

FEDERAL HOME LOAN MORTGAGE CORP

Form 10-K

March 11, 2009

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-K

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2008

Commission File Number: 000-53330

Federal Home Loan Mortgage Corporation

(Exact name of registrant as specified in its charter)

Freddie Mac

Federally chartered corporation

*(State or other jurisdiction of
incorporation or organization)*

8200 Jones Branch Drive

McLean, Virginia

22102-3110

*(Address of principal
executive*

offices, including zip code)

52-0904874

(I.R.S.

Employer

Identification

No.)

(703) 903-2000

(Registrant's telephone

number,

including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class:	Name of each exchange on which registered:
Voting Common Stock, no par value per share	New York Stock Exchange
Variable Rate, Non-Cumulative Preferred Stock, par value \$1.00 per share	New York Stock Exchange
5% Non-Cumulative Preferred Stock, par value \$1.00 per share	New York Stock Exchange
Variable Rate, Non-Cumulative Preferred Stock, par value \$1.00 per share	New York Stock Exchange
5.1% Non-Cumulative Preferred Stock, par value \$1.00 per share	New York Stock Exchange
5.79% Non-Cumulative Preferred Stock, par value \$1.00 per share	New York Stock Exchange

	New York Stock Exchange
Variable Rate, Non-Cumulative Preferred Stock, par value \$1.00 per share	New York Stock Exchange
Variable Rate, Non-Cumulative Preferred Stock, par value \$1.00 per share	New York Stock Exchange
Variable Rate, Non-Cumulative Preferred Stock, par value \$1.00 per share	New York Stock Exchange
5.81% Non-Cumulative Preferred Stock, par value \$1.00 per share	New York Stock Exchange
6% Non-Cumulative Preferred Stock, par value \$1.00 per share	New York Stock Exchange
Variable Rate, Non-Cumulative Preferred Stock, par value \$1.00 per share	New York Stock Exchange
5.7% Non-Cumulative Preferred Stock, par value \$1.00 per share	New York Stock Exchange
Variable Rate, Non-Cumulative Perpetual Preferred Stock, par value \$1.00 per share	New York Stock Exchange
6.42% Non-Cumulative Perpetual Preferred Stock, par value \$1.00 per share	New York Stock Exchange
5.9% Non-Cumulative Perpetual Preferred Stock, par value \$1.00 per share	New York Stock Exchange
5.57% Non-Cumulative Perpetual Preferred Stock, par value \$1.00 per share	New York Stock Exchange
5.66% Non-Cumulative Perpetual Preferred Stock, par value \$1.00 per share	New York Stock Exchange
6.02% Non-Cumulative Perpetual Preferred Stock, par value \$1.00 per share	New York Stock Exchange
6.55% Non-Cumulative Preferred Stock, par value \$1.00 per share	New York Stock Exchange
Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, par value \$1.00 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting

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company in Rule 12b-2 of the Exchange Act. Large accelerated filer Accelerated filer Non-accelerated filer
(Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The aggregate market value of the common stock held by non-affiliates computed by reference to the price at which the common equity was last sold on June 30, 2008 (the last business day of the registrant's most recently completed second fiscal quarter) was \$10.6 billion.

As of February 25, 2009, there were 647,364,714 shares of the registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE: The information required by Part III (Items 10, 11, 12, 13 and 14) will be filed in an amendment to this annual report on Form 10-K on or before April 30, 2009.

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PART I

ITEM 1. BUSINESS

Our Business and Statutory Mission

Freddie Mac was chartered by Congress in 1970 to stabilize the nation's residential mortgage markets and expand opportunities for homeownership and affordable rental housing. Our statutory mission is to provide liquidity, stability and affordability to the U.S. housing market. We fulfill our mission by purchasing residential mortgages and mortgage-related securities in the secondary mortgage market and securitizing them into mortgage-related securities that can be sold to investors. We purchase single-family and multifamily mortgage-related securities for our mortgage-related investments portfolio, which we previously referred to as our retained portfolio. We also purchase multifamily residential mortgages in the secondary mortgage market and hold those loans either for investment or sale. We finance purchases of our mortgage-related securities and mortgage loans, and manage our interest-rate and other market risks, primarily by issuing a variety of debt instruments and entering into derivative contracts in the capital markets.

Conservatorship

On September 6, 2008, the Director of the Federal Housing Finance Agency, or FHFA, appointed FHFA as our Conservator. Upon its appointment, the Conservator immediately succeeded to all rights, titles, powers and privileges of Freddie Mac, and of any stockholder, officer or director of Freddie Mac with respect to Freddie Mac and its assets. The Conservator also succeeded to the title to all books, records and assets of Freddie Mac held by any other legal custodian or third party. The conservatorship has no specified termination date. There can be no assurance of whether or how the conservatorship will be terminated or what changes may occur to our business structure during or following conservatorship, including whether we will continue to exist. For more information, see *Conservatorship and Related Developments*.

Operating our business under the conservatorship involves balancing competing objectives. Upon our entry into conservatorship, the Conservator directed us to conduct our business with a focus on maintaining positive stockholders' equity in order to reduce the need to draw funds under the Purchase Agreement (described below) and to return to long-term profitability. In addition, the U.S. Department of the Treasury, or Treasury, and the Board of Governors of the Federal Reserve System, or the Federal Reserve, have taken a number of actions to support us in conservatorship, including the following:

Treasury initially committed to provide us with up to \$100 billion in funding under the senior preferred stock purchase agreement, or Purchase Agreement (subsequently, Treasury has announced its commitment to increase the funding available under the Purchase Agreement to \$200 billion);

Treasury established a secured lending facility that is available to us until December 31, 2009 under a Lending Agreement;

Treasury implemented a program to purchase mortgage-related securities issued by us and the Federal National Mortgage Association, or Fannie Mae, until December 31, 2009; and

the Federal Reserve implemented a program to purchase up to \$100 billion in direct obligations of us, Fannie Mae and the Federal Home Loan Banks, or FHLBs, and up to \$500 billion of mortgage-related securities issued

by us, Fannie Mae and the Government National Mortgage Association, or Ginnie Mae. The Federal Reserve will purchase these direct obligations and mortgage-related securities from primary dealers.

On September 18, 2008, we entered into a lending agreement with Treasury, or Lending Agreement, pursuant to which Treasury established a new secured lending credit facility that is available to us until December 31, 2009 as a liquidity backstop. In order to borrow pursuant to the Lending Agreement, we are required to post collateral in the form of Freddie Mac or Fannie Mae mortgage-related securities to secure all borrowings under the facility. The terms of any borrowings under the Lending Agreement, including the interest rate payable on the loan and the amount of collateral we will need to provide as security for the loan, will be determined by Treasury. Treasury is not obligated under the Lending Agreement to make any loan to us. Treasury does not have authority to extend the term of this credit facility beyond December 31, 2009, which is when Treasury's temporary authority to purchase our obligations and other securities, granted by the Federal Housing Finance Regulatory Reform Act of 2008, or Reform Act, expires. After December 31, 2009, Treasury still may purchase up to \$2.25 billion of our obligations under its permanent authority, as set forth in our charter.

In the second half of 2008, we experienced less consistent demand for our debt securities as reflected in wider spreads on our term and callable debt. This reflected overall deterioration in our access to unsecured medium and long-term debt markets. There were many factors contributing to the reduced demand for our debt securities in the capital markets, including continued severe market disruptions, market concerns about our capital position and the future of our business (including its future profitability, future structure, regulatory actions and agency status) and the extent of U.S. government support for our debt securities. In addition, various U.S. government programs were still being absorbed by market participants creating uncertainty as to whether competing obligations of other companies were more attractive investments

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than our debt securities. An inability to issue debt securities at attractive rates in amounts sufficient to fund our business activities and meet our obligations could have an adverse effect on our liquidity, financial condition and results of operations.

As our ability to issue long-term debt has been limited, we have relied increasingly on short-term debt to fund our purchases of mortgage assets and to refinance maturing debt. As a result, we are required to refinance our debt on a more frequent basis, exposing us to an increased risk of insufficient demand, increasing interest rates and adverse credit market conditions. On November 25, 2008, the Federal Reserve announced that it would purchase up to \$100 billion in direct obligations of us, Fannie Mae and the FHLBs and up to \$500 billion of mortgage-related securities issued by Freddie Mac, Fannie Mae and Ginnie Mae by the end of the second quarter of 2009. Since that time, we have experienced improved demand for our issuances of long-term debt, indicating that these conditions are beginning to improve and demonstrating greater ability for us to access the long-term debt markets. We do not currently have plans to use the Lending Agreement and are uncertain as to the impact, if any, its expiration might have on our operations or liquidity.

We believe we will continue to have adequate access to the short and medium-term debt markets for the purpose of refinancing our debt obligations as they become due. We also continue to have undisrupted access to the derivatives markets, as necessary, for the purposes of entering into derivatives to manage our duration risk.

In November 2008, we received \$13.8 billion from Treasury under the Purchase Agreement, and we expect to receive \$30.8 billion in March 2009 pursuant to a draw request that FHFA submitted to Treasury on our behalf. Upon funding of the \$30.8 billion draw request, the aggregate liquidation preference on the senior preferred stock owned by Treasury will increase from \$1.0 billion as of September 8, 2008 to \$45.6 billion. The amount remaining under the announced funding commitment from Treasury will be \$155.4 billion, which does not include the initial liquidation preference of \$1 billion reflecting the cost of the initial funding commitment (as no cash was received). The corresponding annual dividends payable to Treasury will increase to \$4.6 billion. This dividend obligation exceeds our annual historical earnings in most periods, and will contribute to increasingly negative cash flows in future periods, if we pay the dividends in cash. See *Conservatorship and Related Developments Overview of Treasury Agreements*. In addition, the continuing deterioration in the financial and housing markets and further net losses in accordance with generally accepted accounting principles, or GAAP, will make it more likely that we will continue to have additional large draws under the Purchase Agreement in future periods, which will make it significantly more difficult to pay senior preferred dividends in cash in the future. Additional draws would also diminish the amount of Treasury's remaining commitment available to us under the Purchase Agreement. As a result of additional draws and other factors, our cash flow from operations and earnings will likely be negative for the foreseeable future, there is significant uncertainty as to our future capital structure and long-term financial sustainability, and there are likely to be significant changes to our capital structure and business model beyond the near-term that we expect to be decided by the U.S. Congress, or Congress, and the Executive Branch.

Because we expect many of our differing and potentially competing objectives will result in significant costs, and the extent to which we will be compensated or receive additional support for implementation of these actions is unclear, there is significant uncertainty as to the ultimate impact they will have on our future capital or liquidity needs. However, we believe that the increased level of support provided by Treasury and FHFA, as described above, is sufficient in the near-term to ensure we have adequate capital and liquidity to continue to conduct our normal business activities. Management is in the process of identifying and considering various actions that could be taken to reduce the significant uncertainties surrounding the business, as well as the level of future draws under the Purchase Agreement; however, our ability to pursue such actions may be limited based on market conditions and other factors. Any actions we take will likely require approval by FHFA and Treasury before they are implemented. In addition, FHFA, Treasury or Congress may direct us to focus our efforts on supporting the mortgage markets in ways that make it more difficult for us to implement any such actions.

Recent Developments Impacting our Business

On February 18, 2009, Treasury Secretary Geithner issued a statement outlining further efforts by Treasury to strengthen its commitment to us by increasing the funding available under the Purchase Agreement from \$100 billion to \$200 billion, affirming Treasury's plans to continue purchasing Freddie Mac mortgage-related securities and increasing the limit on our mortgage-related investments portfolio by \$50 billion to \$900 billion with a corresponding increase in the amount of allowable debt outstanding. As of the filing of this annual report on Form 10-K, the Purchase Agreement has not been amended to reflect the increase in Treasury's commitment. For additional information on our Purchase Agreement, see *Conservatorship and Related Developments Overview of Treasury Agreements Senior Preferred Stock Purchase Agreement*. We are dependent upon the continued support of Treasury and FHFA in order to continue operating our business. Our ability to access funds from Treasury under the Purchase Agreement is critical to keeping us solvent and avoiding the appointment of a receiver by FHFA under statutory mandatory receivership provisions.

We have worked with our Conservator to, among other things, help distressed homeowners and we have implemented a number of steps that include extending foreclosure timelines and additional efforts to modify and restructure loans. On February 18, 2009 President Obama announced the Homeowner Affordability and Stability Plan, or HASP. The HASP is

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designed to help in the housing recovery, to promote liquidity and housing affordability, to expand our foreclosure prevention efforts and to set market standards. The Obama administration announced that the key components of the plan are providing access to low-cost refinancing for responsible homeowners suffering from falling house prices, creating a \$75 billion homeowner stability initiative to reach up to three to four million at-risk homeowners and supporting low mortgage rates by strengthening confidence in Freddie Mac and Fannie Mae. Freddie Mac will carry out initiatives to enable a large number of homeowners to refinance mortgages and to encourage modifications of mortgages for both homeowners who are in default and those who are at risk of imminent default.

HASP specifically includes (a) an initiative to allow mortgages currently owned or guaranteed by us to be refinanced without obtaining additional credit enhancement beyond that already in place for that loan; and (b) an initiative to encourage modifications of mortgages for both homeowners who are in default and those who are at risk of imminent default, through various government incentives to servicers, mortgage holders and homeowners. At present, it is difficult for us to predict the full extent of our activities under these initiatives and assess their impact on us. However, to the extent that our servicers and borrowers participate in these programs in large numbers, it is likely that the costs we incur associated with modifications of loans, the costs associated with servicer and borrower incentive fees and the related accounting impacts, will be substantial.

HASP will require us, in some cases, to modify loans when default is imminent even though the borrower's mortgage payments are current. If current loans are modified and are purchased from mortgage participation certificate, or PC, pools, our guarantee may no longer be eligible for an exception from derivative accounting under Statement of Financial Standards, or SFAS, No. 133, *Accounting for Derivative Instruments and Hedging Activities*, or SFAS 133, thereby requiring us, pursuant to our current accounting policy, to account for our guarantee as a derivative instrument. Management is working internally and with regulatory agencies to consider potential changes to our modification practices or current accounting policy to maintain the SFAS 133 exemption. If our efforts to maintain our exemption from derivative accounting for our guarantee are unsuccessful, our entire guarantee may be accounted for as a derivative instrument as early as the second quarter of 2009; however, the precise timing remains uncertain. We currently estimate the initial impact of accounting for our guarantee as a derivative instrument at fair value, less credit reserves, to be an initial pre-tax charge of approximately \$30 billion based on balances at December 31, 2008. Accounting for the guarantee as a derivative instrument would require us to recognize subsequent guarantee fair value changes through earnings in future periods and, as a result, no longer recognize credit losses associated with the guarantee as they are incurred and no longer recognize revenue through amortization of the guarantee obligation, as these amounts would be reflected in the fair value changes. As such, these initiatives are likely to have a significant adverse effect on our financial results or condition.

See *Conservatorship and Related Developments*, *Impact of Conservatorship and Related Actions on Our Business*, **RISK FACTORS** and **NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *Conservatorship and Related Developments* to our consolidated financial statements for additional information.

Our Charter and Statutory Mission

The Federal Home Loan Mortgage Corporation Act, which we refer to as our charter, forms the framework for our business activities, the products we bring to market and the services we provide to the nation's residential housing and mortgage industries. Our charter also determines the types of mortgage loans that we are permitted to purchase, as described in *Our Business Segments* *Single-Family Guarantee Segment* and *Multifamily Segment*.

Our statutory mission as defined in our charter is:

to provide stability in the secondary market for residential mortgages;

to respond appropriately to the private capital market;

to provide ongoing assistance to the secondary market for residential mortgages (including activities relating to mortgages for low- and moderate-income families, involving an economic return that may be less than the return earned on other activities); and

to promote access to mortgage credit throughout the U.S. (including central cities, rural areas and other underserved areas).

Our business objectives continue to evolve under conservatorship. For more information, see *Conservatorship and Related Developments* and *Impact of Conservatorship and Related Actions on Our Business*.

Our Market and Mortgage Securitizations

We conduct business in the U.S. residential mortgage market and the global securities market under the direction of our Conservator. These markets experienced substantial deterioration during 2008, which has continued into early 2009, as discussed in *MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS*, or MD&A, *EXECUTIVE SUMMARY*. The size of the U.S. residential mortgage market is affected by many factors, including changes in interest rates, homeownership rates, home prices, the supply of housing and lender preferences regarding credit risk and borrower preferences regarding mortgage debt. The amount of residential mortgage debt

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available for us to purchase and the mix of available loan products are also affected by several factors, including the volume of mortgages meeting the requirements of our charter and the mortgage purchase and securitization activity of other financial institutions.

At December 31, 2008, our total mortgage portfolio, which includes our mortgage-related investments portfolio and the unpaid principal balance of all other loans and securities that we guarantee, was \$2.2 trillion, while the total U.S. residential mortgage debt outstanding, which includes single-family and multifamily loans, was approximately \$12.1 trillion. See MD&A PORTFOLIO BALANCES AND ACTIVITIES for further information on the composition of our mortgage portfolios.

Table 1 provides important indicators for the U.S. residential mortgage market.

Table 1 Mortgage Market Indicators

	Year Ended December 31,		
	2008	2007	2006
Home sale units (in thousands) ⁽¹⁾	4,833	5,715	6,728
Home price appreciation (depreciation) ⁽²⁾	(12.1)%	(4.3)%	2.2%
Single-family originations (in billions) ⁽³⁾	\$ 1,485	\$ 2,430	\$ 2,980
Adjustable-rate mortgage share ⁽⁴⁾	7%	10%	22%
Refinance share ⁽⁵⁾	49%	46%	43%
U.S. single-family mortgage debt outstanding (in billions) ⁽⁶⁾	\$ 11,167	\$ 11,168	\$ 10,456
U.S. multifamily mortgage debt outstanding (in billions) ⁽⁶⁾	\$ 890	\$ 840	\$ 743

(1) Includes sales of new and existing homes in the U.S. and excludes condos/co-ops. Source: National Association of Realtors news release dated February 25, 2009 (sales of existing homes) and U.S. Census Bureau news release dated February 26, 2009 (sales of new homes).

(2) Calculated internally using estimates of changes in single-family home prices by state, which are weighted using the property values underlying our single-family mortgage portfolio to obtain a national index. The appreciation or depreciation rate for each year presented incorporates property value information on loans purchased by both Freddie Mac and Fannie Mae through December 31, 2008 and will be subject to change based on more recent purchase information.

(3) Source: Inside Mortgage Finance estimates of originations of single-family first-and second liens dated January 30, 2009.

(4) Based on the number of conventional one-family home purchase mortgages and represents the annual averages of monthly figures using data provided by FHFA.

(5) Refinance share of the number of conventional mortgage applications. Source: Mortgage Bankers Association's Mortgage Applications Survey. Data reflect annual average of weekly figures.

(6) Source: Federal Reserve Flow of Funds Accounts of the United States dated December 11, 2008. The outstanding amounts for 2008 presented above reflect balances as of September 30, 2008.

In general terms, the U.S. residential mortgage market consists of a primary mortgage market that links homebuyers and lenders and a secondary mortgage market that links lenders and investors. In the primary mortgage market, residential mortgage lenders such as mortgage banking companies, commercial banks, savings institutions, credit unions and other financial institutions originate or provide mortgages to borrowers. They obtain the funds they lend to mortgage borrowers in a variety of ways, including by selling mortgages or mortgage-related securities into the secondary mortgage market. Our charter does not permit us to originate loans in the primary mortgage market.

The secondary mortgage market consists of institutions engaged in buying and selling mortgages in the form of whole loans (*i.e.*, mortgages that have not been securitized) and mortgage-related securities. We participate in the secondary mortgage market by purchasing mortgage loans and mortgage-related securities for investment and by issuing guaranteed mortgage-related securities, principally those we call PCs. We do not lend money directly to homeowners.

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The following diagram illustrates how we create PCs through mortgage securitizations that can be sold to investors or held by us to provide liquidity to the mortgage market:

We guarantee the payment of principal and interest of PCs created in this process in exchange for a combination of monthly management and guarantee fees and initial upfront cash payments referred to as delivery fees. Our guarantee increases the marketability of the PCs, providing liquidity to the mortgage market. Various other participants also play significant roles in the residential mortgage market. Mortgage brokers advise prospective borrowers about mortgage products and lending rates, and they connect borrowers with lenders. Mortgage servicers administer mortgage loans by collecting payments of principal and interest from borrowers as well as amounts related to property taxes and insurance. They remit the principal and interest payments to us, less a servicing fee, and we pass these payments through to mortgage investors, less a fee we charge to provide our guarantee (*i.e.*, the management and guarantee fee). In addition, private mortgage insurance companies and other financial institutions sometimes provide third-party insurance for mortgage loans or pools of loans. Our charter generally requires third-party insurance or other credit protections on some loans that we purchase. Most mortgage insurers increased premiums and tightened underwriting standards during 2008. These actions may impair our ability to purchase loans made to borrowers who do not make a down payment at least equal to 20% of the value of the property at the time of loan origination.

Our charter generally prohibits us from purchasing first-lien conventional (not guaranteed or insured by any agency or instrumentality of the U.S. government) single-family mortgages if the outstanding principal balance at the time of purchase exceeds 80% of the value of the property securing the mortgage unless we have one of the following credit protections:

mortgage insurance from a mortgage insurer that we determine is qualified on the portion of the outstanding principal balance above 80%;

a seller's agreement to repurchase or replace (for periods and under conditions as we may determine) any mortgage that has defaulted; or

retention by the seller of at least a 10% participation interest in the mortgages.

In addition, on February 18, 2009, the Obama Administration announced the HASP, which includes an initiative pursuant to which FHFA allowed mortgages currently owned or guaranteed by us to be refinanced without obtaining additional credit enhancement in excess of that already in place for that loan. For more information, see *Conservatorship and Related Developments Homeownership Affordability and Stability Plan*.

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Our charter requirement for credit protection does not apply to multifamily mortgages or to mortgages insured by the Federal Housing Administration, or FHA, or partially guaranteed by the Department of Veterans Affairs, or VA, or the U.S. Department of Agriculture, or USDA, Rural Development.

Under our charter, so far as practicable, we may only purchase mortgages that are of a quality, type and class that generally meet the purchase standards of private institutional mortgage investors. This means the mortgages we purchase must be readily marketable to institutional mortgage investors.

Our Customers

Our customers are predominantly lenders in the primary mortgage market that originate mortgages for homeowners and apartment owners. These lenders include mortgage banking companies, commercial banks, savings banks, community banks, credit unions, state and local housing finance agencies and savings and loan associations.

