance Awards Generally.* The Committee is authorized to grant Performance Awards on the terms and conditions specified in this Article VIII. Performance Awards may be denominated as a number of shares of Common Stock or a cash amount earnable under an Incentive Award or a specified number of shares under other Awards that may be earned upon achievement or satisfaction of performance conditions specified by the Committee (for example, performance shares, where the number of RSUs or Deferred Shares earned can vary upward or downward based on performance). In addition, the Committee may specify that any other Award shall constitute a Performance Award by conditioning the right of a Participant to exercise the Award or have it settled upon achievement or satisfaction of such performance conditions as may be specified by the Committee. The Committee may use such business criteria and other measures of performance as it may deem appropriate in establishing any performance conditions, and may exercise its discretion to reduce or increase the amounts payable under any Award subject to performance conditions, except as limited under Sections 8.2.

8.2 *Performance Awards Subject to Pre-Established Terms.* If the Committee determines that a Performance Award to be granted to an eligible person should be subject to preestablished terms that limit discretion, the grant, exercise and/or settlement of such Performance Award shall be contingent upon achievement of a preestablished performance goal or goals and other terms set forth in this Section 8.2.

(a) *Performance Goal.* The performance goal for such a Performance Award shall consist of one or more business criteria and a targeted level or levels of performance with respect to each of such criteria, as specified by the Committee consistent with this Section 8.2. The performance goal shall be objective, and, at the time such performance goal is established, the type and levels of performance required shall be such that achievement of the performance goal shall be substantially uncertain. The Committee may determine that such Performance Awards shall be granted, exercised and/or settled upon achievement of any one performance goal or upon achievement of two or more performance goals. Performance goals may differ for Performance Awards granted to any one Participant or to different Participants.

(b) *Business Criteria for Performance Goals.* One or more of the following business criteria relating to the Corporation, on a consolidated basis, and/or to specified subsidiaries or affiliates or other business units of the Corporation, shall be used by the Committee in establishing performance goals for such Performance Awards: (1) mission measures: affordable housing goals, low-cost financing initiatives, quality-of-business measures, customer initiatives and customer satisfaction; (2) operational improvement measures: risk management, enhancing operational stability, improving or otherwise advancing disclosure controls, cost reductions, productivity, and legal and regulatory compliance; (3) capital management measures; and (4) financial measures: interest income, revenues, income before income taxes, extraordinary items and/or cumulative effect of changes in accounting principles, revenues, net income or net income per common share (basic or diluted), return on assets (gross or net), return on investment, return on capital, or return on equity, cash flow, free cash flow, cash flow return on investment (discounted or otherwise), net cash provided by operations, or cash flow in excess of cost of capital, interest expense or non-interest expense, economic value created or otherwise maximizing long-term value, operating margin or profit margin, and stock price or total stockholder return. The targeted level or levels of performance with respect to such business criteria may be established at such levels and in such terms as the Committee may determine, in its discretion, including in absolute terms, as a goal relative to performance in prior periods, or as a goal compared to the performance of one or more comparable companies or an index covering multiple companies.

(c) *Performance Period; Timing for Establishing Performance Goals; Per-Person Limit.* Achievement of performance goals in respect of such Performance Awards shall be measured over a performance period specified by the Committee. A performance goal shall be established not later than the earlier of (i) 90 days after the beginning of any performance period applicable to such Performance Award or (ii) the time 25% of such performance period has elapsed. In all cases, the maximum Performance Award of any Participant shall be subject to the limitation set forth in Section 5.2.

8.3 *Settlement of Performance Awards; Other Terms.* Settlement of such Performance Awards shall be in Stock, other Awards, cash or other property, in the discretion of the Committee. The Committee may, in its discretion, increase or reduce the amount of a settlement otherwise to be made in connection with such Performance Awards, except that, in the case of a Performance Award subject to Section 8.2, the exercise of such discretion is limited to reducing the amount

payable in respect of the Performance Award. The Committee may specify the circumstances in which such Performance Awards shall be paid or forfeited in the event of termination of employment by the Participant or other event (including a change in control) prior to the end of a performance period or prior to settlement of such Performance Awards.

8.4 *Written Determinations.* Determinations by the Committee as to the establishment of performance goals, the amount potentially payable in respect of Performance Awards, the level of actual achievement of the specified performance goals relating to Performance Awards, and the amount of any final Performance Award shall be recorded in writing in the case of Performance Awards subject to Section 8.2. Specifically, the Committee shall certify in writing, prior to settlement of each such Performance Award, that the performance objective relating to the Performance Award and other material terms of the Award upon which settlement of the Award was conditioned have been satisfied.

## **ARTICLE IX**

### **General Provisions**

9.1 *Compliance With Laws and Obligations.* The Corporation shall not be obligated to issue or deliver Common Stock in connection with any Award or take any other action under the Plan in a transaction subject to any federal or state law, any requirement under any listing agreement between the Corporation and any national securities exchange or automated quotation system, or any other law, regulation, or contractual obligation of the Corporation, until the Corporation is satisfied that such laws, regulations, and other obligations of the Corporation have been complied with in full. Certificates representing shares of Common Stock delivered under the Plan will be subject to such stop transfer orders and other restrictions as may be applicable under such laws, regulations, and other obligations of the Corporation, including any requirement that a legend or legends be placed thereon. The Corporation shall make best efforts to satisfy the compliance obligations relating to the Plan and Awards in order to avoid adverse effects on Participants under this Section 9.1.