We acquire a significant portion of our mortgages from several large lenders. These lenders are among the largest mortgage loan originators in the U.S. We have mortgage purchase volume commitments with a number of mortgage lenders that provide for a minimum level of mortgage volume or specified dollar amount that these customers will deliver to us. If a mortgage lender fails to meet its contractual commitment, we have a variety of contractual remedies, including the right to assess certain fees. Our mortgage purchase contracts contain no penalty or liquidated damages clauses based on our inability to take delivery of presented mortgage loans. However, if we were to fail to meet our contractual commitment, we could be deemed to be in breach of our contract and could be liable for damages in a lawsuit. As the mortgage industry has been consolidating and certain large lenders have failed, we, as well as our competitors, have been seeking business from a decreasing number of key lenders. In addition, many of our customers are experiencing financial and liquidity problems that may affect the volume of business they are able to generate. During 2008, three mortgage lenders each accounted for more than 10% of our single-family mortgage purchase volume. These three lenders collectively accounted for approximately 59% of our single-family mortgage purchase volume for 2008 and our top ten lenders represented approximately 84% of our single-family mortgage purchase volume for the same period. Further, our top three multifamily lenders each accounted for more than 10%, and collectively represented approximately 40%, of our multifamily purchase volume during 2008. See **RISK FACTORS** Competitive and Market Risks for additional information.

Our Business Segments

We manage our business, under the direction of the Conservator, through three reportable segments:

Investments;

Single-family Guarantee; and

Multifamily.

For a summary and description of our financial performance and financial condition on a consolidated as well as segment basis, see **MD&A** and **FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA** and the accompanying notes to our consolidated financial statements.

As described below in **Conservatorship and Related Developments** *Managing Our Business During Conservatorship*, we are subject to a variety of different, and potentially competing, objectives in managing our business. These objectives create conflicts in strategic and day-to-day decision making that will likely lead to suboptimal outcomes for one or more, or possibly all, of these objectives. For example, to the extent we increase activities to assist the

mortgage market, our financial results are likely to suffer.

Investments Segment

Our Investments business is responsible for investment activity in mortgages and mortgage-related securities, other investments, debt financing, and managing our interest rate risk, liquidity and capital positions. We invest principally in mortgage-related securities and single-family mortgages through our mortgage-related investments portfolio.

Although we are primarily a buy-and-hold investor in mortgage assets, we may sell assets that are no longer expected to produce desired returns, to reduce risk, provide liquidity or structure certain transactions that are designed to improve our returns. We estimate our expected investment returns using an option-adjusted spread, or OAS, approach, which is an estimate of the yield spread between a given financial instrument and a benchmark (London Interbank Offered Rate, or LIBOR, agency or Treasury) yield curve, after consideration of potential variability in the instrument's cash flows resulting from any options embedded in the instrument, such as prepayment options. Our Investments segment activities may include the purchase of mortgages and mortgage-related securities with less attractive investment returns and with incremental risk in order to achieve our affordable housing goals and subgoals or to pursue other objectives under our conservatorship. Our statutory mission as defined in our charter includes providing ongoing assistance to the secondary market for residential mortgages (including activities relating to mortgages for low- and moderate-income families, involving an economic return that may be less than the return earned on other activities). Additionally, in this segment we maintain a cash and other

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investments portfolio, comprised primarily of cash and cash equivalents, non-mortgage-related securities, federal funds sold and securities purchased under agreements to resell, to help manage our liquidity needs.

Debt Financing

We fund our investment activities in our Investments and Multifamily segments by issuing short-term and long-term debt. Competition for funding in the capital markets can vary with economic and financial market conditions and regulatory environments. For example, under the recent Federal Deposit Insurance Corporation, or FDIC, temporary liquidity guarantee program, participating banks and holding companies may issue senior, short-term unsecured debt that is guaranteed by the U.S. government, which improves their ability to compete with us for debt funding. In the second half of 2008, we experienced less demand for our debt securities, as reflected in wider spreads on our term and callable debt. This reflected overall deterioration in our access to unsecured medium and long-term debt markets to fund our purchases of mortgage assets and to refinance maturing debt. As a result, we have been required to refinance our debt on a more frequent basis, exposing us to an increased risk of insufficient demand and adverse credit market conditions. However, the Federal Reserve has been an active purchaser in the secondary market of our long-term debt under its purchase program as discussed below, and spreads on our debt and our access to the debt markets have improved in early 2009 as a result of this activity.

Subsequent to our entry into conservatorship, Treasury and the Federal Reserve took certain actions affecting our access to debt financing, including the following:

on September 18, 2008, we entered into the Lending Agreement with Treasury, pursuant to which Treasury established a secured lending credit facility that is available to us until December 31, 2009 as a liquidity backstop (after December 31, 2009, Treasury still may purchase up to \$2.25 billion of our obligations under its permanent authority, as set forth in our charter); and

on November 25, 2008, the Federal Reserve announced a program to purchase up to \$100 billion in direct obligations of Freddie Mac, Fannie Mae and the FHLBs.

The support of the Federal Reserve has helped to improve spreads on our debt and our access to the debt markets.

For more information, see *Conservatorship and Related Developments* and *MD&A LIQUIDITY AND CAPITAL RESOURCES*.

Risk Management

Our Investments segment has responsibility for managing our interest rate and liquidity risks. We use derivatives to: (a) regularly adjust or rebalance our funding mix in order to more closely match changes in the interest rate characteristics of our mortgage-related assets; (b) economically hedge forecasted issuances of debt and synthetically create callable and non-callable funding; and (c) economically hedge foreign-currency exposure. For more information regarding our derivatives, see *QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK* and *NOTE 12: DERIVATIVES* to our consolidated financial statements.

PC and Structured Securities Support Activities

We support the liquidity of the market for PCs through a variety of activities, including educating dealers and investors about the merits of trading and investing in PCs, enhancing disclosure related to the collateral underlying our securities and introducing new mortgage-related securities products and initiatives. We support the price performance of our PCs through a variety of strategies, including the purchase and sale of PCs and other agency securities, as well

as through the issuance of Structured Securities. Agency securities refer to securities issued by Freddie Mac, Fannie Mae, a similarly chartered government-sponsored enterprise, or GSE, and Ginnie Mae. As discussed in *Single-Family Guarantee Segment*, our Structured Securities represent beneficial interests in pools of PCs and certain other types of mortgage-related assets. Our purchases and sales of mortgage securities influence the relative supply and demand for these securities, and the issuance of Structured Securities increases demand for our PCs. Increasing demand for our PCs helps support the price performance of our PCs. This in turn helps our competitiveness in purchasing mortgages from our lender customers. Depending upon market conditions, including the relative prices, supply of and demand for PCs and comparable Fannie Mae securities, as well as other factors, there may be substantial variability in any period in the total amount of securities we purchase or sell. We may increase, reduce or discontinue these or other related activities at any time, which could affect the liquidity of the market for PCs.

Single-Family Guarantee Segment

In our Single-family Guarantee segment, we purchase single-family mortgages originated by our lender customers in the primary mortgage market, primarily through our guarantor swap program. We securitize mortgages we have purchased and issue mortgage-related securities that can be sold to investors or held by us in our Investments segment. Earnings for this segment consist primarily of management and guarantee fee revenues, including amortization of upfront payments we receive, less related credit costs and operating expenses. Earnings for this segment also include the interest earned on assets

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held in the Investments segment related to single-family guarantee activities, net of allocated funding costs and amounts related to net float benefits.

Loan and Security Purchases

Our charter establishes requirements for and limitations on the mortgages and mortgage-related securities we may purchase, as described below. In the Single-family Guarantee segment, we purchase and securitize single-family mortgages, which are mortgages that are secured by one- to four-family properties. The primary types of single-family mortgages we purchase are 30-year, 20-year, and 15-year fixed-rate mortgages, interest-only mortgages, adjustable rate mortgages, or ARMs, and balloon/reset mortgages.

Our charter places an upper limitation, called the conforming loan limit, on the original principal balance of single-family mortgage loans we purchase. No comparable limits apply to our purchases of multifamily mortgages. The conforming loan limit is determined annually based on changes in FHFA's housing price index. Any decreases in the housing price index are accumulated and used to offset any future increases in the housing price index so that loan limits do not decrease from year-to-year. For 2006 to 2008, the base conforming loan limit for a one-family residence was set at \$417,000. As discussed below, the base conforming loan limit for a one-family residence for 2009 will remain at \$417,000, with higher limits in certain high-cost areas. Higher limits apply to two- to four-family residences.

As part of the Economic Stimulus Act of 2008, the conforming loan limits were increased for mortgages originated in certain high-cost areas from July 1, 2007 through December 31, 2008 to the higher of the applicable 2008 conforming loan limits, (\$417,000 for a one-family residence), or 125% of the median house price for a geographic area, not to exceed \$729,750 for a one-family residence. We began accepting these conforming jumbo mortgages for securitization as PCs and purchase into our mortgage-related investments portfolio in April 2008.

Pursuant to the Reform Act beginning in 2009, the conforming loan limits are permanently increased for mortgages originated in high-cost areas where 115% of the median house price exceeds the otherwise applicable conforming loan limit to the lesser of (i) 115% of the median house price or (ii) 150% of the conforming loan limit (currently \$625,500 for a one-family residence).

FHFA has announced that the base conforming loan limit will remain at \$417,000 for 2009, with the higher limits, referred to above, in high-cost areas. On February 17, 2009, President Obama signed the American Recovery and Reinvestment Act of 2009, or Recovery Act, into law. Among other things, for mortgages originated in 2009, the Recovery Act ensures that the loan limits for the high-cost areas determined under the Economic Stimulus Act do not fall below their 2008 levels.

The conforming loan limits are 50% higher for mortgages secured by properties in Alaska, Guam, Hawaii and the U.S. Virgin Islands.

Guarantees

Through our Single-family Guarantee segment, we historically sought to issue guarantees with fee terms we believed would offer attractive long-term returns relative to anticipated credit costs. Under conservatorship, and given the current economic environment, we currently seek to issue guarantees with fee terms that are intended to cover our expected credit costs on new purchases and that cover a portion of our ongoing operating expenses. Our current fee terms are not expected to provide opportunities to increase our capital position. Our efforts to provide increased support to the mortgage market have limited our ability to increase our fees for current expectations of credit risk.

We enter into mortgage purchase volume commitments with many of our larger customers in order to have a supply of loans for our guarantee business. The purchase and securitization of mortgage loans from customers under these longer-term contracts have fixed pricing schedules for our management and guarantee fees that are negotiated at the outset of the contract with initial terms typically ranging from six months to one year. We call these transactions flow activity and they represent the majority of our purchase volumes. The remainder of our purchases and securitizations of mortgage loans occurs in bulk transactions for which purchase prices and management and guarantee fees are negotiated on an individual transaction basis. Mortgage purchase volumes from individual customers can fluctuate significantly. Given the uncertainty of the current housing market, we have entered into arrangements with existing customers at their renewal dates that allow us to change credit and pricing terms faster than in the past; among other things, we are seeking to renew such arrangements for shorter terms than in the past. However, these arrangements, as well as significant customer consolidation discussed above, may increase volatility of flow-business activity with these customers in the future.

Securitization Activities

We securitize substantially all of the newly or recently originated single-family mortgages we have purchased and issue PCs that can be sold to investors or held by us. As discussed below, we guarantee these mortgage-related securities in exchange for compensation. We generally hold PCs instead of single-family mortgage loans for investment purposes,

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primarily to provide us with flexibility in determining what to sell or hold and to allow for more cost effective interest-rate risk management.

The compensation we receive in exchange for our guarantee activities includes a combination of management and guarantee fees paid on a monthly basis as a percentage of the underlying unpaid principal balance of the loans and initial upfront payments referred to as delivery fees. We recognize the fair value of the right to receive ongoing management and guarantee fees as a guarantee asset at the inception of a guarantee. We subsequently account for the guarantee asset like a debt security which performs similarly to an excess-servicing, interest-only security, classified as trading, and reflect changes in the fair value of the guarantee asset in earnings. We recognize a guarantee obligation at inception equal to the fair value of the compensation received, including any upfront delivery fees, less upfront payments by us to buy-up the monthly management and guarantee fee rate, plus any upfront payments received by us to buy-down the monthly management and guarantee fee rate, plus any seller-provided credit enhancements. Buy-up and buy-down fees are paid in conjunction with the formation of a PC to provide for a uniform PC coupon rate. The guarantee obligation represents deferred revenue that is amortized into earnings as we are relieved from risk under the guarantee.

The guarantee we provide increases the marketability of our mortgage-related securities, providing additional liquidity to the mortgage market. The types of mortgage-related securities we guarantee include the following:

PCs we issue;

single-class and multi-class Structured Securities (including Structured Transactions discussed below) we issue; and

securities related to tax-exempt multifamily housing revenue bonds (see Multifamily Segment).

PCs

Our PCs are pass-through securities that represent undivided beneficial interests in trusts that own pools of mortgages we have purchased. For our fixed-rate PCs, we guarantee the timely payment of interest and the timely payment of principal. For our ARM PCs, we guarantee the timely payment of the weighted average coupon interest rate for the underlying mortgage loans. We also guarantee the full and final payment of principal for ARM PCs; however, we do not guarantee the timely payment of principal on ARM PCs. In exchange for providing this guarantee, we receive a management and guarantee fee and up-front delivery fees. We issue most of our PCs in transactions in which our customers exchange mortgage loans for PCs. We refer to these transactions as guarantor swaps. The following diagram illustrates a guarantor swap transaction:

Guarantor Swap

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We also issue PCs in exchange for cash. The following diagram illustrates an exchange for cash in a cash auction of PCs:

Cash Auction of PCs

Institutional and other investors purchase our PCs, including pension funds, insurance companies, securities dealers, money managers, commercial banks, foreign central banks and other fixed-income investors. Treasury and the Federal Reserve also recently began to purchase mortgage-related securities issued by us, Fannie Mae and Ginnie Mae. PCs differ from U.S. Treasury securities and other fixed-income investments in two ways. First, they can be prepaid at any time because homeowners can pay off the underlying mortgages at any time prior to a loan's maturity. Because homeowners have the right to prepay their mortgage, the securities implicitly have a call option that significantly reduces the average life of the security as compared to the contractual loan maturity. Consequently, mortgage-related securities such as our PCs generally provide a higher nominal yield than certain other fixed-income products. Second, PCs are not backed by the full faith and credit of the United States, as are U.S. Treasury securities. We guarantee the payment of interest and principal on all our PCs, as discussed above. As discussed in *Conservatorship and Related Developments*, Treasury and the Federal Reserve have taken certain actions designed to support us and our business.

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Structured Securities

Our Structured Securities represent beneficial interests in pools of PCs and certain other types of mortgage-related assets. We create Structured Securities primarily by using PCs or previously issued Structured Securities as the underlying collateral. Similar to our PCs, we guarantee the payment of principal and interest to the holders of tranches of our Structured Securities. We do not charge a management and guarantee fee for Structured Securities, other than Structured Transactions, because the underlying collateral is already guaranteed. The following diagram illustrates an example of how we create a Structured Security:

Structured Security

We issue single-class Structured Securities and multi-class Structured Securities. Because the collateral underlying Structured Securities consists of other guaranteed mortgage-related securities, there are no concentrations of credit risk in any of the classes of Structured Securities that are issued, and there are no economic residual interests in the underlying securitization trust.

Single-class Structured Securities involve the straight pass through of all of the cash flows of the underlying collateral. Multi-class Structured Securities divide all of the cash flows of the underlying mortgage-related assets into two or more classes designed to meet the investment criteria and portfolio needs of different investors by creating classes of securities with varying maturities, payment priorities and coupons, each of which represents a beneficial ownership interest in a separate portion of the cash flows of the underlying collateral. Usually, the cash flows are divided to modify the relative exposure of different classes to interest-rate risk, or to create various coupon structures. The simplest division of cash flows is into principal-only and interest-only classes. Other securities we issue can involve the creation of sequential payment and planned or targeted amortization classes. In a sequential payment class structure, one or more classes receive all or a disproportionate percentage of the principal payments on the underlying mortgage assets for a period of time until that class or classes is retired, following which the principal payments are directed to other classes. Planned or targeted amortization classes involve the creation of classes that have relatively more predictable amortization schedules across different prepayment scenarios, thus reducing prepayment risk, extension risk, or both.

Our principal multi-class Structured Securities qualify for tax treatment as Real Estate Mortgage Investment Conduits, or REMICs. We issue many of our Structured Securities in transactions in which securities dealers or investors sell us the mortgage-related assets underlying the Structured Securities in exchange for the Structured Securities. For Structured Securities that we issue to third parties in exchange for guaranteed mortgage-related securities, we receive a transaction fee. This transaction fee is compensation for facilitating the transaction, as well as future administrative responsibilities. We also sell Structured Securities to securities dealers in exchange for cash.

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Structured Transactions

We also issue Structured Securities to third parties in exchange for non-Freddie Mac mortgage-related securities. We refer to these as Structured Transactions. The non-Freddie Mac mortgage-related securities are transferred to trusts that were specifically created for the purpose of issuing securities, or certificates, in the Structured Transactions. The following diagram illustrates an example of a Structured Transaction:

Structured Transactions

Structured Transactions can generally be segregated into two different types. In one type, we purchase only the senior tranches from a non-Freddie Mac senior-subordinated securitization, place these senior tranches into securitization trusts, provide a guarantee of the principal and interest of the senior tranches, and issue the Structured Transaction certificates. For all other Structured Transactions, we purchase single-class pass-through securities, place them in securitization trusts, guarantee the principal and interest, and issue the Structured Transaction certificates. In exchange for providing our guarantee, we may receive a management and guarantee fee or other delivery fees.

Although Structured Transactions generally have underlying mortgage loans with varying risk characteristics, we do not issue tranches that have concentrations of credit risk beyond that embedded in the underlying assets, as all cash flows of the underlying collateral are passed through to the holders of the securities and there are no economic residual interests in the securitization trusts. Further, the senior tranches we purchase to back the Structured Transactions benefit from credit protections from the related subordinated tranches, which we do not purchase. Additionally, there are other credit enhancements and structural features retained by the seller, such as excess interest or overcollateralization, that provide credit protection to our interests, and reduce the likelihood that we will have to perform under our guarantee of the senior tranches. Structured Transactions backed by single-class pass-through securities do not benefit from structural or other credit enhancement protections.

During 2008 and 2007, we entered into long-term standby commitments for mortgage assets held by third parties that require us to purchase loans from lenders when the loans subject to these commitments meet certain delinquency criteria. During 2008, several of these agreements were amended to permit a significant portion of the loans previously covered by the long-term standby commitments to be securitized as PCs or Structured Transactions, which totaled \$19.9 billion in issuances during 2008.

For information about the relative size of our securitization products, refer to Table 52 Issued PCs and Structured Securities. For information about the relative performance of these securities, refer to our MD&A CREDIT RISKS section.

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PC Trust Documents

We establish trusts for all of our issued PCs pursuant to our PC master trust agreement. In accordance with the terms of our PC trust documents, we have the option, and in some instances the requirement, to purchase specified mortgage loans from the trust. We purchase these mortgages at an amount equal to the current unpaid principal balance, less any outstanding advances of principal on the mortgage that have been distributed to PC holders. Generally, we elect to purchase mortgages that back our PCs and Structured Securities from the underlying loan pools when they are significantly past due. Through November 2007, our general practice was to purchase the mortgage loans out of PCs after the loans became 120 days delinquent. In December 2007, we changed our practice to purchase mortgages from pools underlying our PCs when:

the mortgages have been modified;

a foreclosure sale occurs;

the mortgages are delinquent for 24 months; or

the mortgages are 120 days or more delinquent and the cost of guarantee payments to PC holders, including advances of interest at the security coupon rate, exceeds the cost of holding the nonperforming loans in our portfolio.

In accordance with the terms of our PC trust documents, we are required to purchase a mortgage loan (or, in some cases, substitute a comparable mortgage loan) from a PC trust in the following situations:

if a court of competent jurisdiction or a federal government agency, duly authorized to oversee or regulate our mortgage purchase business, determines that our purchase of the mortgage was unauthorized and a cure is not practicable without unreasonable effort or expense, or if such a court or government agency requires us to repurchase the mortgage;

if a borrower exercises its option to convert the interest rate from an adjustable rate to a fixed rate on a convertible ARM; and

in the case of balloon-reset loans, shortly before the mortgage reaches its scheduled balloon-reset date.

The To Be Announced Market

Because our fixed-rate PCs are homogeneous, issued in high volume and highly liquid, they trade on a generic basis by PC coupon rate, also referred to as trading in the To Be Announced, or TBA, market. A TBA trade in Freddie Mac securities represents a contract for the purchase or sale of PCs to be delivered at a future date; however, the specific PCs that will be delivered to fulfill the trade obligation, and thus the specific characteristics of the mortgages underlying those PCs, are not known (*i.e.*, announced) at the time of the trade, but only shortly before the trade is settled. The use of the TBA market increases the liquidity of mortgage investments and improves the distribution of investment capital available for residential mortgage financing, thereby helping us to accomplish our statutory mission.

The Securities Industry and Financial Markets Association, or SIFMA, publishes guidelines pertaining to the types of mortgages that are eligible for TBA trades. Mortgages eligible for purchase by us due to the temporary increase to the conforming loan limits established by the Economic Stimulus Act of 2008 are not eligible for inclusion in TBA pools. However, SIFMA has permitted mortgages that are eligible for purchase by us due to the increase to loan limits for

certain high-cost areas under the Reform Act to constitute up to 10% of the original principal balance of TBA pools.

Credit Risk

Our Single-family Guarantee segment is responsible for pricing and managing credit risk related to single-family loans, including single-family loans underlying our PCs. For more information regarding credit risk, see MD&A CREDIT RISKS and NOTE 6: MORTGAGE LOANS AND LOAN LOSS RESERVES to our consolidated financial statements.

Multifamily Segment

Our Multifamily segment activities include purchases of multifamily mortgages for investment or sale and guarantees of payments of principal and interest on mortgages underlying multifamily housing revenue bonds and mortgage-related securities. The mortgage loans of the Multifamily segment consist of mortgages that are secured by properties with five or more residential rental units. These are generally structured as balloon mortgages with terms ranging from five to ten years and include provisions for the payment of yield maintenance fees to us in the event the mortgage is paid prior to the end of its term. Our multifamily mortgage products, services and initiatives primarily finance affordable rental housing for low- and moderate-income families.

We have not typically securitized multifamily mortgages because our multifamily loans are typically large, customized, non-homogenous loans that are not as conducive to securitization as single-family loans and the market for multifamily securitizations is currently relatively illiquid. Accordingly, we typically hold multifamily loans for investment purposes. However, we plan to increase our securitization of loans we hold in our multifamily loan portfolio during 2009, as market conditions permit.

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The multifamily property market is affected by the relative affordability of single-family home prices, construction cycles, and general economic factors, such as employment rates, all of which influence the supply and demand for apartments and pricing for rentals. Our multifamily loan purchases are largely through established institutional channels where we are generally providing post-construction financing to large apartment project operators with established track records. Property location and rental cash flows provide support to capitalization values on multifamily properties, on which investors base lending decisions.

Our Multifamily segment also includes certain equity investments in various limited partnerships that sponsor low-and moderate-income multifamily rental apartments, which benefit from low-income housing tax credits, or LIHTC. These activities support our mission to supply financing for affordable rental housing. We also guarantee the payment of principal and interest on multifamily mortgage loans and securities that are originated and held by state and municipal housing finance agencies to support tax-exempt and taxable multifamily housing revenue bonds. By engaging in these activities, we provide liquidity to this sector of the mortgage market.

Our Competition

Historically, our principal competitors have been Fannie Mae, the FHLBs, Ginnie Mae and other financial institutions that retain or securitize mortgages, such as commercial and investment banks, dealers, thrift institutions, and insurance companies. During 2008, almost all of our competitors, other than Fannie Mae, the FHLBs and Ginnie Mae, have ceased their activities in the residential mortgage finance business. We compete on the basis of price, products, structure and service. Ginnie Mae, which has become a more significant competitor during 2008, guarantees the timely payment of principal and interest on mortgage-related securities backed by federally insured or guaranteed loans, primarily those insured by FHA or guaranteed by VA. Ginnie Mae's growth has been primarily due to competitive pricing of Ginnie Mae securities, which are backed by the full faith and credit of the U.S., the increase in the FHA loan limit and the availability, through FHA, of a mortgage product for borrowers seeking greater than 80% financing who could not otherwise qualify under the tighter lending standards now prevailing for conventional mortgages.

Employees

At March 2, 2009, we had 4,927 full-time and 85 part-time employees. Our principal offices are located in McLean, Virginia.

Available Information

SEC Reports

Our financial disclosure documents are available free of charge on our website at www.freddiemac.com. (We do not intend this internet address to be an active link and are not using references to this internet address here or elsewhere in this annual report on Form 10-K to incorporate additional information into this annual report on Form 10-K.) We file reports, proxy statements and other information with the SEC. We make available free of charge through our website our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all other SEC reports and amendments to those reports as soon as reasonably practicable after we electronically file the material with, or furnish it to, the SEC. In addition, our Forms 10-K, 10-Q and 8-K, and other information filed with the SEC, are available for review and copying free of charge at the SEC's Public Reference Room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet site (www.sec.gov) that contains reports, proxy and information statements, and other information regarding companies that file electronically with the SEC. Our corporate governance guidelines, codes of conduct for employees and members of the Board of

Directors (and any amendments or waivers that would be required to be disclosed) and the charters of the Audit, Business and Risk, Compensation and Nominating and Governance committees of the Board of Directors are also available on our website at www.freddiemac.com. Printed copies of these documents may be obtained upon request from our Investor Relations department.

During the conservatorship, we do not expect to prepare or provide proxy statements for the solicitation of proxies from stockholders. Accordingly, rather than incorporating information that is required by Form 10-K by reference to such a proxy statement, we will provide such information by filing an amendment to our Form 10-K on or before April 30, 2009.

Information about Certain Securities Issuances by Freddie Mac

Pursuant to SEC regulations, public companies are required to disclose certain information when they incur a material direct financial obligation or become directly or contingently liable for a material obligation under an off-balance sheet arrangement. The disclosure must be made in a current report on Form 8-K under Item 2.03 or, if the obligation is incurred in connection with certain types of securities offerings, in prospectuses for that offering that are filed with the SEC.

Freddie Mac's securities offerings are exempted from SEC registration requirements. As a result, we are not required to and do not file registration statements or prospectuses with the SEC with respect to our securities offerings. To comply with the disclosure requirements of Form 8-K relating to the incurrence of material financial obligations, we report our incurrence

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of these types of obligations either in offering circulars (or supplements thereto) that we post on our website or in a current report on Form 8-K, in accordance with a no-action letter we received from the SEC staff. In cases where the information is disclosed in an offering circular posted on our website, the document will be posted on our website within the same time period that a prospectus for a non-exempt securities offering would be required to be filed with the SEC.

The website address for disclosure about our debt securities is www.freddiemac.com/debt. From this address, investors can access the offering circular and related supplements for debt securities offerings under Freddie Mac's global debt facility, including pricing supplements for individual issuances of debt securities.

Disclosure about our off-balance sheet obligations pursuant to some of the mortgage-related securities we issue can be found at www.freddiemac.com/mbs. From this address, investors can access information and documents about our mortgage-related securities, including offering circulars and related offering circular supplements.

We are providing our website addresses and the website address of the SEC solely for your information. Information appearing on our website or on the SEC's website is not incorporated into this annual report on Form 10-K.

Conservatorship and Related Developments

On September 7, 2008, the then Secretary of the Treasury and the Director of FHFA announced several actions taken by Treasury and FHFA regarding Freddie Mac and Fannie Mae. The Director of FHFA stated that they took these actions to help restore confidence in Fannie Mae and Freddie Mac, enhance their capacity to fulfill their mission, and mitigate the systemic risk that has contributed directly to the instability in the current market. These actions included the following:

placing us and Fannie Mae in conservatorship;

the execution of the Purchase Agreement, pursuant to which we issued to Treasury both senior preferred stock and a warrant to purchase common stock; and

the establishment of a temporary secured lending credit facility that is available to us until December 31, 2009, which was effected through the execution of the Lending Agreement.

We refer to the Purchase Agreement, the warrant, and the Lending Agreement as the Treasury Agreements.

Entry Into Conservatorship

On September 6, 2008, at the request of the then Secretary of the Treasury, the Chairman of the Federal Reserve and the Director of FHFA, our Board of Directors adopted a resolution consenting to the appointment of a conservator. After obtaining this consent, the Director of FHFA appointed FHFA as our Conservator on September 6, 2008, in accordance with the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, or the GSE Act, as amended by the Reform Act. Upon its appointment, the Conservator immediately succeeded to all rights, titles, powers and privileges of Freddie Mac, and of any stockholder, officer or director of Freddie Mac with respect to Freddie Mac and its assets, and succeeded to the title to all books, records and assets of Freddie Mac held by any other legal custodian or third party. During the conservatorship, the Conservator has delegated certain authority to the Board of Directors to oversee, and management to conduct, day-to-day operations so that the company can continue to operate in the ordinary course of business. The Conservator has eliminated the payment of dividends on common and preferred stock during the conservatorship, except for dividends on the senior preferred stock. We describe the terms of the conservatorship and the powers of our Conservator in detail below under *Supervision of our Business During*

Conservatorship, Managing our Business During Conservatorship and Powers of the Conservator.

There is significant uncertainty as to whether or when we will emerge from conservatorship, as it has no specified termination date, or what changes may occur to our business structure during or following our conservatorship, including whether we will continue to exist. However, we are not aware of any current plans of our Conservator to significantly change our business structure in the near-term.

We receive substantial support from Treasury, FHFA as our Conservator and regulator and the Federal Reserve. On February 18, 2009, Treasury Secretary Geithner issued a statement outlining further efforts by Treasury to strengthen its commitment to us by increasing the funding available under the Purchase Agreement from \$100 billion to \$200 billion, affirming Treasury's plans to continue purchasing Freddie Mac mortgage-related securities and increasing the limit on our mortgage-related investments portfolio by \$50 billion to \$900 billion with a corresponding increase in the amount of allowable debt outstanding. As of the filing of this annual report on Form 10-K, the Purchase Agreement has not been amended to reflect the increase in Treasury's commitment. We are dependent upon the continued support of Treasury and FHFA in order to continue operating our business. Our ability to access funds from Treasury under the Purchase Agreement is critical to keeping us solvent and avoiding the appointment of a receiver by FHFA under statutory mandatory receivership provisions.

In November 2008, we received \$13.8 billion from Treasury under the Purchase Agreement, and we expect to receive \$30.8 billion in March 2009 pursuant to a draw request that FHFA submitted to Treasury on our behalf. Upon funding of the \$30.8 billion draw request, the aggregate liquidation preference on the senior preferred stock owned by Treasury will

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increase from \$1.0 billion as of September 8, 2008 to \$45.6 billion. The amount remaining under the announced funding commitment from Treasury will be \$155.4 billion, which does not include the initial liquidation preference of \$1 billion reflecting the cost of the initial funding commitment (as no cash was received). The corresponding annual dividends payable to Treasury will increase to \$4.6 billion. This dividend obligation exceeds our annual historical earnings in most periods, and will contribute to increasingly negative cash flows in future periods, if we pay the dividends in cash. In addition, the continuing deterioration in the financial and housing markets and further GAAP net losses will make it more likely that we will continue to have additional large draws under the Purchase Agreement in future periods, which will make it significantly more difficult to pay senior preferred dividends in cash in the future. Additional draws would also diminish the amount of Treasury's remaining commitment available to us under the Purchase Agreement. As a result of additional draws and other factors, our cash flow from operations and earnings will likely be negative for the foreseeable future, there is significant uncertainty as to our future capital structure and long-term financial sustainability, and there are likely to be significant changes to our capital structure and business model beyond the near-term that we expect to be decided by Congress and the Executive Branch.

Impact of Conservatorship and Related Actions on Our Business

Our business objectives and strategies have in some cases been altered since we were placed into conservatorship, and may continue to change. Based on our charter, public statements from Treasury and FHFA officials and guidance from our Conservator, we have a variety of different, and potentially competing, objectives, including:

- providing liquidity, stability and affordability in the mortgage market;
- immediately providing additional assistance to the struggling housing and mortgage markets;
- reducing the need to draw funds from Treasury pursuant to the Purchase Agreement;
- returning to long-term profitability; and
- protecting the interests of the taxpayers.

These objectives create conflicts in strategic and day-to-day decision making that will likely lead to suboptimal outcomes for one or more, or possibly all, of these objectives. We regularly receive direction from our Conservator on how to pursue certain of these objectives. During the fourth quarter, the Conservator directed us to focus our efforts on assisting homeowners in the housing and mortgage markets. We responded by offering large-scale loan modification programs, temporarily suspending foreclosures and evictions and implementing other loss mitigation activities. These efforts are intended to help homeowners and the mortgage market and may help to mitigate credit losses, but some of them are expected to have an adverse impact on our future financial results. As a result, we will, in some cases, sacrifice the objectives of reducing the need to draw funds from Treasury and returning to long-term profitability as we provide this assistance. Additional draws on the Purchase Agreement will further increase our ongoing dividend obligations and, therefore, extend the period of time until we might be able to return to profitability.

On February 18, 2009, the Obama Administration announced the HASP, which includes (a) an initiative that will allow mortgages currently owned or guaranteed by us to be refinanced without obtaining additional credit enhancement beyond that already in place for that loan; and (b) an initiative to encourage modifications of mortgages for both homeowners who are in default and those who are at risk of imminent default, through various government incentives to servicers, mortgage holders and homeowners. At present, it is difficult for us to predict the full extent of our activities under these initiatives and assess their impact on us. However, to the extent that our servicers and borrowers participate in these programs in large numbers, it is likely that the costs we incur associated with modifications of loans, the costs associated with the servicer and borrower incentive fees and the potential accounting

impacts will be substantial.

Given the important role the Obama Administration has placed on Freddie Mac in addressing housing and mortgage market conditions, we may be required to take other actions that could have a negative impact on our business, financial results or condition. There are also other actions being contemplated by Congress, such as legislation that would provide bankruptcy judges the ability to lower the principal amount or interest rate, or both, on mortgage loans in bankruptcy proceedings that we anticipate will increase our credit losses.

Because we expect many of these objectives and initiatives will result in significant costs, and the extent to which we will be compensated or receive additional support for implementation of these actions is unclear, there is significant uncertainty as to the ultimate impact these activities will have on our future capital or liquidity needs. However, we believe that the increased level of support provided by Treasury and FHFA, as described above, is sufficient in the near-term to ensure we have adequate capital and liquidity to continue to conduct our normal business activities. Management is in the process of identifying and considering various actions that could be taken to reduce the significant uncertainties surrounding the business, as well as the level of future draws under the Purchase Agreement; however, our ability to pursue such actions may be limited based on market conditions and other factors. Any actions we take will likely require approval by FHFA and Treasury before they are implemented. In addition, FHFA, Treasury or Congress may direct us to focus our efforts on

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supporting the mortgage markets in ways that make it more difficult for us to implement any such actions. These actions and objectives also create risks and uncertainties that we discuss in RISK FACTORS.

Managing Our Business During Conservatorship

Since September 6, 2008, we have made a number of changes in the strategies we use to manage our business in support of our objectives outlined above. These include the changes we describe below.

Eliminating Planned Increase in Adverse Market Delivery Charge

As part of our efforts to increase liquidity in the mortgage market and make mortgage loans more affordable, we announced on October 3, 2008 that we were eliminating our previously announced 25 basis point increase in our adverse market delivery charge that was scheduled to take effect on November 7, 2008. The charge was intended to address potentially higher credit costs for certain products, and its elimination will reduce our future net income. In January 2009, we announced certain delivery fee increases that are more specifically targeted to mortgage products that present greater credit risk.

Temporarily Increasing the Size of Our Mortgage-Related Investments Portfolio

Consistent with our ability under the Purchase Agreement to increase the size of our on-balance sheet mortgage portfolio through the end of 2009, FHFA has directed us to acquire and hold increased amounts of mortgage loans and mortgage-related securities in our mortgage-related investments portfolio to provide additional liquidity to the mortgage market.

Increasing Our Loan Modification and Foreclosure Prevention Efforts

Working with our Conservator, we have significantly increased our loan modification and foreclosure prevention efforts since we entered into conservatorship. For example:

on November 11, 2008, our Conservator announced a broad-based Streamlined Modification Program, involving Freddie Mac, Fannie Mae, the FHA, FHFA and 27 seller/servicers, which is intended to offer fast-track loan modifications to certain troubled borrowers. Effective December 15, 2008, we directed our servicers to begin offering loan modifications to troubled borrowers under this program; and

we suspended foreclosure sales of occupied homes from November 26, 2008 through January 31, 2009 and from February 14, 2009 through March 6, 2009. We suspended evictions on real estate owned, or REO, properties from November 26, 2008 through April 1, 2009. Beginning March 7, 2009, we will suspend foreclosure sales for those loans that are eligible for modification under the HASP until our servicers determine that the borrower of such a loan is not responsive or that the loan does not qualify for a modification under HASP or any of our other alternatives to foreclosure.

For a discussion of the impact of these programs on our business, see MD&A CREDIT RISKS Mortgage Credit Risk Loss Mitigation Activities. See also Homeowner Affordability and Stability Plan for information on our role in the Obama Administration's plan to help homeowners.

Overview of Treasury Agreements

Senior Preferred Stock Purchase Agreement

The Conservator, acting on our behalf, entered into the Purchase Agreement on September 7, 2008. The Purchase Agreement was subsequently amended and restated on September 26, 2008, and Treasury Secretary Geithner announced additional changes to the Purchase Agreement on February 18, 2009. Under the Purchase Agreement, Treasury initially provided us with its commitment to provide up to \$100 billion in funding under specified conditions, which it has subsequently committed to increase to \$200 billion. The Purchase Agreement requires Treasury, upon the request of the Conservator, to provide funds to us after any quarter in which we have a negative net worth (that is, our total liabilities exceed our total assets, as reflected on our GAAP balance sheet). In addition, the Purchase Agreement requires Treasury, upon the request of the Conservator, to provide funds to us if the Conservator determines, at any time, that it will be mandated by law to appoint a receiver for us unless we receive these funds from Treasury. In exchange for Treasury's funding commitment, we issued to Treasury, as an initial commitment fee: (1) one million shares of Variable Liquidation Preference Senior Preferred Stock (with an initial liquidation preference of \$1 billion), which we refer to as the senior preferred stock; and (2) a warrant to purchase, for a nominal price, shares of our common stock equal to 79.9% of the total number of shares of our common stock outstanding on a fully diluted basis at the time the warrant is exercised, which we refer to as the warrant. We received no other consideration from Treasury for issuing the senior preferred stock or the warrant.

Under the terms of the Purchase Agreement, Treasury is entitled to a dividend of 10% per year, paid on a quarterly basis (which increases to 12% per year if not paid timely and in cash) on the aggregate liquidation preference of the senior preferred stock, consisting of the initial liquidation preference of \$1 billion plus funds we receive from Treasury and any

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dividends and commitment fees not paid in cash. To the extent we draw on Treasury's funding commitment, the liquidation preference of the senior preferred stock will be increased by the amount of funds we receive. The senior preferred stock is senior in liquidation preference to our common stock and all other series of preferred stock. In addition, beginning on March 31, 2010, we are required to pay a quarterly commitment fee to Treasury, which will accrue from January 1, 2010. We are required to pay this fee each quarter for as long as the Purchase Agreement is in effect. The amount of this fee has not yet been determined.

On November 24, 2008, we received \$13.8 billion from Treasury under its commitment and on December 31, 2008 we paid dividends of \$172 million in cash on the senior preferred stock to Treasury at the direction of the Conservator. The Director of FHFA has submitted a draw request to Treasury under the Purchase Agreement in the amount of \$30.8 billion, which we expect to receive in March 2009. When this draw is received:

the aggregate liquidation preference of the senior preferred stock will increase from \$1.0 billion as of September 8, 2008 to \$45.6 billion; and

Treasury, the holder of the senior preferred stock, will be entitled to annual cash dividends of \$4.6 billion, as calculated based on the aggregate liquidation preference of \$45.6 billion.

Under the Purchase Agreement, our ability to repay the liquidation preference of the senior preferred stock is limited and we may not be able to do so for the foreseeable future, if at all. The aggregate liquidation preference of the senior preferred stock and our related dividend obligations could increase further as a result of additional draws under the Purchase Agreement or any dividends or quarterly commitment fees payable under the Purchase Agreement that are not paid in cash. The amounts payable for dividends on the senior preferred stock are substantial and will have an adverse impact on our financial position and net worth and, to the extent they are paid in cash, will increase the need for additional funding under the Purchase Agreement. In addition, the continuing deterioration in the financial and housing markets and further GAAP net losses will make it more likely that we will continue to have additional large draws under the Purchase Agreement in future periods, which will make it significantly more difficult to service senior preferred dividends in cash in the future. As a result of additional draws and other factors, our cash flow from operations and earnings will likely be negative for the foreseeable future, there is significant uncertainty as to our future capital structure and long-term financial sustainability, and there are likely to be significant changes to our current capital structure and business model beyond the near-term that we expect to be decided by Congress and the Executive Branch.

The Purchase Agreement includes significant restrictions on our ability to manage our business, including limiting the amount of indebtedness we can incur and capping the size of our mortgage-related investments portfolio as of December 31, 2009. See MD&A CONSOLIDATED BALANCE SHEETS ANALYSIS Mortgage-Related Investments Portfolio and MD&A OUR PORTFOLIOS for a description and composition of our portfolios. Beginning in 2010, we must decrease the size of our mortgage-related investments portfolio at the rate of 10% per year until it reaches \$250 billion. While the senior preferred stock is outstanding, we are prohibited from paying dividends (other than on the senior preferred stock) or issuing equity securities without Treasury's consent.

The Purchase Agreement has an indefinite term and can terminate only in limited circumstances, which do not include the end of the conservatorship. The Purchase Agreement therefore could continue after the conservatorship ends. Treasury has the right to exercise the warrant, in whole or in part, at any time on or before September 7, 2028. We provide more detail about the provisions of the Purchase Agreement, the senior preferred stock and the warrant, the limited circumstances under which those agreements terminate, and the limitations they place on our ability to manage our business under Treasury Agreements below. See RISK FACTORS for a discussion of how the restrictions under the Purchase Agreement may have a material adverse effect on our business.

Liquidity and the Treasury Lending Agreement

In the second half of 2008, we experienced less demand for our debt securities as reflected in wider spreads on our term and callable debt. This reflected overall deterioration in our access to unsecured medium and long-term debt markets. There were many factors contributing to the reduced demand for our debt securities in the capital markets, including continued severe market disruptions, market concerns about our capital position and the future of our business (including its future profitability, future structure, regulatory actions and agency status) and the extent of U.S. government support for our debt securities. In addition, various U.S. government programs were still being digested by market participants, which created uncertainty as to whether competing obligations of other companies were more attractive investments than our debt securities.

As our ability to issue long-term debt has been limited, we have relied increasingly on short-term debt to fund our purchases of mortgage assets and to refinance maturing debt. As a result, we have been required to refinance our debt on a more frequent basis, exposing us to an increased risk of insufficient demand, increasing interest rates and adverse credit market conditions. On November 25, 2008, the Federal Reserve announced that it would purchase up to \$100 billion in direct obligations of us, Fannie Mae, and the FHLBs, and up to \$500 billion of mortgage-related securities issued by us,

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Fannie Mae and Ginnie Mae by the end of the second quarter of 2009. Since that time, we have experienced improved demand for our issuances of long-term debt, indicating that these conditions are beginning to improve and demonstrating greater ability for us to access the long-term debt markets.

On September 18, 2008, we entered into the Lending Agreement with Treasury, pursuant to which Treasury established a new secured lending credit facility that is available to us until December 31, 2009 as a liquidity back-stop. In order to borrow pursuant to the Lending Agreement, we are required to post collateral in the form of Freddie Mac or Fannie Mae mortgage-related securities to secure all borrowings thereunder. The terms of any borrowings under the Lending Agreement, including the interest rate payable on the loan and the amount of collateral we will need to provide as security for the loan, will be determined by Treasury. Treasury is not obligated under the Lending Agreement to make any loan to us. Treasury does not have authority to extend the term of this credit facility beyond December 31, 2009, which is when Treasury's temporary authority to purchase our obligations and other securities, granted by the Reform Act, expires. After December 31, 2009, Treasury still may purchase up to \$2.25 billion of our obligations under its permanent authority, as set forth in our charter. We do not currently have plans to use the Lending Agreement and are uncertain as to the impact, if any, its expiration might have on our operations or liquidity.

As of March 10, 2009, we have not borrowed any amounts under the Lending Agreement. The terms of the Lending Agreement are described in more detail in Treasury Agreements.

We believe we will continue to have adequate access to the short and medium-term debt markets for the purpose of refinancing our debt obligations as they become due. We also have had undisrupted access to the derivatives markets, as necessary, for the purposes of entering into derivatives to manage our duration risk.

Changes in Company Management and our Board of Directors

We have had significant changes in our Board of Directors and senior management since our entry into conservatorship on September 6, 2008.