9.2 *Limitation of Participant Rights.* Neither the Plan nor any action taken hereunder shall be construed as (i) giving any employee the right to be retained in the employ of the Corporation or any Affiliate or (ii) interfering in any way with the right of the Corporation or any Affiliate to terminate any employee's employment at any time. Except as expressly provided in the Plan and an Award Document, neither the Plan nor any Award Document shall confer on any person other than the Corporation and the Participant any rights or remedies hereunder or thereunder.

#### 9.3 *Tax Provisions.*

(a) *Withholding.* The Corporation or any Affiliate is authorized to withhold from any Award granted or to be settled, any delivery of Common Stock in connection with an Award, any other payment relating to an Award, or any payroll or other payment to a Participant amounts of federal, state, and local withholding taxes and other taxes due or potentially payable in connection with any transaction involving an Award, and to take such other action as the Committee may deem advisable to enable the Corporation and Participants to satisfy obligations for the payment of withholding taxes and other tax obligations relating to any Award. This authority shall include, but not be limited to, authority to withhold or receive Common Stock or other property and to make cash payments in respect thereof in satisfaction of a Participant's tax obligations; the Committee may require such withholding or permit the Participant to elect withholding, provided that only the minimum amount of Common Stock deliverable in connection with an Award necessary to satisfy statutory withholding

requirements will be withheld unless withholding of a greater amount of Common Stock would not result in additional accounting expense to the Corporation. Upon any withholding or surrender of shares of Common Stock, the shares shall be valued at their Fair Market Value at the date they are withheld or received by the Corporation, except that withheld shares may be valued based on same-day market transactions by the Participant or otherwise for convenience of administration of the Plan.

(b) *Required Notifications of Tax Events.* If any Participant shall make a disqualifying disposition of shares of Common Stock delivered pursuant to the exercise of an Incentive Stock Option (*i.e.*, a disposition described in Code Section 421(b)), such Participant shall notify the Corporation of such disposition within ten days thereof. In any case in which a Participant is permitted to make an election (and does make an election) under Section 83(b) of the Code (to include in gross income in the year of transfer the amounts specified in Code Section 83(b)) in connection with an Award, the Participant shall notify the Corporation of such election within ten days of filing notice of the election with the Internal Revenue Service, in addition to any filing and notification required under Section 83(b) and regulations thereunder. No Participant shall make a Section 83(b) election in connection with any Award unless explicitly authorized in the Award Document or otherwise approved by the Committee.

(c) *Rules for Compliance with Code Section 409A.* The Committee or persons exercising delegated authority under the Plan are authorized to specify rules and regulations to ensure that Awards do not result in tax penalties for Participants under Code Section 409A. In the case of any Award which constitutes a “short-term deferral” under Treasury Regulation § 1.409A-1(b)(4) and providing for a distribution upon the lapse of a substantial risk of forfeiture, if the timing of such distribution is not otherwise specified in the Plan or an Award agreement or other governing document, the distribution shall be made not later than March 15 of the year following the year in which the substantial risk of forfeiture lapsed. In the case of an Award constituting a deferral of compensation under Code Section 409A, if the timing of a distribution following a date or event triggering a distribution is not otherwise specified in the Plan or an Award agreement or other governing document, the distribution shall be made within 60 days after such triggering event. In either case, the Participant shall have no influence on any determination as to the tax year in which the distribution will be made. Any award that was both granted and vested before 2005 and which otherwise might constitute a deferral of compensation under Section 409A is intended to be “grandfathered” under Section 409A, unless such Award is designated by the company as being subject to Section 409A in 2008 or earlier. No amendment or change to the Plan or other change (including an exercise of discretion) with respect to such a grandfathered award after October 3, 2004, shall be effective if such change would constitute a “material modification” of a grandfathered award within the meaning of applicable guidance or regulations under Section 409A, except in the case of an award that is specifically modified before 2009 to become compliant as a 409A Award or compliant with an exemption under Section 409A.

#### 9.4 *Changes to the Plan and Awards.*

(a) *Plan Amendments.* The Committee may, with prospective or retroactive effect, amend, alter, suspend, discontinue, or terminate the Plan without the consent of stockholders or Participants, except that any amendment shall be subject to the approval of the Corporation’s stockholders at or before the first annual meeting of stockholders for which the record date falls on or after the date of such Committee action if such amendment is required under Section 303A.08 of the Listed Company Manual of the New York Stock Exchange or is

otherwise subject to a requirement of stockholder approval under any applicable law or regulation, the rules of any stock exchange or automated quotation system on which the Common Stock may then be listed or quoted, or the Corporation's Bylaws. In addition, the Committee may otherwise, in its discretion, determine to submit other such changes to the Plan to stockholders for approval. The foregoing notwithstanding, without the consent of an affected Participant, except to the extent required by Section 9.1 hereof, no such action may materially impair the rights of such Participant under any Award therefore granted. The foregoing notwithstanding, the Committee shall not amend this Section or Section 4.1, or adopt an amendment that would be subject to stockholder approval under this Section or otherwise would exceed the authority of the Committee under its charter and other corporate governance documents of the Corporation, without the consent of the Board.