On September 7, 2008, the Conservator appointed David M. Moffett as our Chief Executive Officer, effective immediately. Since September 7, 2008, we have announced the departures of our former Chief Financial Officer and our former Chief Business Officer.

Eight members of our Board of Directors resigned following our entry into conservatorship, including Richard F. Syron, our former Chairman and Chief Executive Officer. On September 16, 2008, the Conservator appointed John A. Koskinen as the non-executive Chairman of our Board of Directors. On December 18, 2008, the Conservator appointed ten additional directors to the Board of Directors (including three who were on the Board of Directors prior to conservatorship), and delegated certain roles and responsibilities to the Board of Directors as discussed below under *Managing our Business During Conservatorship*.

Mr. Moffett has resigned from his position as Chief Executive Officer and as a member of our Board of Directors, effective no later than March 13, 2009. Mr. Koskinen has been appointed Interim Chief Executive Officer and Robert R. Glauber has been appointed interim non-executive Chairman of the Board of Directors, effective upon Mr. Moffett's resignation.

Supervision of our Business During Conservatorship

We experienced a change in control when we were placed into conservatorship on September 6, 2008. Under conservatorship, we have additional heightened supervision and direction from our regulator, FHFA, which is also

acting as our Conservator. As Conservator, FHFA has succeeded to the powers of our Board of Directors and management, as well as the powers of our stockholders. During the conservatorship, the Conservator has delegated certain authority to the Board of Directors to oversee, and management to conduct, day-to-day operations so that the company can continue to operate in the ordinary course of business.

Because the Conservator has succeeded to the powers, including voting rights, of our stockholders, who therefore do not currently have voting rights of their own, we do not expect to hold stockholders' meetings during the conservatorship, nor will we prepare or provide proxy statements for the solicitation of proxies.

Below is a summary comparison of various features of our business before and after we were placed into conservatorship and entered into the Purchase Agreement. Following this summary, we provide additional information about a number of aspects of our business now that we are in conservatorship under *Managing Our Business During Conservatorship*. In addition, we describe the impacts of the Treasury Agreements on our business above under *Overview of Treasury Agreements* and below under *Treasury Agreements*.

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Topic	Before Conservatorship	During Conservatorship
<p>Authority of Board of Directors, Management and Stockholders</p>	<p>Board of Directors with right to determine the general policies governing the operations of the company and exercise all power and authority of the company except as vested in stockholders or as the Board of Directors chooses to delegate to management</p> <p>Board of Directors delegated significant authority to management</p> <p>Stockholders with specified voting rights</p>	<p>FHFA, as Conservator, has all of the power and authority of the Board of Directors, management and the stockholders</p> <p>The Conservator has delegated certain authority to the Board of Directors to oversee, and management to conduct, day-to-day operations. The Conservator retains overall management authority, including the authority to withdraw its delegations of authority at any time</p> <p>Stockholders have no voting rights because the voting rights are vested in the Conservator</p>
<p>Regulatory Supervision</p>	<p>Regulated by FHFA, our new regulator created by the Reform Act</p> <p>Reform Act gave regulator significant additional safety and soundness supervisory powers</p>	<p>Regulated by FHFA, with powers as provided by Reform Act</p> <p>Additional management authority by FHFA, which is serving as our Conservator</p>
<p>Structure of Board of Directors</p>	<p>13 directors: 11 independent, plus Chairman and Chief Executive Officer, and one vacancy; independent, non-management lead director</p> <p>Five standing Board committees, including Audit Committee in which one of the five independent members was an audit committee financial expert</p>	<p>11 directors, with delegation by the Conservator of specified roles and responsibilities: nine independent, including Chairman of the Board and three directors who were also directors of Freddie Mac immediately prior to conservatorship; and two non-independent, including the Chief Executive Officer. Two additional board members may be added to the Board of Directors, subject to approval of the Conservator.</p> <p>Mr. Moffett has resigned from the Board of Directors, effective no later than March 13, 2009. Effective upon Mr. Moffett's resignation and pending the appointment of a new Chief Executive Officer, John A. Koskinen, who has been serving as non-executive Chairman of the Board of Directors, will assume the role of Interim Chief Executive Officer, and Robert R. Glauber will assume the role of</p>

		interim non-executive Chairman. During the period that Mr. Koskinen is serving as Interim Chief Executive Officer, he will not be an independent director and the Board will have 10 directors, 8 of whom will be independent.
		Four standing Board committees, including Audit Committee consisting of four independent members, one of which is an audit committee financial expert
Management	Richard F. Syron served as Chairman and Chief Executive Officer from December 2003 to September 6, 2008	David M. Moffett began serving as Chief Executive Officer on September 7, 2008. Mr. Moffett has resigned from his position as Chief Executive Officer, effective no later than March 13, 2009. See Structure of Board of Directors above.
Capital	Statutory and regulatory capital requirements	Statutory and regulatory capital requirements not binding
	Capital classifications as to adequacy of capital provided by FHFA on quarterly basis	Quarterly capital classifications by FHFA suspended
Net Worth ⁽¹⁾	Receivership mandatory if our assets are less than our obligations for 60 days	Conservator has directed management to focus on maintaining positive stockholders equity in order to avoid both the need to request funds under the Purchase Agreement and mandatory receivership
		Receivership mandatory if FHFA makes a written determination that our assets are and have been less than our obligations for 60 days ⁽²⁾
Managing for the Benefit of Stockholders	Maximize common stockholder value over the long term	No longer managed with a strategy to maximize common stockholder returns
	Fulfill our mission of providing liquidity, stability and affordability to the mortgage market	Maintain positive net worth and fulfill our mission of providing liquidity, stability and affordability to the mortgage market
		Focus on returning to long-term profitability if it does not adversely affect our ability to maintain net worth or fulfill our mission or other initiatives, as directed by our Conservator

(1)

Our net worth generally refers to our assets less our liabilities, as reflected on our GAAP balance sheet. If we have a negative net worth (which means that our liabilities exceed our assets, as reflected on our GAAP balance sheet), then, if requested by the Conservator (or by our Chief Financial Officer, if we are not under conservatorship), Treasury is required to provide funds to us pursuant to the Purchase Agreement. Net worth is substantially the same as stockholders' equity (deficit); however, net worth also includes the minority interests that third parties own in our consolidated subsidiaries (which was \$94 million as of December 31, 2008). At December 31, 2008, we had a negative net worth of \$30.6 billion.

- (2) Under the Reform Act, FHFA must place us into receivership if FHFA determines in writing that our assets are less than our obligations for a period of 60 days. FHFA has notified us that the measurement period for any mandatory receivership determination with respect to our assets and obligations would commence no earlier than the SEC public filing deadline for our quarterly or annual financial statements and would continue for 60 calendar days after that date. FHFA has also advised us that, if, during that 60-day period, we receive funds from Treasury in an amount at least equal to the deficiency amount under the Purchase Agreement, the Director of FHFA will not make a mandatory receivership determination.

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Our Board of Directors and Management During Conservatorship

We can, and have continued to, enter into and enforce contracts with third parties. The Conservator retains the authority to withdraw its delegations of authority at any time. The Conservator is working with the Board of Directors and management to address and determine the strategic direction for the company.

The Conservator has instructed the Board of Directors that it should consult with and obtain the approval of the Conservator before taking action in the following areas:

actions involving capital stock, dividends, the Purchase Agreement, increases in risk limits, material changes in accounting policy, and reasonably foreseeable material increases in operational risk;

the creation of any subsidiary or affiliate or any substantial transaction between Freddie Mac and any of its subsidiaries or affiliates, except for transactions undertaken in the ordinary course (*e.g.*, the creation of a REMIC, real estate investment trust or similar vehicle);

matters that relate to conservatorship, such as, but not limited to, the initiation and material actions in connection with significant litigation addressing the actions or authority of the Conservator, repudiation of contracts, qualified financial contracts in dispute due to our conservatorship, and counterparties attempting to nullify or amend contracts due to our conservatorship;

actions involving hiring, compensation and termination benefits of directors and officers at the executive vice president level and above (including, regardless of title, executive positions with the functions of Chief Operating Officer, Chief Financial Officer, General Counsel, Chief Business Officer, Chief Investment Officer, Treasurer, Chief Compliance Officer, Chief Risk Officer and Chief/General/Internal Auditor);

actions involving the retention and termination of external auditors, and law firms serving as consultants to the Board of Directors;

settlements in excess of \$50 million of litigation, claims, regulatory proceedings or tax-related matters;

any merger with or purchase or acquisition of a business involving consideration in excess of \$50 million; and

any action that in the reasonable business judgment of the Board of Directors at the time that the action is taken is likely to cause significant reputational risk.

Powers of the Conservator

The Reform Act, which was signed into law on July 30, 2008, replaced the conservatorship provisions previously applicable to Freddie Mac with conservatorship provisions based generally on federal banking law. As discussed below, FHFA has broad powers when acting as our conservator. For more information on the Reform Act, see Regulation and Supervision.

General Powers of the Conservator

Upon its appointment, the Conservator immediately succeeded to all rights, titles, powers and privileges of Freddie Mac, and of any stockholder, officer or director of Freddie Mac with respect to Freddie Mac and its assets. The Conservator also succeeded to the title to all books, records and assets of Freddie Mac held by any other legal

custodian or third party.

Under the Reform Act, the Conservator may take any actions it determines are necessary and appropriate to carry on our business, support public policy objectives, and preserve and conserve our assets and property. The Conservator's powers include the ability to transfer or sell any of our assets or liabilities (subject to certain limitations and post-transfer notice provisions for transfers of qualified financial contracts, as defined below under *Special Powers of the Conservator* *Security Interests Protected; Exercise of Rights Under Qualified Financial Contracts*) without any approval, assignment of rights or consent of any party. The Reform Act, however, provides that mortgage loans and mortgage-related assets that have been transferred to a Freddie Mac securitization trust must be held for the beneficial owners of the trust and cannot be used to satisfy our general creditors.

Under the Reform Act, in connection with any sale or disposition of our assets, the Conservator must conduct its operations to maximize the net present value return from the sale or disposition, to minimize the amount of any loss realized, and to ensure adequate competition and fair and consistent treatment of offerors. The Conservator is required to maintain a full accounting of the conservatorship and make its reports available upon request to stockholders and members of the public.

We remain liable for all of our obligations relating to our outstanding debt and mortgage-related securities. In a Fact Sheet dated September 7, 2008, FHFA indicated that our obligations will be paid in the normal course of business during the conservatorship.

Special Powers of the Conservator

Disaffirmance and Repudiation of Contracts

Under the Reform Act, the Conservator may disaffirm or repudiate contracts (subject to certain limitations for qualified financial contracts) that we entered into prior to its appointment as Conservator if it determines, in its sole discretion, that

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performance of the contract is burdensome and that disaffirmation or repudiation of the contract promotes the orderly administration of our affairs. The Reform Act requires FHFA to exercise its right to disaffirm or repudiate most contracts within a reasonable period of time after its appointment as Conservator. We can, and have continued to, enter into, perform and enforce contracts with third parties.

The Conservator has advised us that it has no intention of repudiating any guarantee obligation relating to Freddie Mac's mortgage-related securities because it views repudiation as incompatible with the goals of the conservatorship.

In general, the liability of the Conservator for the disaffirmance or repudiation of any contract is limited to actual direct compensatory damages determined as of September 6, 2008, which is the date we were placed into conservatorship. The liability of the Conservator for the disaffirmance or repudiation of a qualified financial contract is limited to actual direct compensatory damages (which are deemed to include normal and reasonable costs of cover or other reasonable measure of damages utilized in the industries for such contract and agreement claims) determined as of the date of the disaffirmance or repudiation. If the Conservator disaffirms or repudiates any lease to or from us, or any contract for the sale of real property, the Reform Act specifies the liability of the Conservator.

Limitations on Enforcement of Contractual Rights by Counterparties

The Reform Act provides that the Conservator may enforce most contracts entered into by us, notwithstanding any provision of the contract that provides for termination, default, acceleration, or exercise of rights upon the appointment of, or the exercise of rights or powers by, a conservator.

Security Interests Protected; Exercise of Rights Under Qualified Financial Contracts

Notwithstanding the Conservator's powers under the Reform Act described above, the Conservator must recognize legally enforceable or perfected security interests, except where such an interest is taken in contemplation of our insolvency or with the intent to hinder, delay or defraud us or our creditors. In addition, the Reform Act provides that no person will be stayed or prohibited from exercising specified rights in connection with qualified financial contracts, including termination or acceleration (other than solely by reason of, or incidental to, the appointment of the Conservator), rights of offset, and rights under any security agreement or arrangement or other credit enhancement relating to such contract. The term qualified financial contract means any securities contract, commodity contract, forward contract, repurchase agreement, swap agreement and any similar agreement, as determined by FHFA by regulation, resolution or order.

Avoidance of Fraudulent Transfers

Under the Reform Act, the Conservator may avoid, or refuse to recognize, a transfer of any property interest of Freddie Mac or of any of our debtors, and also may avoid any obligation incurred by Freddie Mac or by any debtor of Freddie Mac, if the transfer or obligation was made: (1) within five years of September 6, 2008; and (2) with the intent to hinder, delay, or defraud Freddie Mac, FHFA, the Conservator or, in the case of a transfer in connection with a qualified financial contract, our creditors. To the extent a transfer is avoided, the Conservator may recover, for our benefit, the property or, by court order, the value of that property from the initial or subsequent transferee, other than certain transfers that were made for value and in good faith. These rights are superior to any rights of a trustee or any other party, other than a federal agency, under the U.S. bankruptcy code.

Modification of Statutes of Limitations

Under the Reform Act, notwithstanding any provision of any contract, the statute of limitations with regard to any action brought by the Conservator is: (1) for claims relating to a contract, the longer of six years or the applicable

period under state law; and (2) for tort claims, the longer of three years or the applicable period under state law, in each case, from the later of September 6, 2008 or the date on which the cause of action accrues. In addition, notwithstanding the state law statute of limitation for tort claims, the Conservator may bring an action for any tort claim that arises from fraud, intentional misconduct resulting in unjust enrichment, or intentional misconduct resulting in substantial loss to us, if the state's statute of limitations expired not more than five years before September 6, 2008.

Suspension of Legal Actions

Under the Reform Act, in any judicial action or proceeding to which we are or become a party, the Conservator may request, and the applicable court must grant, a stay for a period not to exceed 45 days.

Treatment of Breach of Contract Claims

Under the Reform Act, any final and unappealable judgment for monetary damages against the Conservator for breach of an agreement executed or approved in writing by the Conservator will be paid as an administrative expense of the Conservator.

Attachment of Assets and Other Injunctive Relief

Under the Reform Act, the Conservator may seek to attach assets or obtain other injunctive relief without being required to show that any injury, loss or damage is irreparable and immediate.

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Subpoena Power

The Reform Act provides the Conservator, with the approval of the Director of FHFA, with subpoena power for purposes of carrying out any power, authority or duty with respect to Freddie Mac.

Treasury Agreements

The Reform Act granted Treasury temporary authority (through December 31, 2009) to purchase any obligations and other securities issued by Freddie Mac on such terms and conditions and in such amounts as Treasury may determine, upon mutual agreement between Treasury and Freddie Mac. As of March 10, 2009, Treasury had used this authority as described below:

Purchase Agreement and Related Issuance of Senior Preferred Stock and Common Stock Warrant

Purchase Agreement

On September 7, 2008, we, through FHFA, in its capacity as Conservator, and Treasury entered into the Purchase Agreement. The Purchase Agreement was subsequently amended and restated on September 26, 2008, and Treasury Secretary Geithner announced additional changes to the Purchase Agreement on February 18, 2009. Pursuant to the Purchase Agreement, on September 8, 2008 we issued to Treasury one million shares of senior preferred stock with an initial liquidation preference equal to \$1,000 per share (for an aggregate liquidation preference of \$1 billion), and a warrant for the purchase of our common stock. The terms of the senior preferred stock and warrant are summarized in separate sections below. We did not receive any cash proceeds from Treasury as a result of issuing the senior preferred stock or the warrant. However, as discussed below, deficits in our net worth have made it necessary for us to make substantial draws on Treasury's funding commitment under the Purchase Agreement.

The senior preferred stock and warrant were issued to Treasury as an initial commitment fee in consideration of the initial commitment from Treasury to provide up to \$100 billion (which Treasury has committed to increase to \$200 billion) in funds to us under the terms and conditions set forth in the Purchase Agreement. In addition to the issuance of the senior preferred stock and warrant, beginning on March 31, 2010, we are required to pay a quarterly commitment fee to Treasury. This quarterly commitment fee will accrue from January 1, 2010. The fee, in an amount to be mutually agreed upon by us and Treasury and to be determined with reference to the market value of Treasury's funding commitment as then in effect, will be determined on or before December 31, 2009, and will be reset every five years. Treasury may waive the quarterly commitment fee for up to one year at a time, in its sole discretion, based on adverse conditions in the U.S. mortgage market. We may elect to pay the quarterly commitment fee in cash or add the amount of the fee to the liquidation preference of the senior preferred stock.

The Purchase Agreement provides that, on a quarterly basis, we generally may draw funds up to the amount, if any, by which our total liabilities exceed our total assets, as reflected on our GAAP balance sheet for the applicable fiscal quarter (referred to as the deficiency amount), provided that the aggregate amount funded under the Purchase Agreement may not exceed Treasury's commitment. The Purchase Agreement provides that the deficiency amount will be calculated differently if we become subject to receivership or other liquidation process. The deficiency amount may be increased above the otherwise applicable amount upon our mutual written agreement with Treasury. In addition, if the Director of FHFA determines that the Director will be mandated by law to appoint a receiver for us unless our capital is increased by receiving funds under the commitment in an amount up to the deficiency amount (subject to the maximum amount that may be funded under the agreement), then FHFA, in its capacity as our Conservator, may request that Treasury provide funds to us in such amount. The Purchase Agreement also provides that, if we have a deficiency amount as of the date of completion of the liquidation of our assets, we may request funds from Treasury in an amount up to the deficiency amount (subject to the maximum amount that may be funded under the agreement).

Any amounts that we draw under the Purchase Agreement will be added to the liquidation preference of the senior preferred stock. No additional shares of senior preferred stock are required to be issued under the Purchase Agreement.

The Purchase Agreement provides that the Treasury's funding commitment will terminate under any of the following circumstances: (1) the completion of our liquidation and fulfillment of Treasury's obligations under its funding commitment at that time; (2) the payment in full of, or reasonable provision for, all of our liabilities (whether or not contingent, including mortgage guarantee obligations); and (3) the funding by Treasury of the maximum amount of the commitment under the Purchase Agreement. In addition, Treasury may terminate its funding commitment and declare the Purchase Agreement null and void if a court vacates, modifies, amends, conditions, enjoins, stays or otherwise affects the appointment of the Conservator or otherwise curtails the Conservator's powers. Treasury may not terminate its funding commitment under the Purchase Agreement solely by reason of our being in conservatorship, receivership or other insolvency proceeding, or due to our financial condition or any adverse change in our financial condition.

The Purchase Agreement provides that most provisions of the agreement may be waived or amended by mutual written agreement of the parties; however, no waiver or amendment of the agreement is permitted that would decrease Treasury's

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aggregate funding commitment or add conditions to Treasury's funding commitment if the waiver or amendment would adversely affect in any material respect the holders of our debt securities or Freddie Mac mortgage guarantee obligations.

In the event of our default on payments with respect to our debt securities or Freddie Mac mortgage guarantee obligations, if Treasury fails to perform its obligations under its funding commitment and if we and/or the Conservator are not diligently pursuing remedies in respect of that failure, the holders of these debt securities or Freddie Mac mortgage guarantee obligations may file a claim in the United States Court of Federal Claims for relief requiring Treasury to fund to us the lesser of: (1) the amount necessary to cure the payment defaults on our debt and Freddie Mac mortgage guarantee obligations; and (2) the lesser of: (a) the deficiency amount; and (b) the maximum amount of the commitment less the aggregate amount of funding previously provided under the commitment. Any payment that Treasury makes under those circumstances will be treated for all purposes as a draw under the Purchase Agreement that will increase the liquidation preference of the senior preferred stock.

Issuance of Senior Preferred Stock

Pursuant to the Purchase Agreement described above, we issued one million shares of senior preferred stock to Treasury on September 8, 2008. The senior preferred stock was issued to Treasury in partial consideration of Treasury's commitment to provide funds to us under the terms set forth in the Purchase Agreement.

Shares of the senior preferred stock have a par value of \$1, and have a stated value and initial liquidation preference equal to \$1,000 per share. The liquidation preference of the senior preferred stock is subject to adjustment. Dividends that are not paid in cash for any dividend period will accrue and be added to the liquidation preference of the senior preferred stock. In addition, any amounts Treasury pays to us pursuant to its funding commitment under the Purchase Agreement and any quarterly commitment fees that are not paid in cash to Treasury nor waived by Treasury will be added to the liquidation preference of the senior preferred stock. As described below, we may make payments to reduce the liquidation preference of the senior preferred stock in limited circumstances.

Treasury, as the holder of the senior preferred stock, is entitled to receive, when, as and if declared by our Board of Directors, cumulative quarterly cash dividends at the annual rate of 10% per year on the then-current liquidation preference of the senior preferred stock. The initial dividend was paid in cash on December 31, 2008 at the direction of the Conservator, for the period from but not including September 8, 2008 through and including December 31, 2008, in the aggregate amount of \$172 million. If at any time we fail to pay cash dividends in a timely manner, then immediately following such failure and for all dividend periods thereafter until the dividend period following the date on which we have paid in cash full cumulative dividends (including any unpaid dividends added to the liquidation preference), the dividend rate will be 12% per year.

The senior preferred stock ranks ahead of our common stock and all other outstanding series of our preferred stock, as well as any capital stock we issue in the future, as to both dividends and rights upon liquidation. The senior preferred stock provides that we may not, at any time, declare or pay dividends on, make distributions with respect to, or redeem, purchase or acquire, or make a liquidation payment with respect to, any common stock or other securities ranking junior to the senior preferred stock unless: (1) full cumulative dividends on the outstanding senior preferred stock (including any unpaid dividends added to the liquidation preference) have been declared and paid in cash; and (2) all amounts required to be paid with the net proceeds of any issuance of capital stock for cash (as described in the following paragraph) have been paid in cash. Shares of the senior preferred stock are not convertible. Shares of the senior preferred stock have no general or special voting rights, other than those set forth in the certificate of designation for the senior preferred stock or otherwise required by law. The consent of holders of at least two-thirds of all outstanding shares of senior preferred stock is generally required to amend the terms of the senior preferred stock or to create any class or series of stock that ranks prior to or on parity with the senior preferred stock.

We are not permitted to redeem the senior preferred stock prior to the termination of Treasury's funding commitment set forth in the Purchase Agreement; however, we are permitted to pay down the liquidation preference of the outstanding shares of senior preferred stock to the extent of (1) accrued and unpaid dividends previously added to the liquidation preference and not previously paid down; and (2) quarterly commitment fees previously added to the liquidation preference and not previously paid down. In addition, if we issue any shares of capital stock for cash while the senior preferred stock is outstanding, the net proceeds of the issuance must be used to pay down the liquidation preference of the senior preferred stock; however, the liquidation preference of each share of senior preferred stock may not be paid down below \$1,000 per share prior to the termination of Treasury's funding commitment. Following the termination of Treasury's funding commitment, we may pay down the liquidation preference of all outstanding shares of senior preferred stock at any time, in whole or in part. If, after termination of Treasury's funding commitment, we pay down the liquidation preference of each outstanding share of senior preferred stock in full, the shares will be deemed to have been redeemed as of the payment date.

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Issuance of Common Stock Warrant

Pursuant to the Purchase Agreement described above, on September 7, 2008, we, through FHFA, in its capacity as Conservator, issued a warrant to purchase common stock to Treasury. The warrant was issued to Treasury in partial consideration of Treasury's commitment to provide funds to us under the terms set forth in the Purchase Agreement.

The warrant gives Treasury the right to purchase shares of our common stock equal to 79.9% of the total number of shares of our common stock outstanding on a fully diluted basis on the date of exercise. The warrant may be exercised in whole or in part at any time on or before September 7, 2028, by delivery to us of: (a) a notice of exercise; (b) payment of the exercise price of \$0.00001 per share; and (c) the warrant. If the market price of one share of our common stock is greater than the exercise price, then, instead of paying the exercise price, Treasury may elect to receive shares equal to the value of the warrant (or portion thereof being canceled) pursuant to the formula specified in the warrant. Upon exercise of the warrant, Treasury may assign the right to receive the shares of common stock issuable upon exercise to any other person.

As of March 10, 2009, Treasury has not exercised the warrant.

Lending Agreement

On September 18, 2008, we entered into the Lending Agreement with Treasury under which we may request loans until December 31, 2009. Loans under the Lending Agreement require approval from Treasury at the time of request. Treasury is not obligated under the Lending Agreement to make, increase, renew or extend any loan to us. The Lending Agreement does not specify a maximum amount that may be borrowed thereunder, but any loans made to us by Treasury pursuant to the Lending Agreement must be collateralized by Freddie Mac or Fannie Mae mortgage-related securities. Further, unless amended or waived by Treasury, the amount we may borrow under the Lending Agreement is limited by the restriction on our aggregate indebtedness under the Purchase Agreement.

The Lending Agreement does not specify the maturities or interest rate of loans that may be made by Treasury under the credit facility. In a Fact Sheet regarding the credit facility published by Treasury on September 7, 2008, Treasury indicated that loans made pursuant to the credit facility will be for short-term durations and would in general be expected to be for less than one month but no shorter than one week. The Fact Sheet further indicated that the interest rate on loans made pursuant to the credit facility ordinarily will be based on daily LIBOR for a similar term of the loan plus 50 basis points. In the event that all or a portion of a loan repayment amount is not paid when due, interest on the unpaid portion of the loan repayment amount will be calculated at a rate 500 basis points higher than the applicable rate then in effect until the unpaid loan repayment amount is paid in full. Given that the interest rate we are likely to be charged under the Lending Agreement will be significantly higher than the rates we have historically achieved through the sale of unsecured debt, use of the facility in significant amounts could have a material adverse impact on our financial results.

As of March 10, 2009, we have not requested any loans or borrowed any amounts under the Lending Agreement.

Covenants Under Treasury Agreements

The Purchase Agreement, warrant and Lending Agreement contain covenants that significantly restrict our business activities. These covenants, which are summarized below, include a prohibition on our issuance of additional equity securities (except in limited instances), a prohibition on the payment of dividends or other distributions on our equity securities (other than the senior preferred stock or warrant), a prohibition on our issuance of subordinated debt and a limitation on the total amount of debt securities we may issue. As a result, we can no longer obtain additional equity financing (other than pursuant to the Purchase Agreement) and we are limited in the amount and type of debt

financing we may obtain.

Purchase Agreement Covenants

The Purchase Agreement provides that, until the senior preferred stock is repaid or redeemed in full, we may not, without the prior written consent of Treasury:

declare or pay any dividend (preferred or otherwise) or make any other distribution with respect to any Freddie Mac equity securities (other than with respect to the senior preferred stock or warrant);

redeem, purchase, retire or otherwise acquire any Freddie Mac equity securities (other than the senior preferred stock or warrant);

sell or issue any Freddie Mac equity securities (other than the senior preferred stock, the warrant and the common stock issuable upon exercise of the warrant and other than as required by the terms of any binding agreement in effect on the date of the Purchase Agreement);

terminate the conservatorship (other than in connection with a receivership);

sell, transfer, lease or otherwise dispose of any assets, other than dispositions for fair market value: (a) to a limited life regulated entity (in the context of a receivership); (b) of assets and properties in the ordinary course of business, consistent with past practice; (c) in connection with our liquidation by a receiver; (d) of cash or cash equivalents for

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cash or cash equivalents; or (e) to the extent necessary to comply with the covenant described below relating to the reduction of our mortgage-related investments portfolio beginning in 2010;

incur indebtedness that would result in our aggregate indebtedness exceeding 110% of our aggregate indebtedness as of June 30, 2008 (which Treasury has committed to increase correspondingly to the increase in the limit on our mortgage assets discussed below), calculated based primarily on the carrying value of our indebtedness as reflected on our GAAP balance sheet;

issue any subordinated debt;

enter into a corporate reorganization, recapitalization, merger, acquisition or similar event; or

engage in transactions with affiliates unless the transaction is (a) pursuant to the Purchase Agreement, the senior preferred stock or the warrant, (b) upon arm's length terms or (c) a transaction undertaken in the ordinary course or pursuant to a contractual obligation or customary employment arrangement in existence on the date of the Purchase Agreement.

The Purchase Agreement also provides that we may not own mortgage assets in excess of: (a) \$850 billion on December 31, 2009 (which Treasury has committed to increase to \$900 billion), based on the carrying value of such assets as reflected on our GAAP balance sheet; or (b) on December 31 of each year thereafter, 90% of the aggregate amount of our mortgage assets as of December 31 of the immediately preceding calendar year, provided that we are not required to own less than \$250 billion in mortgage assets.

In addition, the Purchase Agreement provides that we may not enter into any new compensation arrangements or increase amounts or benefits payable under existing compensation arrangements of any named executive officer (as defined by SEC rules) without the consent of the Director of FHFA, in consultation with the Secretary of the Treasury.

We are required under the Purchase Agreement to provide annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K to Treasury in accordance with the time periods specified in the SEC's rules. In addition, our designated representative (which, during the conservatorship, is the Conservator) is required to provide quarterly certifications to Treasury concerning compliance with the covenants contained in the Purchase Agreement and the accuracy of the representations made pursuant to the agreement. We also are obligated to provide prompt notice to Treasury of the occurrence of specified events, such as the filing of a lawsuit that would reasonably be expected to have a material adverse effect. As of March 10, 2009, we believe we were in compliance with the covenants under the Purchase Agreement.

Warrant Covenants

The warrant we issued to Treasury includes, among others, the following covenants: (a) our SEC filings under the Exchange Act will comply in all material respects as to form with the Exchange Act and the rules and regulations thereunder; (b) we may not permit any of our significant subsidiaries to issue capital stock or equity securities, or securities convertible into or exchangeable for such securities, or any stock appreciation rights or other profit participation rights; (c) we may not take any action that will result in an increase in the par value of our common stock; (d) we may not take any action to avoid the observance or performance of the terms of the warrant and we must take all actions necessary or appropriate to protect Treasury's rights against impairment or dilution; and (e) we must provide Treasury with prior notice of specified actions relating to our common stock, such as setting a record date for a dividend payment, granting subscription or purchase rights, authorizing a recapitalization, reclassification, merger or similar transaction, commencing a liquidation of the company or any other action that would trigger an adjustment in the exercise price or number or amount of shares subject to the warrant.

As of March 10, 2009, we believe we were in compliance with the covenants under the warrant.

Lending Agreement Covenants

The Lending Agreement includes covenants requiring us, among other things:

to maintain Treasury's security interest in the collateral, including the priority of the security interest, and take actions to defend against adverse claims;

not to sell or otherwise dispose of, pledge or mortgage the collateral (other than Treasury's security interest);

not to act in any way to impair, or fail to act in a way to prevent the impairment of, Treasury's rights or interests in the collateral;

promptly to notify Treasury of any failure or impending failure to meet our regulatory capital requirements;

to provide for periodic audits of collateral held under borrower-in-custody arrangements, and to comply with certain notice and certification requirements;

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promptly to notify Treasury of the occurrence or impending occurrence of an event of default under the terms of the Lending Agreement; and

to notify Treasury of any change in applicable law or regulations, or in our charter or bylaws, or certain other events, that may materially affect our ability to perform our obligations under the Lending Agreement.

As of March 10, 2009, we believe we were in compliance with the covenants under the Lending Agreement.

Effect of Conservatorship and Treasury Agreements on Existing Stockholders

The conservatorship and Purchase Agreement have materially limited the rights of our common and preferred stockholders (other than Treasury as holder of the senior preferred stock). The conservatorship has had the following adverse effects on our common and preferred stockholders:

the powers of the stockholders are suspended during the conservatorship. Accordingly, our common stockholders do not have the ability to elect directors or to vote on other matters during the conservatorship unless the Conservator delegates this authority to them;

the Conservator has eliminated common and preferred stock dividends (other than dividends on the senior preferred stock) during the conservatorship; and

according to a statement made by the then Secretary of the Treasury on September 7, 2008, because we are in conservatorship, we will no longer be managed with a strategy to maximize common stockholder returns.

The Purchase Agreement and the senior preferred stock and warrant issued to Treasury pursuant to the agreement have had the following adverse effects on our common and preferred stockholders:

the senior preferred stock ranks senior to the common stock and all other series of preferred stock as to both dividends and distributions upon dissolution, liquidation or winding up of the company;

the Purchase Agreement prohibits the payment of dividends on common or preferred stock (other than the senior preferred stock) without the prior written consent of Treasury; and

the warrant provides Treasury with the right to purchase shares of our common stock equal to up to 79.9% of the total number of shares of our common stock outstanding on a fully diluted basis on the date of exercise for a nominal price, thereby substantially diluting the ownership in Freddie Mac of our common stockholders at the time of exercise. Until Treasury exercises its rights under the warrant or its right to exercise the warrant expires on September 7, 2028 without having been exercised, the holders of our common stock continue to have the risk that, as a group, they will own no more than 20.1% of the total voting power of the company. Under our charter, bylaws and applicable law, 20.1% is insufficient to control the outcome of any vote that is presented to the common stockholders. Accordingly, existing common stockholders have no assurance that, as a group, they will be able to control the election of our directors or the outcome of any other vote after the time, if any, that the conservatorship ends.

As described above, the conservatorship and Treasury agreements also impact our business in ways that indirectly affect our common and preferred stockholders. By their terms, the Purchase Agreement, senior preferred stock and warrant will continue to exist even if we are released from the conservatorship. For a description of the risks to our business relating to the conservatorship and Treasury Agreements, see **RISK FACTORS**.

Treasury Mortgage-Related Securities Purchase Program

On September 7, 2008, Treasury announced a program under which it will purchase GSE mortgage-related securities in the open market. The size and timing of Treasury's purchases of GSE mortgage-related securities will be subject to the discretion of the Secretary of the Treasury. According to Treasury, the scale of the program will be based on developments in the capital markets and housing markets. On February 18, 2009, Treasury reaffirmed its plans to continue purchasing GSE mortgage-related securities. Treasury's authority to purchase such securities expires on December 31, 2009. As of January 31, 2009, according to information provided by Treasury, it held \$94.2 billion of GSE mortgage-related securities under this program.

Federal Reserve Debt and Mortgage-Related Securities Purchase Program

On November 25, 2008, the Federal Reserve announced a program to purchase up to \$100 billion of direct obligations of Freddie Mac, Fannie Mae and the FHLBs, and up to \$500 billion of mortgage-related securities issued by Freddie Mac, Fannie Mae and Ginnie Mae. According to the Federal Reserve, the goal of this program is to reduce the cost and increase the availability of credit for the purchase of houses, which, in turn, should support housing markets and foster improved conditions in financial markets more generally. According to the Federal Reserve, its purchases of direct obligations of Freddie Mac, Fannie Mae and the FHLBs are intended to reduce the interest rate spreads between these direct obligations and debt issued by Treasury. The Federal Reserve will purchase these direct obligations and mortgage-related securities from primary dealers. The Federal Reserve began purchasing direct obligations and mortgage-related securities under the program in December 2008 and January 2009, respectively. The Federal Reserve has indicated that it expects to complete the

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purchases of mortgage-related securities by the end of the second quarter of 2009. As of February 25, 2009, according to information provided by the Federal Reserve, it held \$17.3 billion of our direct obligations and purchased \$74.2 billion of our mortgage-related securities under this program.

Homeowner Affordability and Stability Plan

On February 18, 2009, the Obama Administration announced the HASP. In addition to the announced changes to the Purchase Agreement discussed above, as well as Treasury's continued purchases of Freddie Mac and Fannie Mae mortgage-related securities, HASP includes the following initiatives:

Loan Modification Program. Under HASP, we will offer to financially struggling homeowners loan modifications that reduce their monthly principal and interest payments on their mortgages. This program will be conducted in accordance with HASP requirements for borrower eligibility. The program seeks to provide a uniform, consistent regime that servicers would use in modifying loans to prevent foreclosures. Under the program, servicers that service loans we own or guarantee will be incented to reduce at-risk borrowers' monthly mortgage payments to as little as 31% of gross monthly income, which may be achieved through a variety of methods, including interest rate reductions, principal forbearance and term extensions. Although HASP contemplates that some servicers will also make use of principal reduction to achieve reduced payments for borrowers, we do not currently anticipate that principal reduction will be used in modifying our loans. We will bear the full cost of these modifications and will not receive a reimbursement from Treasury. Servicers will be paid incentive fees both when they originally modify a loan, and over time, if the modified loan remains current. Borrowers whose loans are modified through this program will also accrue monthly incentive payments that will be applied to reduce their principal as they successfully make timely payments over a period of five years. Freddie Mac, rather than Treasury, will bear the costs of these servicer and borrower incentive fees. Mortgage holders are also entitled to certain subsidies for reducing the monthly payments from 38% to 31% of the borrower's income; however, we will not receive such subsidies on mortgages owned or guaranteed by us. As the details of this program continue to develop, there may be additional incentive fees and other costs that we will bear.

Compliance Agent. We will play a role under HASP as the compliance agent for foreclosure prevention activities. As the program compliance agent, we will conduct examinations and review servicer compliance with the published rules for the program with respect to mortgages not owned or guaranteed by us or by Fannie Mae, and report results to Treasury. These examinations will be primarily on-site but will also involve off-site documentation reviews. Based on the examinations, we may also provide Treasury with advice, guidance and lessons learned to improve operation of the program. Treasury will reimburse us for the expenses we incur in connection with providing these services.

Streamlined Refinancing Initiative. Under HASP, we will help borrowers who have mortgages with current loan-to-value, or LTV, ratios up to 105% to refinance their mortgages without obtaining new mortgage insurance in excess of what was already in place. We have worked with our Conservator and regulator, FHFA, to provide us the flexibility to implement this element of HASP. Through the initiative, we will offer this refinancing option only for qualifying mortgage loans we hold in our portfolio or that we guarantee. We will continue to hold the portion of the credit risk not covered by mortgage insurance for refinanced loans under this initiative. We expect to issue guidelines describing the details of this initiative and we expect to implement this initiative in the second quarter of 2009.

The HASP is designed to help in the housing recovery, to promote liquidity and housing affordability, to expand our foreclosure prevention efforts and to set market standards. The Obama administration announced that the key components of the plan are providing access to low-cost refinancing for responsible homeowners suffering from

falling house prices, creating a \$75 billion homeowner stability initiative to reach up to three to four million at-risk homeowners and supporting low mortgage rates by strengthening confidence in Freddie Mac and Fannie Mae.

We expect that our efforts under the HASP will replace the previously announced Streamlined Modification Program. The potential impact of the loan modification program under HASP on our business differs from that of the Streamlined Modification Program in three respects: (i) the HASP loan modification program will provide for greater reductions in borrower monthly payments; (ii) the HASP loan modification program will include modifications of mortgages not yet in default but under which default is deemed to be imminent; and (iii) the HASP loan modification program will require us to provide additional monetary incentives for servicers and borrowers to enter into loan modifications.

At present, it is difficult for us to predict the full extent of our activities under these initiatives and assess their impact on us. However, to the extent that our servicers and borrowers participate in these programs in large numbers, it is likely that the costs we incur associated with modifications of loans, the costs associated with servicer and borrower incentive fees and the related accounting impacts, will be substantial. HASP will require us, in some cases, to modify loans when default is imminent even though the borrower's mortgage payments are current. If current loans are modified and are purchased from PC pools, our guarantee may no longer be eligible for an exception from derivative accounting under SFAS 133, thereby requiring us, pursuant to our current accounting policy, to account for our guarantee as a derivative instrument. Management

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is working internally and with regulatory agencies to consider potential changes to our modification practices or current accounting policy to maintain the SFAS 133 exemption. If our efforts to maintain our exemption from derivative accounting for our guarantee are unsuccessful, our entire guarantee may be accounted for as a derivative instrument as early as the second quarter of 2009; however, the precise timing remains uncertain.

New York Stock Exchange Matters

On November 17, 2008, we received a notice from the New York Stock Exchange, or NYSE, that we had failed to satisfy one of the NYSE's standards for continued listing of our common stock. Specifically, the NYSE advised us that we were below criteria for the NYSE's price criteria for common stock because the average closing price of our common stock over a consecutive 30 trading-day period was less than \$1.00 per share. As a result, the NYSE informed us that we were not in compliance with the NYSE's continued listing criteria under Section 802.01C of the NYSE Listed Company Manual.

On December 2, 2008, we advised the NYSE of our intent to cure this deficiency by May 18, 2009, and that we may undertake a reverse stock split in order to do so. On February 26, 2009, the NYSE submitted a rule change to the SEC (which the SEC has designated as effective as of that date) suspending the application of its minimum price listing standard until June 30, 2009. Under this rule change, we can return to compliance with the minimum price standard during the suspension period if at the end of any calendar month during the suspension our common stock has a closing price of at least \$1.00 on the last trading day of such month and a \$1.00 average share price based on the 30 trading days preceding the end of such month. If we do not regain compliance during the suspension period, the six-month compliance period that began on November 17, 2008 will recommence and we will have the remaining balance of that period to meet the standard.

If we fail to cure this deficiency when the minimum price standard recommences, the NYSE rules provide that the NYSE will initiate suspension and delisting procedures. The delisting of our common stock would likely also result in the delisting of our NYSE-listed preferred stock. The delisting of our common stock or NYSE-listed preferred stock would require any trading in these securities to occur in the over-the-counter market and could adversely affect the market prices and liquidity of the markets for these securities. If necessary, we will work with our Conservator to determine the specific action or actions that we may take to cure the deficiency, but there is no assurance any actions we may take will be successful. Our average share price for the 30 consecutive trading days ended as of the filing of this annual report on Form 10-K was less than \$1 per share.

Regulation and Supervision

We experienced a number of significant changes in our regulatory and supervisory environment in 2008 as a result of the enactment of the Reform Act, which was signed into law on July 30, 2008 as part of The Housing and Economic Recovery Act of 2008, as well as our entry into conservatorship. The Reform Act consolidated regulation of Freddie Mac, Fannie Mae and the FHLBs into a single regulator, FHFA. Under the Reform Act, regulation of our mission was substantially transferred from the Department of Housing and Urban Development, or HUD, to FHFA. Our former safety and soundness regulator, the Office of Federal Housing Enterprise Oversight, or OFHEO, will remain in existence for a transition period of up to one year from the enactment of the Reform Act.

Federal Housing Finance Agency

FHFA is an independent agency of the federal government responsible for oversight of the operations of Freddie Mac, Fannie Mae and the FHLBs. FHFA has a Director appointed by the President and confirmed by the Senate for a five-year term, removable only for cause. In the discussion below, we refer to Freddie Mac and Fannie Mae as the enterprises.

The Reform Act established the Federal Housing Finance Oversight Board, or the Oversight Board, which is responsible for advising the Director of FHFA with respect to overall strategies and policies. The Oversight Board consists of the Director of FHFA as Chairperson, the Secretary of the Treasury, the Chair of the SEC and the Secretary of HUD.

The Reform Act provided FHFA with new safety and soundness authority that is comparable to, and in some respects, broader than that of the federal banking agencies. The Reform Act also gave FHFA enhanced powers that, even if we were not placed into conservatorship, include the authority to raise capital levels above statutory minimum levels, regulate the size and content of our mortgage-related investments portfolio, and approve new mortgage products.

FHFA is responsible for implementing the various provisions of the Reform Act. In a statement published on September 7, 2008, the Director of FHFA indicated that FHFA will continue to work expeditiously on the many regulations needed to implement the new legislation, and that some of the key regulations will address minimum capital standards, prudential safety and soundness standards and portfolio limits. In general, we remain subject to existing regulations, orders and determinations until new ones are issued or made.

Receivership

Under the Reform Act, FHFA must place us into receivership if FHFA determines in writing that our assets are less than our obligations for a period of 60 days. FHFA has notified us that the measurement period for any mandatory receivership

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determination with respect to our assets and obligations would commence no earlier than the SEC public filing deadline for our quarterly or annual financial statements and would continue for 60 calendar days after that date. FHFA has also advised us that, if, during that 60-day period, we receive funds from Treasury in an amount at least equal to the deficiency amount under the Purchase Agreement, the Director of FHFA will not make a mandatory receivership determination.

In addition, we could be put into receivership at the discretion of the Director of FHFA at any time for other reasons, including conditions that FHFA has already asserted existed at the time the Director of FHFA placed us into conservatorship. These include: a substantial dissipation of assets or earnings due to unsafe or unsound practices; the existence of an unsafe or unsound condition to transact business; an inability to meet our obligations in the ordinary course of business; a weakening of our condition due to unsafe or unsound practices or conditions; critical undercapitalization; the likelihood of losses that will deplete substantially all of our capital; or by consent.