(b) *Changes to the Terms of Outstanding Awards.* The Committee may waive any conditions or rights under, or amend, alter, suspend, discontinue, or terminate, any Award previously granted and any Award Document relating thereto; provided, however, that, except to the extent required by Section 9.1 hereof, no such action may materially impair the rights of a Participant under such Award without the consent of the affected Participant and provided further that for Awards that are intended to be settled in Common Stock per their written terms, cash settlement shall be permitted only with the prior approval of the Corporation's Chief Financial Officer. Modifications that are in substance cash settlements are subject to this same requirement. The foregoing notwithstanding, the Committee shall have no authority to waive or modify any Award term after the Award has been granted to the extent the waived or modified term would be inconsistent with Section 3.4 (relating to repricings) or Section 6.2 or otherwise would not be within the discretion of the Committee if it were then granting a new Award.

9.5 *Unfunded Status of Awards other than Restricted Stock.* The Plan is intended to constitute a generally "unfunded" plan for incentive compensation, except with respect to Restricted Stock. With respect to any payments not yet made to a Participant pursuant to an Award other than Restricted Stock, nothing contained in the Plan or any such Award shall give any such Participant any rights that are greater than those of a general creditor of the Corporation. No person shall, prior to exercise or settlement of an Award other than Restricted Stock, acquire any right in or title to any assets, funds, or property of the Corporation whatsoever, including, without limitation, any specific funds, assets, or other property, which the Corporation, in its sole discretion, may set aside in anticipation of a liability under the Plan. Nothing contained in the Plan shall constitute a guarantee that the assets of the Corporation shall be sufficient to pay any benefits to any person.

9.6 *Nonexclusivity of the Plan.* Neither the adoption of the Plan by the Board nor its submission to the stockholders of the Corporation for approval shall be construed as creating any limitations on the power of the Board or Committee to adopt such other compensatory arrangements as it may deem desirable, including, without limitation, the granting of equity or cash incentives otherwise than under the Plan, and such arrangements may be either applicable generally or only in specific cases.

9.7 *Fractional Shares.* No fractional shares of Common Stock shall be issued or delivered pursuant to the Plan or any Award, unless the Committee determines that it is administratively feasible and desirable to deliver fractional shares (such as through an intermediary that can credit accounts with fractional shares). In cases in which fractional shares are not delivered, the Committee shall determine whether cash, other Awards, or other property shall be issued or paid in

lieu of such fractional shares, whether such fractional shares or any rights thereto shall be forfeited or otherwise eliminated, or other treatment accorded to such fractional shares.

9.8 *Awards Not Compensation Under Plans.* No Award shall be considered as compensation under any employee benefit plan of the Corporation or an Affiliate except as specifically provided in any such plan or otherwise determined by the Committee.

9.9 *Repayments to Participants in Connection with Forfeitures.* Unless otherwise determined by the Committee, in the event of a forfeiture of an Award with respect to which a Participant paid cash consideration (for example, a forfeiture of an Option share, if forfeiture conditions applied to shares after exercise), the Participant shall be repaid the amount of such cash consideration.

9.10 *Governing Law.* The validity, construction, and effect of the Plan, any rules and regulations under the Plan, and any Award Document will be determined in accordance with the Federal Home Loan Mortgage Corporation Act of 1970, other federal laws regulating the Corporation, and other laws of the United States. This Plan and the respective rights and obligations of the Corporation and the Participants, except to the extent otherwise provided by Federal law, shall be construed under the laws of the Commonwealth of Virginia (without giving effect to principles of conflicts of laws). The validity, enforceability and effectiveness of any electronic records or electronic signatures used in connection with any Award Document shall be governed by E-SIGN or the Virginia UETA, as applicable.

9.11 *Termination of Authority to Grant Awards Under the 1995 Plan.* Upon effectiveness of the Plan as provided in Section 9.12, the authority to grant new awards under the 1995 Plan shall terminate. In other respects, the 1995 Plan will remain in effect in accordance with its terms, except as provided in Section 4.2 hereof.

9.12 *Stockholder Approval, Termination of Authority to Grant Awards and Termination of the Plan.* The Plan became effective on November 4, 2004. This amendment and restatement of the Plan shall become effective upon its approval by stockholders of the Corporation by an affirmative vote that meets the requirements of the Corporation's Bylaws and of the Listed Company Manual of the New York Stock Exchange as then in effect. No Award may be granted after the tenth anniversary of the latest date upon which stockholders of the Corporation have approved the Plan or an amendment and restatement of the Plan. The Plan will remain in effect thereafter until such time as the Corporation has no further rights or obligations under the Plan with respect to outstanding Awards under the Plan, unless the Plan is earlier terminated by the Committee.