Capital Standards

On October 9, 2008, FHFA announced that it was suspending capital classification of us during conservatorship in light of the Purchase Agreement. The existing statutory and FHFA-directed regulatory capital requirements will not be binding during the conservatorship. We continue to provide our regular submissions to FHFA on both minimum and risk-based capital. FHFA continues to publish relevant capital figures (minimum capital requirement, core capital, and GAAP net worth) but does not publish our critical capital, risk-based capital or subordinated debt levels during conservatorship.

The GSE Act established regulatory capital requirements for us that include ratio-based minimum and critical capital requirements and a risk-based capital requirement. Prior to September 6, 2008, these standards determined the amounts of core capital and total capital that we were to maintain to meet regulatory capital requirements. Core capital consisted of the par value of outstanding common stock (common stock issued less common stock held in treasury), the par value of outstanding non-cumulative, perpetual preferred stock, additional paid-in capital and retained earnings (accumulated deficit), as determined in accordance with GAAP. Total capital included core capital and general reserves for mortgage and foreclosure losses and any other amounts available to absorb losses that FHFA included by regulation.

On October 9, 2008, FHFA also announced that it will engage in rule-making to revise our minimum capital and risk-based capital requirements. The Reform Act provides that FHFA may increase minimum capital levels from the existing statutory percentages either by regulation or on a temporary basis by order. FHFA may also, by regulation or order, establish capital or reserve requirements with respect to any product or activity of an enterprise, as FHFA considers appropriate. In addition, under the Reform Act, FHFA must, by regulation, establish risk-based capital requirements to ensure the enterprises operate in a safe and sound manner, maintaining sufficient capital and reserves to support the risks that arise in their operations and management. In developing the new risk-based capital requirements, FHFA is not bound by the risk-based capital standards in effect prior to our entry into conservatorship.

Our capital standards in effect prior to our entry into conservatorship on September 6, 2008 are set forth below:

Minimum Capital. The minimum capital standard required us to hold an amount of core capital that was generally equal to the sum of 2.50% of aggregate on-balance sheet assets and approximately 0.45% of the sum of outstanding mortgage-related securities we guaranteed and other aggregate off-balance sheet obligations.

Mandatory Target Capital Surplus. FHFA directed us to maintain a 20% mandatory target surplus above our statutory minimum capital requirement.

Critical Capital. The critical capital standard required us to hold an amount of core capital that was generally equal to the sum of 1.25% of aggregate on-balance sheet assets and approximately 0.25% of the sum of outstanding mortgage-related securities we guaranteed and other aggregate off-balance sheet obligations.

Risk-Based Capital. The risk-based capital standard required the application of a stress test to determine the amount of total capital that we were to hold to absorb projected losses resulting from adverse interest-rate and credit-risk conditions that had been specified by the GSE Act prior to enactment of the Reform Act, and added 30% additional capital to provide for management and operations risk.

For additional information, see MD&A LIQUIDITY AND CAPITAL RESOURCES Capital Adequacy and NOTE 10: REGULATORY CAPITAL to our consolidated financial statements. Also, see RISK FACTORS Legal and Regulatory Risks for more information.

Housing Goals and Home Purchase Subgoals

Prior to the enactment of the Reform Act, HUD had general regulatory authority over Freddie Mac, including authority over our affordable housing goals and new programs. Under the Reform Act, FHFA now has general regulatory authority over us.

HUD established annual affordable housing goals, which are set forth below in Table 2. The goals, which are set as a percentage of the total number of dwelling units underlying our total mortgage purchases, have risen steadily since they became permanent in 1995. The goals are intended to expand housing opportunities for low- and moderate-income families,

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low-income families living in low-income areas, very low-income families and families living in HUD-defined underserved areas. The goal relating to low-income families living in low-income areas and very low-income families is referred to as the special affordable housing goal. This special affordable housing goal also includes a multifamily annual minimum dollar volume target of qualifying multifamily mortgage purchases. In addition, HUD has established three subgoals that are expressed as percentages of the total number of mortgages we purchased that finance the purchase of single-family, owner-occupied properties located in metropolitan areas.

Under the Reform Act, the annual housing goals previously established by HUD and in place for 2008 remain in effect for 2009, except that within 270 days from July 30, 2008, FHFA must review the 2009 housing goals to determine the feasibility of such goals in light of current market conditions and, after seeking public comment for up to 30 days, FHFA may make appropriate adjustments to the 2009 goals consistent with market conditions. Effective beginning calendar year 2010, the Reform Act replaces the existing annual affordable housing goals with the requirement that FHFA establish single-family and multifamily annual affordable housing goals by regulation.

Table 2 Housing Goals and Home Purchase Subgoals for 2008 and 2009⁽¹⁾

	Housing Goals	
	2009⁽²⁾	2008
Low- and moderate-income goal	56%	56%
Underserved areas goal	39	39
Special affordable goal	27	27
Multifamily special affordable volume target (in billions)	\$ 3.92	\$ 3.92

	Home Purchase Subgoals	
	2009⁽²⁾	2008
Low- and moderate-income subgoal	47%	47%
Underserved areas subgoal	34	34
Special affordable subgoal	18	18

(1) An individual mortgage may qualify for more than one of the goals or subgoals. Each of the goal and subgoal percentages will be determined independently and cannot be aggregated to determine a percentage of total purchases that qualifies for these goals or subgoals.

(2) Pursuant to the Reform Act, FHFA may make appropriate adjustments to the 2009 goals consistent with market conditions.

Our performance with respect to the goals and subgoals for 2006 and 2007 is summarized in Table 3. HUD determined that we met the goals and subgoals for 2006. In March 2008, we reported to HUD that we achieved all of the goals and subgoals for 2007 except two home purchase subgoals (the low- and moderate-income subgoal and the special affordable housing subgoal). We believed that achievement of these two home purchase subgoals was infeasible in 2007 under the terms of the GSE Act, and accordingly submitted an infeasibility analysis to HUD. In April 2008, HUD notified us that it had determined that, given the declining affordability of the primary market since 2005, the scope of market turmoil in 2007, and the collapse of the non-agency secondary mortgage market, the availability of subgoal-qualifying home purchase loans was reduced significantly and therefore achievement of these subgoals was infeasible. Consequently, HUD took no further action. On October 27, 2008, FHFA issued a letter finding that we had officially met or exceeded the affordable housing goals for 2007, except for the two subgoals

which HUD had previously determined to be infeasible.

We expect to report our performance with respect to the 2008 goals and subgoals in March 2009. At this time, based on preliminary information, we believe that we did not achieve any of the goals or the subgoals. We believe, however, that achievement of the goals and subgoals was infeasible under the terms of the GSE Act. Accordingly, we have submitted an infeasibility analysis to FHFA, which is reviewing our submission. In 2009, we expect that the market conditions discussed above and the tightened credit and underwriting environment will make achieving our affordable housing goals and subgoals challenging if they are kept at 2008 levels.

Table of Contents**Table 3 Housing Goals and Home Purchase Subgoals and Reported Results for 2006 and 2007⁽¹⁾***Housing Goals and Actual Results*

	Year Ended December 31,			
	2007		2006	
	Goal	Result	Goal	Result
Low- and moderate-income goal	55%	56.1%	53%	55.9%
Underserved areas goal	38	43.1	38	42.7
Special affordable goal	25	25.8	23	26.4
Multifamily special affordable volume target (in billions)	\$ 3.92	\$ 15.12	\$ 3.92	\$ 13.58

Home Purchase Subgoals and Actual Results

	Year Ended December 31,			
	2007		2006	
	Subgoal	Result	Subgoal	Result
Low- and moderate-income subgoal ⁽²⁾	47%	43.5%	46%	47.0%
Underserved areas subgoal	33	33.8	33	33.6
Special affordable subgoal ⁽²⁾	18	15.9	17	17.0

(1) An individual mortgage may qualify for more than one of the goals or subgoals. Each of the goal and subgoal percentages and each of our percentage results is determined independently and cannot be aggregated to determine a percentage of total purchases that qualifies for these goals or subgoals.

(2) The 2007 subgoals were determined to be infeasible.

We make adjustments to our mortgage loan sourcing and purchase strategies due to the housing goals and subgoals. These strategies include entering into some purchase and securitization transactions with lower expected economic returns than our typical transactions. At times, we also relax some of our underwriting criteria to obtain goals-qualifying mortgage loans and may make additional investments in higher-risk mortgage loan products that are more likely to serve the borrowers targeted by the housing goals and subgoals. Efforts to meet the goals and subgoals could further increase our credit losses. We continue to evaluate the cost of these activities.

Declining market conditions during 2008 made meeting our affordable housing goals and subgoals more challenging than in previous years. The increased difficulty we are experiencing has been driven by a combination of factors, including:

general economic and market conditions;

our financial condition; and

increases in the levels of the goals and subgoals.

We anticipate that the difficult market conditions and our financial condition will continue to affect our affordable housing activities in 2009. See also **RISK FACTORS** Legal and Regulatory Risks. However, we view the purchase of mortgage loans that are eligible to count toward our affordable housing goals to be a principal part of our mission and business and we are committed to facilitating the financing of affordable housing for low- and moderate-income

families.

If the Director of FHFA finds that we failed to meet a housing goal established under section 1332, 1333, or 1334 of the GSE Act and that achievement of the housing goal was feasible, the GSE Act states that the Director shall require the submission of a housing plan with respect to the housing goal for approval by the Director. The housing plan must describe the actions we would take to achieve the unmet goal in the future. FHFA has the authority to take enforcement actions against us, including issuing a cease and desist order or assessing civil money penalties, if we: (a) fail to submit a required housing plan or fail to make a good faith effort to comply with a plan approved by FHFA; or (b) fail to submit certain data relating to our mortgage purchases, information or reports as required by law. See RISK FACTORS Legal and Regulatory Risks. While the GSE Act is silent on this issue, HUD had indicated that it had authority under the GSE Act to establish and enforce a separate specific subgoal within the special affordable housing goal.

New Products

The Reform Act requires the enterprises to obtain the approval of FHFA before initially offering any product. Excluded from the product review process are automated loan underwriting systems of the enterprises in existence on July 30, 2008, including certain technical upgrades to operate the systems; any modification to mortgage terms and conditions or underwriting criteria relating to mortgages purchased or guaranteed by an enterprise, as long as the modifications do not change the underlying transaction to include services or financing other than residential mortgage financing; and any other activities that are substantially similar to the activities described above or that have previously been approved by FHFA. The Reform Act provides for a public comment process on requests for approval of new products. FHFA may temporarily approve a product without soliciting public comment if delay would be contrary to the public interest. FHFA may condition approval of a product on specific terms, conditions and limitations. The standards for FHFA's approval of a new product are that the product is authorized by the enterprise's charter, is in the public interest and is consistent with the safety and soundness of the enterprise or the mortgage finance system. The Reform Act also requires the enterprises to provide FHFA with written notice of any new activity that an enterprise considers not to be a product and the enterprise may not commence

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such activity until the earlier of 15 days after such notice or determination by the Director of FHFA that such activity is not a new product.

Affordable Housing Allocations

The Reform Act requires us to set aside in each fiscal year an amount equal to 4.2 basis points for each dollar of the unpaid principal balance of total new business purchases, and allocate or transfer such amount (i) to HUD to fund a Housing Trust Fund established and managed by HUD and (ii) to a Capital Magnet Fund established and managed by Treasury. FHFA has the authority to suspend our allocation upon finding that the payment would contribute to our financial instability, cause us to be classified as undercapitalized or prevent us from successfully completing a capital restoration plan. In November 2008, FHFA advised us that it has suspended the requirement to set aside or allocate funds for the Housing Trust Fund and the Capital Magnet Fund until further notice.

Prudential Management and Operations Standards

The Reform Act requires FHFA to establish prudential standards, by regulation or by guideline, for a broad range of operations of the enterprises. These standards must address internal controls, information systems, independence and adequacy of internal audit systems, management of interest rate risk exposure, management of market risk, liquidity and reserves, management of asset and investment portfolio growth, overall risk management processes, investments and asset acquisitions, management of credit and counterparty risk, and recordkeeping. FHFA may also establish any additional operational and management standards the Director of FHFA determines appropriate.

Portfolio Activities

The Reform Act requires FHFA to establish, by regulation, criteria governing portfolio holdings to ensure the holdings are backed by sufficient capital and consistent with the enterprises' mission and safe and sound operations. In establishing these criteria, FHFA must consider the ability of the enterprises to provide a liquid secondary market through securitization activities, the portfolio holdings in relation to the mortgage market and the enterprises' compliance with the prudential management and operations standards prescribed by FHFA.

As discussed above under "Conservatorship and Related Developments," under our Purchase Agreement and the changes announced by Treasury, the size of our mortgage-related investments portfolio will be capped at \$900 billion as of December 31, 2009 and, beginning in 2010, will decrease at the rate of 10% per year until it reaches \$250 billion. The carrying value of our mortgage-related investments portfolio was \$748 billion at December 31, 2008. On January 30, 2009, FHFA issued an interim final rule adopting the portfolio holdings criteria established in the Purchase Agreement, as it may be amended from time to time, for so long as we remain subject to the Purchase Agreement. FHFA requested public comments on the interim final rule and on the criteria governing portfolio holdings that will apply when we are no longer subject to the Purchase Agreement.

Temporary Consultative Requirement Between the Director of FHFA and the Chairman of the Federal Reserve

The Reform Act requires FHFA to consult with, and consider the views of, the Chairman of the Federal Reserve regarding the risks posed by the enterprises to the financial system prior to issuing any proposed or final regulations, orders, or guidelines with respect to prudential management and operations standards, safe and sound operations, capital requirements and portfolio standards. The Director also must consult with the Chairman regarding any decision to place a regulated entity into receivership. To facilitate the consultative process, the Reform Act requires periodic sharing of information between FHFA and the Federal Reserve regarding the capital, assets and liabilities, financial condition and risk management practices of the enterprises and any information related to financial market stability. This consultative requirement expires December 31, 2009.

Anti-Predatory Lending

Predatory lending practices are in direct opposition to our mission, our goals and our practices. We have instituted anti- predatory lending policies intended to prevent the purchase or assignment of mortgage loans with unacceptable terms or conditions or resulting from unacceptable practices. These policies include processes related to the delivery, validation and certification of loans sold to us. In addition to the purchase policies we have instituted, we promote consumer education and financial literacy efforts to help borrowers avoid abusive lending practices and we provide competitive mortgage products to reputable mortgage originators so that borrowers have a greater choice of financing options.

Other Regulatory Actions

Adoption by FHFA of Regulation Relating to Golden Parachute Payments

FHFA issued interim final regulations pursuant to the Reform Act relating to golden parachute payments and indemnification payments in September 2008. These regulations were modified through subsequent amendments also published in September 2008. In November 2008, FHFA proposed further amendments that would implement FHFA s

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authority to prohibit or limit indemnification payments. In addition, on January 29, 2009, FHFA published a final rule setting forth factors to be considered by FHFA in limiting golden parachute payments.

Subordinated Debt

FHFA has directed us to continue to make interest and principal payments on our subordinated debt, even if we fail to maintain required capital levels. As a result, the terms of any of our subordinated debt that provide for us to defer payments of interest under certain circumstances, including our failure to maintain specified capital levels, are no longer applicable. In addition, the requirements in the agreement we entered into with FHFA in September 2005 with respect to issuance, maintenance, and reporting and disclosure of Freddie Mac subordinated debt have been suspended during the term of conservatorship and thereafter until directed otherwise. See NOTE 10: REGULATORY CAPITAL Subordinated Debt Commitment to our consolidated financial statements for more information regarding subordinated debt.

Department of Housing and Urban Development

HUD has authority over Freddie Mac with respect to fair lending. Our mortgage purchase activities are subject to federal anti-discrimination laws. In addition, the GSE Act prohibits discriminatory practices in our mortgage purchase activities, requires us to submit data to HUD to assist in its fair lending investigations of primary market lenders and requires us to undertake remedial actions against lenders found to have engaged in discriminatory lending practices. In addition, HUD periodically reviews and comments on our underwriting and appraisal guidelines for consistency with the Fair Housing Act and the anti-discrimination provisions of the GSE Act.

Department of the Treasury

Under our charter, the Secretary of the Treasury has approval authority over our issuances of notes, debentures and substantially identical types of unsecured debt obligations (including the interest rates and maturities of these securities), as well as new types of mortgage-related securities issued subsequent to the enactment of the Financial Institutions Reform, Recovery and Enforcement Act of 1989. The Secretary of the Treasury has performed this debt securities approval function by coordinating GSE debt offerings with Treasury funding activities. In addition, our charter authorizes Treasury to purchase Freddie Mac debt obligations not exceeding \$2.25 billion in aggregate principal amount at any time.

The Reform Act granted the Secretary of the Treasury authority to purchase any obligations and securities issued by the enterprises until December 31, 2009 on such terms and conditions and in such amounts as the Secretary may determine, provided that the Secretary determines the purchases are necessary to provide stability to the financial markets, prevent disruptions in the availability of mortgage finance, and protect taxpayers. For information on how Treasury has used this authority, see Conservatorship and Related Developments *Treasury Agreements*.

Securities and Exchange Commission

We are subject to the financial reporting requirements applicable to registrants under the Exchange Act, including the requirement to file with the SEC annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K. Although our common stock is required to be registered under the Exchange Act, we continue to be exempt from certain federal securities law requirements, including the following:

Securities we issue or guarantee are exempted securities under the Securities Act and may be sold without registration under the Securities Act;

We are excluded from the definitions of government securities broker and government securities dealer under the Exchange Act;

The Trust Indenture Act of 1939 does not apply to securities issued by us; and

We are exempt from the Investment Company Act of 1940 and the Investment Advisers Act of 1940, as we are an agency, authority or instrumentality of the United States for purposes of such Acts.

Emergency Economic Stabilization Act of 2008, or EESA

On October 3, 2008, former President Bush signed into law the EESA which among other actions, gave authority to Treasury to purchase or guarantee troubled assets from financial institutions with significant operations in the U.S. The EESA also required FHFA, as Conservator, to implement a plan for delinquent single-family and multifamily mortgage loans (including mortgage-related securities and asset-backed securities) to maximize assistance for homeowners and encourage servicers to take advantage of the HOPE for Homeowners Program implemented by HUD, or other available programs to minimize foreclosure. FHFA submitted its first plan on December 2, 2008. FHFA continues to update its plan to maximize assistance to homeowners and encourage servicers of underlying mortgages to take advantage of programs to minimize foreclosures. We cannot predict the final content of the plan FHFA may implement or its effect on our business.

In addition, on November 11, 2008, FHFA announced the Streamlined Modification Program. We expect that our efforts under the HASP will replace this program. See MD&A CREDIT RISKS Mortgage Credit Risk Loss Mitigation Activities for more information.

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Pending Bankruptcy Legislation

In January 2009, legislation was introduced into Congress that is intended to stem the rate of foreclosures by allowing bankruptcy judges to modify the terms of mortgages on principal residences for borrowers in Chapter 13 bankruptcy. Among other things, the proposed legislation would allow judges to adjust interest rates, extend repayment terms and lower the outstanding principal amount to the current estimated fair value of the underlying property. See **RISK FACTORS – Legal and Regulatory Risks** for information on the impact this proposed legislation may have on us.

Forward-Looking Statements

We regularly communicate information concerning our business activities to investors, securities analysts, the news media and others as part of our normal operations. Some of these communications, including this Form 10-K, contain forward-looking statements pertaining to the conservatorship and our current expectations and objectives for internal control remediation efforts, future business plans, capital management, economic and market conditions and trends, market share, credit losses, and results of operations and financial condition on a GAAP, Segment Earnings and fair value basis. Forward-looking statements are often accompanied by, and identified with, terms such as objective, expect, trend, forecast, believe, intend, could, future and similar phrases. These statements are not historical rather represent our expectations based on current information, plans, judgments, assumptions, estimates and projections. Forward-looking statements involve known and unknown risks, uncertainties and other factors, some of which are beyond our control. You should not unduly rely on our forward-looking statements. Actual results may differ materially from the expectations expressed in the forward-looking statements we make as a result of various factors, including those factors described in the **RISK FACTORS** section of this Form 10-K and:

the actions FHFA, Treasury and our management may take;

the impact of the restrictions and other terms of the conservatorship, the Purchase Agreement, the senior preferred stock and the warrant on our business, including the adequacy of Treasury's commitment under the Purchase Agreement and our ability to pay the dividend on the senior preferred stock;

changes in our charter or applicable legislative or regulatory requirements, including any restructuring or reorganization in the form of our company, including whether we will remain a stockholder-owned company and whether we will be placed under receivership, regulations under the Reform Act, changes to affordable housing goals regulation, reinstatement of regulatory capital requirements or the exercise or assertion of additional regulatory or administrative authority;

changes in general regional, national or international economic, business or market conditions and competitive pressures, including the success of the U.S. government's efforts to stabilize the financial markets and changes in employment rates and interest rates;

changes in the U.S. residential mortgage market, including the rate of growth in total outstanding U.S. residential mortgage debt, the size of the U.S. residential mortgage market and changes in home prices;

our ability to effectively implement our business strategies, including our efforts to improve the supply and liquidity of, and demand for, our products;

our ability to recruit and retain executive officers and other key employees;

our ability to effectively identify and manage credit, interest-rate and other risks in our business, including changes to the credit environment and the levels and volatilities of interest rates, as well as the shape and slope

of the yield curves;

our ability to effectively identify, assess, evaluate, manage, mitigate or remediate control deficiencies and risks, including material weaknesses and significant deficiencies, in our internal control over financial reporting and disclosure controls and procedures;

incomplete or inaccurate information provided by customers and counterparties, or consolidation among, or adverse changes in the financial condition of, our customers and counterparties;

the risk that we may not be able to maintain the continued listing of our common and exchange-listed issues of preferred stock on the NYSE;

changes in our judgments, assumptions, forecasts or estimates regarding rates of growth in our business and spreads we expect to earn;

changes in accounting or tax standards or in our accounting policies or estimates, and our ability to effectively implement any such changes in standards, policies or estimates;

the availability of debt financing in sufficient quantity and at attractive rates to support growth in our mortgage-related investments portfolio, to refinance maturing debt and to mitigate interest-rate risk;

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the availability of options, interest-rate and currency swaps and other derivative financial instruments of the types and quantities and with acceptable counterparties needed for investment funding and risk management purposes;

changes in pricing, valuation or other methodologies, models, assumptions, judgments, estimates and/or other measurement techniques or their respective reliability;

changes in mortgage-to-debt OAS;

volatility of reported results due to changes in the fair value of certain instruments or assets;

preferences of originators in selling into the secondary mortgage market;

changes to our underwriting requirements or investment standards for mortgage-related products;

investor preferences for mortgage loans and mortgage-related and debt securities compared to other investments;

the ability of our financial, accounting, data processing and other operating systems or infrastructure and those of our vendors to process the complexity and volume of our transactions;

borrower preferences for fixed-rate mortgages or adjustable-rate mortgages;

the occurrence of a major natural or other disaster in geographic areas in which portions of our total mortgage portfolio are concentrated;

other factors and assumptions described in this Form 10-K, including in the MD&A section;

our assumptions and estimates regarding the foregoing and our ability to anticipate the foregoing factors and their impacts; and

market reactions to the foregoing.

We undertake no obligation to update forward-looking statements we make to reflect events or circumstances after the date of this Form 10-K or to reflect the occurrence of unanticipated events.

ITEM 1A. RISK FACTORS

Before you invest in our securities, you should know that making such an investment involves risks, including the risks described below and in BUSINESS, MD&A, and elsewhere in this Form 10-K. These risks and uncertainties could, directly or indirectly, adversely affect our business, financial condition, results of operations, cash flows, strategies and/or prospects.

Conservatorship and Related Developments

Due primarily to our continued significant losses, we expect to face additional deficits in net worth, and will need to request additional draws under the Purchase Agreement.

It is likely that we will continue to record significant losses in future periods, which will lead us to require additional draws, as deteriorating economic conditions could cause, among other things, increased provision for credit losses and REO operations expense and additional unrealized losses on our non-agency mortgage-related securities. In addition, a variety of other factors could lead us to need additional draws in the future, including:

pursuit of public policy-oriented objectives that produce suboptimal financial returns, such as the continued use or expansion of foreclosure suspensions, loan modifications and refinancings and other foreclosure prevention efforts;

adverse changes in interest rates, the yield curve, implied volatility or mortgage-to-LIBOR OAS, which could increase realized and unrealized mark-to-fair value losses recorded in earnings or accumulated other comprehensive income, or AOCI;

dividend obligations on the senior preferred stock;

changes in accounting practices or standards, including the implementation of proposed amendments to SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities, a replacement of FASB Statement No. 125*, or SFAS 140, and Financial Accounting Standards Board, or FASB, Interpretation No., or FIN, 46 (revised December 2003), *Consolidation of Variable Interest Entities, an interpretation of ARB No. 51*, or FIN 46(R), that would require consolidation of our PC trusts in our financial statements;

potential accounting consequences of our implementation of HASP;

our inability to access the public debt markets on terms sufficient for our needs, absent support from Treasury and the Federal Reserve;

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establishment of a valuation allowance for our remaining deferred tax asset; and

changes in business practices resulting from legislative and regulatory developments, such as the enactment of legislation providing bankruptcy judges with the authority to revise the terms of a mortgage, including the principal amount.

To the extent we are required to make additional draws under the Purchase Agreement, our dividend obligation on the senior preferred stock would further increase. As a result of these expected losses and other factors, our cash flow from operations and earnings will likely be negative for the foreseeable future, there is significant uncertainty as to our future capital structure and long-term financial sustainability, and there are likely to be significant changes to our capital structure and business model beyond the near-term that we expect to be decided by Congress and the Executive Branch.

Our obligations under the senior preferred stock will adversely affect our future financial condition.

We face substantial dividend obligations on our senior preferred stock due to the draws that have been made or requested on our behalf by FHFA, which total \$44.6 billion to date. Following the \$30.8 billion draw under the Purchase Agreement, which we expect to receive in March 2009, our annual dividend obligation will be \$4.6 billion, which is in excess of our annual net income in eight of the ten prior fiscal years. Because senior preferred dividends are cumulative and we are limited in our ability to redeem the senior preferred stock, our dividend obligation to Treasury will continue indefinitely, and there is no assurance that we will be able to pay that obligation in any future period. In addition, beginning in 2010, we are obligated to pay a quarterly commitment fee to Treasury in exchange for its continued funding commitment under the Purchase Agreement. This fee has not yet been established and could be substantial. The dividend obligation, combined with potentially substantial commitment fees payable to Treasury and limited flexibility to pay down capital draws, will have a significant adverse impact on our future financial condition and net worth, could substantially delay our return to long-term profitability, or make long-term profitability unlikely.

Dividends on the senior preferred stock issued under the Purchase Agreement accrue at a rate of 10% per year or 12% per year in any quarter in which dividends are not paid in cash until all accrued dividends are paid in cash. Therefore, if we are unable to pay the anticipated future dividends in cash, we could face a continual escalation in our dividend obligation. In addition, the substantial cash dividend obligation may increase the risk that we may face increasingly negative cash flows from operations.

Treasury's funding commitment may not be sufficient to keep us in a solvent condition.

Under the Purchase Agreement, Treasury has made a commitment to provide up to \$100 billion in funding as needed to help us maintain a positive net worth, and on February 18, 2009, Treasury announced that it is increasing its commitment from \$100 billion to \$200 billion. As of the filing of this annual report on Form 10-K, the Purchase Agreement has not been amended to reflect the increase in Treasury's commitment. In November 2008, we received an initial draw of \$13.8 billion under the Purchase Agreement, and the Director of FHFA has submitted a second draw request to Treasury under the Purchase Agreement in the amount of \$30.8 billion, which we expect to receive in March 2009. The amount of Treasury's funding commitment will continue to be reduced by any amounts we receive under the commitment for future periods.

If we continue to experience substantial losses in future periods or to the extent that we experience a liquidity crisis that prevents us from accessing the unsecured debt markets, this commitment may not be sufficient to keep us in solvent condition or from being placed into receivership. Thus, the announced increase in the commitment to

\$200 billion reduces, but does not eliminate, this risk.

Factors including credit losses from our mortgage guarantee activities have had an increasingly negative impact on our cash flows from operations during 2007 and 2008. As we anticipate these trends to continue for the foreseeable future, it is likely that the company will increasingly rely upon access to the public debt markets as a source of funding for ongoing operations. Access to such public debt markets may not be available.

We expect cash flows from operations to experience continued negative pressure in the near future, primarily as a result of credit losses in excess of the projected revenues generated from our investment and mortgage guarantee activities.

It is also possible that substantial and increasing dividend obligations on our senior preferred stock could contribute to negative cash flows, if the company makes these dividend payments in cash. If we do not make these dividend payments in cash, the amount due increases the aggregate liquidation preference of the senior preferred stock.

If the negative cash flows from operations exceed funding availability in the public debt markets, the alternative sources of cash available to us under our liquidity management and contingency plan, such as selling securities from our cash and other investments portfolio or borrowing against securities in our mortgage-related investments portfolio, may be insufficient to meet our future cash needs. In such event, the Lending Agreement (until its expiration on December 31, 2009) and Purchase Agreement may provide additional sources of cash.

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We are in conservatorship and this is likely to affect our strategic objectives, as well as our future financial condition and results of operations.

As our Conservator, FHFA possesses all of the powers of our stockholders, officers and directors. During the conservatorship, the Conservator has delegated certain authority to the Board of Directors to oversee, and management to conduct, day-to-day operations so that the company can continue to operate in the ordinary course of business. FHFA has the ability to withdraw its delegations of authority and override actions of our Board of Directors at any time. As a result, FHFA has the power to take actions without our knowledge, that could be material to investors and could significantly affect our financial performance.

FHFA is also conservator of Fannie Mae, our primary competitor. We do not know the impact on our business of FHFA's serving as conservator of Fannie Mae.

In announcing the conservatorship, the Director of FHFA stated his conclusion that Freddie Mac could not continue to operate safely and soundly and fulfill its mission without significant action. At the same time, the then Secretary of the Treasury stated that because Freddie Mac is in conservatorship, it will no longer be managed with a strategy to maximize common stockholder returns. Further, FHFA, as Conservator, has directed the company to focus on managing to a positive stockholders' equity. At the direction of the Conservator, we have made changes to certain business practices that are designed to provide support for the mortgage market in a manner that serves public policy and other non-financial objectives but may not contribute to our goal of managing to a positive stockholders' equity. For example, we have cancelled previously announced price increases and have engaged in extensive foreclosure-prevention efforts. Some of these changes have increased our expenses or caused us to forego revenue opportunities. Other agencies of the U.S. government, as well as Congress, also may have an interest in the conduct of our business. As with FHFA, we do not know what actions they will request us to take.

In view of the conservatorship and the reasons stated by FHFA for its establishment, it is likely that our business model and strategic objectives will continue to change, possibly significantly, including in pursuit of public policy and other non-financial objectives. Among other things, we could experience significant changes in the size, growth and characteristics of our guarantor and portfolio investment activities, and we could materially change our operational objectives, including our pricing strategy in our core mortgage guarantee business. Accordingly, our strategic and operational focus going forward may not be consistent with the investment objectives of our investors. It is possible that we will make material changes to our capital strategy and to our accounting policies, methods, and estimates. It is also possible that the company could be restructured and its statutory mission revised.

In addition, we are subject to limitations under the Purchase Agreement that affect the amount of indebtedness we may incur, the size of our mortgage-related investments portfolio and the circumstances in which we may pay dividends, raise capital and pay down the liquidation preference on the senior preferred stock. We also have substantial dividend obligations on our senior preferred stock. These changes and other factors could have material effects on, among other things, our portfolio growth, capital, credit losses, net interest income, guarantee fee income, net deferred tax assets, and loan loss reserves, and could have a material adverse effect on our future results of operations and financial condition. In light of the significant uncertainty surrounding these changes, there can be no assurances regarding when, if ever, we will return to profitability.

The conservatorship is indefinite in duration and the timing, conditions and likelihood of our emerging from conservatorship are uncertain.

FHFA has stated that there is no exact time frame as to when the conservatorship may end. While the Director of FHFA has stated that he intends to terminate the conservatorship upon his determination that FHFA's plan to restore Freddie Mac to a safe and solvent condition has been completed successfully, there can be no assurance as to the

timing of the completion of such plan, that such plan will be able to be completed successfully or that, upon successful completion Freddie Mac will retain its current structure. Termination of the conservatorship also requires Treasury's consent under the Purchase Agreement. There can be no assurance as to when, and under what circumstances, Treasury would give such consent.

In addition to the existing conservatorship, Treasury has the ability to acquire a majority of our common stock for nominal consideration by exercising the warrant we issued to it pursuant to the Purchase Agreement. Consequently, the company could effectively remain under the control of the U.S. government even if the conservatorship was ended and the voting rights of common stockholders restored. The warrant held by Treasury and the senior status of the senior preferred stock issued to Treasury under the Purchase Agreement, if the senior preferred stock has not been redeemed, also could adversely affect our ability to attract new private sector capital in the future should the company be in a position to seek such capital. Moreover, our draws under Treasury's funding commitment and the required dividend payment on the senior preferred stock could permanently impair our ability to build independent sources of capital.

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Our regulator may, and in some cases must, place us into receivership, which would result in the liquidation of our assets and terminate all rights and claims that our stockholders and creditors may have against our assets or under our charter.

Under the Reform Act, FHFA must place us into receivership if FHFA determines in writing that our assets are less than our obligations for a period of 60 days. FHFA has notified us that the measurement period for any mandatory receivership determination with respect to our assets and obligations would commence no earlier than the SEC public filing deadline for our quarterly or annual financial statements and would continue for 60 calendar days after that date. FHFA has also advised us that, if, during that 60-day period, we receive funds from Treasury in an amount at least equal to the deficiency amount under the Purchase Agreement, the Director of FHFA will not make a mandatory receivership determination.

In addition, we could be put into receivership at the discretion of the Director of FHFA at any time for other reasons, including conditions that FHFA has already asserted existed at the time the Director of FHFA placed us into conservatorship. These include: a substantial dissipation of assets or earnings due to unsafe or unsound practices; the existence of an unsafe or unsound condition to transact business; an inability to meet our obligations in the ordinary course of business; a weakening of our condition due to unsafe or unsound practices or conditions; critical undercapitalization; the likelihood of losses that will deplete substantially all of our capital; or by consent. A receivership would terminate the conservatorship. The appointment of FHFA (or any other entity) as our receiver would terminate all rights and claims that our stockholders and creditors may have against our assets or under our charter arising as a result of their status as stockholders or creditors, other than the potential ability to be paid upon our liquidation. Unlike a conservatorship, the purpose of which is to conserve our assets and return us to a sound and solvent condition, the purpose of a receivership is to liquidate our assets and resolve claims against us.

In the event of a liquidation of our assets, there can be no assurance that there would be sufficient proceeds to pay the secured and unsecured claims of the company, repay the liquidation preference of any series of our preferred stock or make any distribution to the holders of our common stock. Only after paying the secured and unsecured claims of the company, the administrative expenses of the receiver and the liquidation preference of the senior preferred stock would any liquidation proceeds be available to repay the liquidation preference on any other series of preferred stock. Finally, only after the liquidation preference on all series of preferred stock is repaid would any liquidation proceeds be available for distribution to the holders of our common stock. To the extent that we are placed in receivership and do not or cannot fulfill our guarantee to the holders of our mortgage-related securities, they could become unsecured creditors of ours with respect to claims made under our guarantee.

We have a variety of different, and potentially competing, objectives that may adversely affect our financial results and our ability to maintain a positive net worth.

Based on our charter, public statements from Treasury and FHFA officials and guidance from our Conservator, we have a variety of different, and potentially competing, objectives. These objectives include providing liquidity, stability and affordability in the mortgage market; immediately providing additional assistance to the struggling housing and mortgage markets; reducing the need to draw funds from Treasury pursuant to the Purchase Agreement; returning to long-term profitability; and protecting the interests of the taxpayers. These objectives create conflicts in strategic and day-to-day decision making that will likely lead to suboptimal outcomes for one or more, or possibly all, of these objectives. Current portfolio investment and mortgage guarantee activities and loan modification, refinancing and foreclosure forbearance programs are intended to provide support for the mortgage market in a manner that serves public policy and other non-financial objectives under conservatorship, but may negatively impact our financial results.

We have experienced significant management changes and we may lose a significant number of valuable employees, which could increase our control risks and have a material adverse effect on our ability to do business and our results of operations.

Since September 2008, there have been numerous changes in our senior management and governance structure, including FHFA becoming our Conservator, a new Chief Executive Officer and a reconstituted Board of Directors, including a new non-executive Chairman and other changes to our senior management, such as the departures of our former Chief Financial Officer and our former Chief Business Officer and the appointment of an Acting Chief Financial Officer and Acting Principal Accounting Officer. The magnitude of these changes and the short time interval in which they have occurred add to the risks of control failures, including a failure in the effective operation of the company's internal control over financial reporting or its disclosure controls and procedures. Control failures could result in material adverse effects on the company's financial condition and results of operations.

On March 2, 2009 we announced that David M. Moffett had notified the Chairman of the Board of Directors of his resignation from his position as Chief Executive Officer and as a member of the Board of Directors effective no later than March 13, 2009. John A. Koskinen has been appointed Interim Chief Executive Officer and Robert R. Glauber has been appointed interim non-executive Chairman of the Board of Directors, effective upon Mr. Moffett's resignation. The Board of Directors is working with the Conservator to appoint a permanent Chief Executive Officer. In addition, several internal

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management changes have been made to fill key positions and the company continues to recruit members of its senior management team, including a Chief Operating Officer and a permanent Chief Financial Officer. It may take time for the new senior management team to be hired, particularly a new CEO, and to become sufficiently familiar with our business and each other to effectively develop and implement our business strategies. This turnover of key management positions could further harm our financial performance and results of operations. Management attention may be diverted from regular business concerns by reorganizations and the need to operate under this new framework. The conservatorship and the actions taken by Treasury and the Conservator to date, or that may be taken by them or other government agencies in the future, may have an adverse effect on the retention and recruitment of senior executives and others in management. Limitations on executive compensation may also adversely affect our ability to recruit and retain well-qualified employees. If we lose a significant number of employees and are not able to quickly recruit and train new employees, it could negatively affect customer relationships and goodwill, and could have a material adverse effect on our ability to do business and our results of operations.

The conservatorship and investment by Treasury has had, and will continue to have, a material adverse effect on our common and preferred stockholders.

No voting rights during conservatorship. The rights and powers of our stockholders are suspended during the conservatorship. During the conservatorship, our common stockholders do not have the ability to elect directors or to vote on other matters unless the Conservator delegates this authority to them.

Dividends have been eliminated. The Conservator has eliminated common and preferred stock dividends (other than dividends on the senior preferred stock) during the conservatorship. In addition, under the terms of the Purchase Agreement, dividends may not be paid to common or preferred stockholders (other than on the senior preferred stock) without the consent of Treasury, regardless of whether or not we are in conservatorship. Even if we were not under conservatorship, our current financial condition would preclude us from paying such dividends under applicable state law and existing capital regulations.

No longer managed to maximize stockholder returns. According to a statement made by the then Secretary of the Treasury on September 7, 2008, because we are in conservatorship, we will no longer be managed with a strategy to maximize stockholder returns.

Liquidation preference of senior preferred stock. The senior preferred stock ranks prior to our common stock and all other series of our preferred stock, as well as any capital stock we issue in the future, as to both dividends and distributions upon liquidation. Accordingly, if we are liquidated, Treasury, as holder of the senior preferred stock, is entitled to its then-current liquidation preference, plus any accrued but unpaid dividends, before any distribution is made to the holders of our common stock or other preferred stock. The Director of FHFA has submitted a draw request to Treasury under the Purchase Agreement in the amount of \$30.8 billion, which we expect to receive in March 2009. When this draw is received, the liquidation preference on the senior preferred stock will increase from \$1.0 billion as of September 8, 2008 to \$45.6 billion. The liquidation preference will increase further if we make additional draws under the Purchase Agreement, if we do not pay dividends owed on the senior preferred stock or if we do not pay the quarterly commitment fee under the Purchase Agreement. If we are liquidated, there may not be sufficient funds remaining after payment of amounts to our creditors and to Treasury as holder of the senior preferred stock to make any distribution to holders of our common stock and other preferred stock.

Warrant may substantially dilute investment of current stockholders. If Treasury exercises its warrant to purchase shares of our common stock equal to 79.9% of the total number of shares of our common stock outstanding on a fully diluted basis, the ownership interest in the company of our then existing common stockholders will be substantially diluted. It is possible that stockholders, other than Treasury, will not own more than 20.1% of our total common stock for the duration of our existence.

Market price and liquidity of our common and preferred stock has substantially declined and may decline further. Prior to our entry into conservatorship, the market price for our common stock declined substantially. After our entry into conservatorship, the market price of our common stock continued to decline (to less than \$1 per share) and the investments of our common and preferred stockholders have lost substantial value which they may never recover.

The conservatorship has no specified termination date. We do not know when or how the conservatorship will be terminated, and if or when the rights and powers of our stockholders, including the voting powers of our common stockholders, will be restored. Moreover, even if the conservatorship is terminated, by their terms, we remain subject to the Purchase Agreement, senior preferred stock and warrant.

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Competitive and Market Risks

The future growth of our mortgage-related investments portfolio is significantly limited under the Purchase Agreement and by FHFA regulation, which will result in greater reliance on our guarantee activities to generate revenue.

Under the Purchase Agreement and FHFA regulation, our mortgage-related investments portfolio as of December 31, 2009 may not exceed \$900 billion, and must decline by 10% per year thereafter until it reaches \$250 billion. In addition, under the Purchase Agreement, without the prior consent of Treasury, we may not increase our total indebtedness above a specified limit or become liable for any subordinated indebtedness. These limitations will reduce the earnings capacity of our mortgage-related investments portfolio business and require us to place greater emphasis on our guarantee activities to generate revenue. However, under conservatorship, our ability to generate revenue through guarantee activities may be limited, as we may be required to adopt business practices that provide support for the mortgage market in a manner that serves public policy and other non-financial objectives, but that may negatively impact our financial results. The cap on our mortgage-related investments portfolio may force us to sell mortgage assets at unattractive prices and may prevent us from purchasing mortgage assets at attractive prices.

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

We are exposed to mortgage credit risk within our single-family mortgage portfolio, which includes mortgage loans, PCs, Structured Securities and other mortgage guarantees we have issued in our guarantee business. Mortgage credit risk is the risk that a borrower will fail to make timely payments on a mortgage or an issuer will fail to make timely payments on a security we own or guarantee, exposing us to the risk of credit losses and credit-related expenses. Factors that affect the level of our mortgage credit risk include the credit profile of the borrower, the features of the mortgage loan, the type of property securing the mortgage, and local and regional economic conditions, including regional increases in unemployment rates and falling home prices. While mortgage interest rates have decreased since the middle of 2008, many borrowers may not be able to refinance into lower interest mortgages due to substantial declines in home values and market uncertainty. Therefore, there can be no assurance that a further decrease in mortgage interest rates or efforts to refinance mortgages pursuant to the HASP will result in a decrease in our overall mortgage credit risk.

Alt-A loans made up approximately 10% and 11% of our single-family mortgage portfolio in 2008 and 2007, respectively, but accounted for approximately 50% and 18% of our credit losses in 2008 and 2007, respectively. See MD&A CONSOLIDATED BALANCE SHEETS ANALYSIS Mortgage-Related Investments Portfolio *Higher Risk Components of our Mortgage-Related Investments Portfolio* for information on our classification of loans and asset-backed mortgage-related securities as Alt-A. Interest-only loans and option ARM loans made up approximately 10% of our single-family mortgage portfolio in both 2008 and 2007. Our purchases of these mortgages and issuances of guarantees of them expose us to greater credit risks than do other types of mortgages. Our holdings of these loan groups are concentrated in the West region where home prices have experienced steep declines, accounting for 45% of our credit losses in 2008. We have also experienced increases in delinquency rates for prime mortgages, due to deteriorating housing prices and increasing unemployment rates. In addition, for a significant percentage of the mortgages we purchase, we agreed to permit our seller/servicers to underwrite the loans using alternative automated underwriting systems. These alternative systems may use different standards than our own, including, in some cases, lower standards with respect to borrower credit characteristics. Those differences may increase our credit risk and may result in increases in credit losses. Furthermore, due to our relative lack of experience in the jumbo mortgage market, purchases pursuant to the high-cost conforming loan limits may also expose us to greater credit risks.

We are exposed to increased credit risk related to subprime, Alt-A and MTA loans that back our non-agency mortgage-related securities investments.

We have invested in non-agency mortgage-related securities that are backed by subprime, Alt-A and Moving Treasury Average, or MTA, loans, which are a type of option ARM. Our non-agency mortgage-related securities backed by subprime and Alt-A and other loans do not include a significant amount of option ARMs. Throughout 2008 and continuing into 2009, mortgage loan delinquencies and credit losses in the U.S. mortgage market have substantially increased, particularly in the subprime, Alt-A and MTA sectors of the residential mortgage market. In addition, home prices have continued to decline, after extended periods during which home prices appreciated. If delinquency and loss rates on subprime, Alt-A and MTA loans continue to increase, or there is a further decline in home prices, we could experience additional GAAP losses due to other-than-temporary impairments on our investments in these non-agency mortgage-related securities. If Congress enacts legislation allowing bankruptcy judges to reduce the loan balance of mortgage loans, this could also result in additional other-than-temporary impairments. In addition, the fair value of these investments has declined and may decline further due to additional ratings downgrades or market events. Any credit enhancements covering these securities, including subordination, may not prevent us from incurring losses. These factors could negatively affect our financial position and net

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worth. See MD&A CONSOLIDATED BALANCE SHEETS ANALYSIS Mortgage-Related Investments Portfolio for information about the credit ratings for these securities and the extent to which these securities have been downgraded.

The credit losses we experience in future periods as a result of the housing and economic crisis are likely to be larger, perhaps substantially larger, than our current loan loss reserves.

Our loan loss reserves, as reflected on our balance sheet, do not reflect our estimate of the future credit losses inherent in our single-family and multifamily mortgage loans, including those underlying our financial guarantees. Rather, pursuant to GAAP, our reserves only reflect probable losses we believe we have already incurred as of the balance sheet date. Because of the housing and economic crisis, there is significant uncertainty regarding the full extent of future credit losses. The credit losses we experience in future periods will adversely affect our business, results of operations, financial condition, liquidity and net worth.

A continued decline in U.S. home prices or other changes in the U.S. housing market could negatively impact our business and increase our losses.

Throughout 2008, the U.S. housing market experienced significant adverse trends, including accelerating price depreciation, rising delinquency and default rates and high unemployment. These conditions led to significant increases in our loan delinquencies and credit losses and higher provisioning for loan losses, all of which have adversely affected our results of operations. We expect that home prices will experience significant further deterioration in 2009, which could result in a continued increase in delinquencies or defaults and a level of credit-related losses higher than our expectations when our guarantees were issued, which could significantly increase our losses. For more information, see MD&A CREDIT RISKS. Government programs designed to halt the decline in the U.S. housing market, such as the HASP, may fail.

Our business volumes are closely tied to the rate of growth in total outstanding U.S. residential mortgage debt and the size of the U.S. residential mortgage market. The rate of growth in total residential mortgage debt was (0.3%) in 2008 compared to 7.2% in 2007. If the rate of growth in total outstanding U.S. residential mortgage debt were to continue to decline, there could be fewer mortgage loans available for us to purchase, and we could face more competition to purchase a smaller number of loans.

Apartment market fundamentals began to deteriorate more rapidly in the second half of 2008, due to increased vacancy rates, declining rent levels and a weakening employment market. Given the significant weakness currently being experienced in the U.S. economy, it is likely that apartment fundamentals will continue to deteriorate during 2009, which could cause us to incur significant credit and other losses relating to our multifamily activities.

Our financial condition or results of operations may be adversely affected if mortgage seller/servicers fail to perform their obligations to service loans in our single-family mortgage portfolio as well as to repurchase loans sold to us in breach of representations and warranties.

Our seller/servicers have a significant role in servicing loans in our single-family mortgage portfolio, which includes an active role in our loss mitigation efforts. We also require seller/servicers to make certain representations and warranties regarding the loans they sell to us. If loans are sold to us in breach of those representations and warranties, we have the contractual right to require the seller/servicer to repurchase those loans from us. Our seller/servicer counterparties may fail to perform their obligation to service loans in our single-family mortgage portfolio as well as to repurchase loans, which could adversely affect our financial condition or results of operations. The risk of such a failure has increased as deteriorating market conditions have affected the liquidity and financial condition of many of our seller/servicers, including some of our largest seller/servicers. If a servicer is unable to fulfill its repurchase or

other responsibilities, we may be unable to sell the applicable servicing rights to a successor servicer and recover, from the sale proceeds, amounts owed to us by the defaulting servicer. Recent market turmoil has disrupted the market for mortgage servicing rights, which increases the risk that we may be unable to sell such rights or may not receive a sufficient price for them. The inability to realize the anticipated benefits of our loss mitigation plans, a lower realized rate of seller/servicer repurchases or default rates and severity that exceed our current projections could cause our losses to be significantly higher than those currently estimated. See MD&A CREDIT RISKS Institutional Credit Risk *Mortgage Seller/Servicers* for additional information on our institutional credit risk related to our mortgage seller/servicers.

Our financial condition or results of operations may be adversely affected by the financial distress of our derivative and other counterparties.

Due to market events in the second half of 2008, some of our derivative and other counterparties have experienced various degrees of financial distress, including liquidity constraints, credit downgrades and bankruptcy. Our ten largest derivative counterparties for 2008 represented approximately 69% of the total notional amount of our derivative portfolio. Our financial condition and results of operations may be adversely affected by the financial distress of these derivative and other counterparties in the event that they fail to meet their obligations to us. For example, we may incur losses if collateral

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held by us cannot be liquidated at prices that are sufficient to recover the full amount of the loan or derivative exposure due us.

Our exposure to derivatives counterparties has increased significantly since July 2008, as we have experienced significant deterioration in our access to the unsecured medium- and long-term debt markets, and have had to rely increasingly upon derivatives to manage our interest-rate risk. This strategy may increase the volatility of our GAAP results through mark-to-fair value impacts on our pay-fixed swaps and other derivatives.

In addition, our ability to engage in routine derivatives, funding and other transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial services institutions are interrelated as a result of trading, clearing, counterparty or other relationships. As a result, defaults by, or even rumors or questions about, one or more financial services institutions, or the financial services industry generally, could lead to market-wide disruptions in which it may be difficult for us to find acceptable counterparties for such transactions.

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

We face the risk that one or more of the institutional counterparties that has entered into a business contract or arrangement with us may fail to meet its obligations. We face similar risks with respect to contracts or arrangements we enter into on behalf of the securitization trusts. Our primary exposures to institutional counterparty risk are with:

mortgage insurers;

mortgage seller/servicers;

issuers, guarantors or third party providers of credit enhancements (including bond insurers);

mortgage investors;

multifamily mortgage guarantors;

issuers, guarantors and insurers of investments held in both our mortgage-related investments portfolio and our cash and other investments portfolio; and

derivatives counterparties.

In some cases, our business with institutional counterparties is concentrated. A significant failure by a major institutional counterparty could have a material adverse effect on our mortgage-related investments portfolio, cash and other investments portfolio, derivative portfolio or credit guarantee activities. See NOTE 18: CONCENTRATION OF CREDIT AND OTHER RISKS to our consolidated financial statements for additional information. For 2008, our ten largest mortgage seller/servicers represented approximately 84% of our single-family mortgage purchase volume. We are exposed to the risk that we could lose purchase volume to the extent these arrangements are terminated or modified and not replaced from other lenders.

Some of our counterparties also may become subject to serious liquidity problems affecting, either temporarily or permanently, their businesses, which may adversely affect their ability to meet their obligations to us. Challenging market conditions have adversely affected and are expected to continue to adversely affect the liquidity and financial condition of a number of our counterparties, including some seller/servicers, mortgage insurers and bond insurers.

Some of our largest seller/servicers have experienced ratings downgrades and liquidity constraints, and certain large lenders have failed. A default by a counterparty with significant obligations to us could adversely affect our ability to conduct our operations efficiently and at cost-effective rates, which in turn could adversely affect our results of operations or our financial condition. Many of our counterparties provide several types of services to us. Accordingly, if one of these counterparties were to become insolvent or otherwise default on its obligations to us, it could harm our business and financial results in a variety of ways.

We are also exposed to risk relating to the potential insolvency or non-performance of mortgage insurers and bond insurers. Most of our mortgage insurer and bond insurer counterparties have experienced ratings downgrades during 2008 and some in early 2009. To date, none of these counterparties has failed to meet its obligations to us; however we recognized other-than-temporary impairment losses during 2008 on securities covered by our bond insurers due to concerns over whether or not they will meet our future claims. At December 31, 2008, our top three mortgage insurers; Mortgage Guaranty Insurance Corp, Radian Guaranty Inc. and Genworth Mortgage Insurance Corporation, each accounted for more than 10% of our overall mortgage insurance coverage and collectively represented approximately 65% of our overall mortgage insurance coverage. As of December 31, 2008, our top four bond insurers; Ambac Assurance Corporation, Financial Guaranty Insurance Company, MBIA Insurance Corp., and Financial Security Assurance Inc., each accounted for more than 10% of our overall bond insurance coverage (including secondary policies), and collectively represented approximately 90% of our bond insurance coverage. See MD&A CREDIT RISKS Institutional Credit Risk for additional information regarding our credit risks to our counterparties and how we seek to manage them, and recent consolidation among some of our institutional counterparties.

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

Our business depends on our ability to acquire a steady flow of mortgage loans. We purchase a significant percentage of our single-family mortgages from several large mortgage originators. During 2008 and 2007, approximately 84% and 79%, respectively, of our guaranteed mortgage securities issuances originated from purchase volume associated with our ten largest customers. Three of our single-family customers each accounted for greater than 10% of our mortgage securitization volume for 2008. We enter into mortgage purchase volume commitments with many of our customers that provide for a specified dollar amount or minimum level of mortgage volume that these customers will deliver to us. Therefore, we face the risk that we will not be able to enter into a new commitment with a key customer following the expiration of the existing commitment. In July 2008, Bank of America Corporation completed its acquisition of Countrywide Financial Corp. In September 2008, JPMorgan Chase & Co. acquired all deposits, assets and certain liabilities of Washington Mutual. In December 2008, Wells Fargo & Co. completed its merger with Wachovia Corporation. These companies accounted for approximately 20%, 15% and 22%, respectively, of our securitization volume on a combined basis in 2008. The mortgage industry has been consolidating and a decreasing number of large lenders originate most single-family mortgages. The loss of business from any one of our major lenders could adversely affect our market share, our revenues and the credit loss performance of our single-family mortgage portfolio.

Changes in general business and economic conditions in the U.S. and abroad may adversely affect our business and results of operations.

Our business and results of operations may continue to be adversely affected by changes in general business and economic conditions, including changes in the international markets for our investments or our mortgage-related and debt securities. These conditions include employment rates, fluctuations in both debt and equity capital markets, the value of the U.S. dollar as compared to foreign currencies, the strength of the U.S. financial markets and national economy and the local economies in which we conduct business, and the economies of other countries that purchase our mortgage-related and debt securities. In addition, if the current recession continues to negatively impact national and regional economic conditions, we could experience significantly higher delinquencies and credit losses which will likely increase our losses in future periods and will adversely affect our results of operations or financial condition.

The mortgage credit markets experienced very difficult conditions and volatility during 2008 which have continued in 2009. The deteriorating conditions in these markets resulted in a decrease in availability of corporate credit and liquidity within the mortgage industry, causing disruptions to normal operations of major mortgage originators, including some of our largest customers, and have resulted in the insolvency, closure or acquisition of a number of major financial institutions. These conditions also resulted in less liquidity, greater volatility, widening of credit spreads and a lack of price transparency and are expected to contribute to further consolidation within the financial services industry. We operate in these markets and continue to be subject to adverse effects on our financial condition and results of operations due to our activities involving securities, mortgages, derivatives and other mortgage commitments with our customers.

Competition from banking and non-banking companies may harm our business.

Competition in the secondary mortgage market combined with a decreased rate of growth in residential mortgage debt outstanding may make it more difficult for us to purchase mortgages. Furthermore, competitive pricing pressures may make our products less attractive in the market and negatively impact our financial results. In addition, under a recent FDIC program, many of our bank competitors are currently able to issue senior, short-term unsecured debt that is guaranteed by the U.S. government. This development will likely decrease their funding costs, and increase their ability to compete with us.

We face limited availability of financing, increased funding costs and uncertainty in our securitization financing; our ability to obtain funding would be adversely affected by the expiration of the Lending Agreement and other government programs.

The amount, type and cost of our funding, including financing from other financial institutions and the capital markets, directly impacts our interest expense and results of operations and can therefore affect our ability to grow our assets. The support of Treasury and the Federal Reserve to date has supported our access to debt funding on terms sufficient for our needs. In addition, a number of other factors could make such financing more difficult to obtain, more expensive or unavailable on any terms, both domestically and internationally (where funding transactions may be on terms more or less favorable than in the U.S.), including:

the impact of the current liquidity crisis;

decreasing demand for our debt securities; and

increasing competition for debt funding from other debt issuers.

Government Programs

On November 25, 2008, the Federal Reserve announced a program to purchase up to \$100 billion of direct obligations of Freddie Mac, Fannie Mae and the FHLBs. The Federal Reserve will purchase these direct obligations from primary

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dealers. As of February 25, 2009, according to information provided by the Federal Reserve, it held \$38.3 billion under this program, including \$17.3 billion of our direct obligations. Our access to funding and funding costs would be significantly adversely affected after the program has been completed.

We will not be able to obtain funds under the Lending Agreement after December 31, 2009. Therefore, after such date, we will not have a substantial liquidity backstop available to us (other than Treasury's ability to purchase up to \$2.25 billion of our obligations under its permanent authority) if we are unable to obtain funding from issuances of debt or other conventional sources. Our long-term liquidity contingency strategy involves maintaining alternative sources of liquidity to allow normal operations without relying upon the issuance of debt. However, under current conditions, it is unlikely that we will be able to satisfy these liquidity needs through conventional sources. Consequently, our long-term liquidity contingency strategy is currently dependent on the extension of the Lending Agreement beyond December 31, 2009. In addition, our funding costs may increase if we borrow under the Lending Agreement. Based on a Fact Sheet published by Treasury on September 7, 2008, the interest rate we are likely to be charged for loans under the Lending Agreement may be significantly higher than the rates we have historically achieved through the sale of unsecured debt. Therefore, use of this facility in significant amounts could have a material adverse impact on our financial results. Treasury is not obligated under the Lending Agreement to make any loans to us, and thus we may not be able to rely on this facility in the event of a liquidity crisis. Further, the terms of any borrowings will be determined by Treasury, and may be more restrictive than loans we could obtain from other sources.

Current Liquidity Crisis

Our ability to obtain funding in the public debt markets or by pledging mortgage-related securities as collateral to other financial institutions has been adversely affected by the current liquidity crisis and could cease or change rapidly and the cost of the available funding could increase significantly due to changes in market confidence. Since July 2008, we have experienced significant deterioration in our access to the unsecured medium- and long-term debt markets, and have relied increasingly on short-term debt to fund our purchases of mortgage assets and to refinance maturing debt. As a result, we have been required to refinance our debt on a more frequent basis, exposing us to an increased risk of insufficient demand and adverse credit market conditions. This has also caused us to increase our use of pay-fixed swaps to synthetically create the substantive economic equivalent of various debt funding structures. Thus, if our access to the derivative markets were disrupted, our business results would be adversely affected. It is unclear if or when these market conditions will improve, allowing us increased access to the longer-term debt markets that is not based on support from Treasury and the Federal Reserve. During 2008, the ratings on our non-agency mortgage-related securities backed by Alt-A, subprime and MTA loans decreased, limiting their availability as a significant source of liquidity for us through sales or use as collateral in secured lending transactions. In addition, adverse market conditions have negatively impacted our ability to enter into secured lending transactions using agency mortgage-related securities as collateral. These trends are likely to continue in the future.

Demand for Debt Funding

The willingness of domestic and foreign investors to purchase and hold our debt securities can be influenced by many factors, including perceptions of the extent of U.S. government support for our business, changes in the world economy, changes in foreign-currency exchange rates, regulatory and political factors, as well as the availability of and preferences for other investments. If investors were to divest their holdings or reduce their purchases of our debt securities, our funding costs could increase. We have experienced decreased demand for our long-term debt, and have relied more on the Federal Reserve as an active purchaser of such debt in the secondary market. The willingness of investors to purchase or hold our debt securities, and any changes to such willingness, may materially affect our liquidity, our business and results of operations.

Competition for Debt Funding

We compete for low-cost debt funding with Fannie Mae, the FHLBs and other institutions that are able to issue debt that is guaranteed by the U.S. government. Competition for debt funding from these entities can vary with changes in economic, financial market and regulatory environments. Increased competition for low-cost debt funding may result in a higher cost to finance our business, which could negatively affect our financial results. An inability to issue debt securities at attractive rates in amounts sufficient to fund our business activities and meet our obligations could have an adverse effect on our liquidity, financial condition and results of operations. See MD&A LIQUIDITY AND CAPITAL RESOURCES Liquidity Debt Securities for a more detailed description of our debt issuance programs.

Lines of Credit

We maintain secured intraday lines of credit to provide additional intraday liquidity to fund our activities through the Fedwire system. These lines of credit may require us to post collateral to third parties. In certain limited circumstances, these secured counterparties may be able to repledge the collateral underlying our financing without our consent. In addition, because these secured intraday lines of credit are uncommitted, we may not be able to continue to draw on them if and when needed.

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PCs and Structured Securities

Our PCs and Structured Securities are also an integral part of our mortgage purchase program and any decline in the price performance of or demand for our PCs could have an adverse effect on our securitization activities. There is a risk that our PC and Structured Securities support activities may not be sufficient to support the liquidity and depth of the market for PCs.

Our investment returns may be adversely affected by Treasury and Federal Reserve programs to purchase GSE mortgage-related securities.

Treasury and the Federal Reserve have both implemented programs to purchase GSE mortgage-related securities. Treasury's authority to purchase these securities expires on December 31, 2009. The Federal Reserve has indicated that it expects to complete its purchases of mortgage-related securities by the end of the second quarter of 2009. The overall market for our mortgage-related securities and the returns available to us on our investments in agency mortgage-related securities may be adversely affected by these programs if the extent and duration of purchases reduces the OAS we can obtain on purchases for our mortgage-related investments portfolio.

A reduction in the credit ratings for our debt could adversely affect our liquidity.

Nationally recognized statistical rating organizations play an important role in determining, by means of the ratings they assign to issuers and their debt, the availability and cost of debt funding. We currently receive ratings from three nationally recognized statistical rating organizations for our unsecured borrowings. Our credit ratings are important to our liquidity. Actions by governmental entities or others, additional GAAP losses, additional draws under the Purchase Agreement and other factors could adversely affect the credit ratings on our debt. A reduction in our credit ratings could adversely affect our liquidity, competitive position, or the supply or cost of debt financing available to us. A significant increase in our borrowing costs could cause us to sustain additional losses or impair our liquidity by requiring us to seek other sources of financing, which may be difficult to obtain.

Mortgage fraud could result in significant financial losses and harm to our reputation.

We rely on representations and warranties by seller/servicers about the characteristics of the single-family mortgage loans we purchase and securitize, and we do not independently verify most of the borrower information that is provided to us. This exposes us to the risk that one or more of the parties involved in a transaction (the borrower, seller, broker, appraiser, title agent, lender or servicer) will engage in fraud by misrepresenting facts about a mortgage loan. We may experience significant financial losses and reputational damage as a result of mortgage fraud.

The value of mortgage-related securities guaranteed by us and held in our mortgage-related investments portfolio may decline if we did not or were unable to perform under our guarantee or if investor confidence in our ability to perform under our guarantee were to diminish.

We classify the mortgage-related securities in our mortgage-related investments portfolio as either available-for-sale or trading, and account for them at fair value on our consolidated balance sheets. A substantial portion of the mortgage-related securities in our mortgage-related investments portfolio are securities guaranteed by us. Our valuation of these securities is consistent with GAAP and the legal structure of the guarantee transaction, which includes the Freddie Mac guarantee to the securitization trust. The valuation of our guaranteed mortgage securities necessarily reflects investor confidence in our ability to perform under our guarantee and the liquidity that our guarantee provides. If we did not or were unable to perform under our guarantee, or if investor confidence in our ability to perform under our guarantee were to diminish, the value of our guaranteed securities may decline, thereby reducing the value of the securities reported on our consolidated balance sheets and our ability to sell or otherwise use

these securities for liquidity purposes, and adversely affecting our financial condition and results of operations.

Changes in interest rates could negatively impact our results of operations, stockholders' equity (deficit) and fair value of net assets.

Our investment activities and credit guarantee activities expose us to interest-rate and other market risks and credit risks. Changes in interest rates, up or down, could adversely affect our net interest yield. Although the yield we earn on our assets and our funding costs tend to move in the same direction in response to changes in interest rates, either can rise or fall faster than the other, causing our net interest yield to expand or compress. For example, due to the timing of maturities or rate reset dates on variable-rate instruments, when interest rates rise, our funding costs may rise faster than the yield we earn on our assets. This rate change could cause our net interest yield to compress until the effect of the increase is fully reflected in asset yields. Changes in the slope of the yield curve could also reduce our net interest yield.

Changes in interest rates could increase our GAAP net loss or deficit in stockholders' equity materially, especially if actual conditions vary considerably from our expectations. For example, if interest rates rise or fall faster than estimated or the slope of the yield curve varies other than as expected, we may incur significant losses. Changes in interest rates may also affect prepayment assumptions, thus potentially impacting the fair value of our assets, including investments in our

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mortgage-related investments portfolio, our derivative portfolio and our guarantee asset. When interest rates fall, borrowers are more likely to prepay their mortgage loans by refinancing them at a lower rate. An increased likelihood of prepayment on the mortgages underlying our mortgage-related securities may adversely impact the performance of these securities and the valuation of our guarantee asset. An increased likelihood of prepayment on the mortgage loans we hold may also negatively impact the performance of our mortgage-related investments portfolio. In 2008, interest rate declines were a primary contributor to losses on guarantee asset and derivative losses of \$22 billion.

Interest rates can fluctuate for a number of reasons, including changes in the fiscal and monetary policies of the federal government and its agencies, such as the Federal Reserve. Federal Reserve policies directly and indirectly influence the yield on our interest-earning assets and the cost of our interest-bearing liabilities. One of our primary strategies for managing interest-rate risk is the issuance of a broad range of callable and non-callable debt instruments. Due to deteriorating market conditions beginning in July 2008, we have not been able to follow this strategy consistently, as our ability to issue long-term and callable debt has been extremely limited. We have been forced to rely on increased use of short-term debt and derivative instruments. However the availability of derivative financial instruments (such as options and interest-rate and foreign-currency swaps) from acceptable counterparties of the types and in the quantities needed may be limited, particularly in the current environment, which could also adversely affect our ability to effectively manage the risks related to our investment funding. Thus, our strategies and efforts to manage our exposures to these risks may not be as effective as they have been in the past. See **QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK** for a description of the types of market risks to which we are exposed and how we seek to manage those risks.

Changes in OAS could materially impact our fair value of net assets and affect future results of operations, stockholders' equity (deficit) and fair value of net assets.

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

Negative publicity causing damage to our reputation could adversely affect our business prospects, financial results or capital.

Reputation risk, or the risk to our financial results and capital from negative public opinion, is inherent in our business. Negative public opinion could adversely affect our ability to keep and attract customers or otherwise impair our customer relationships, adversely affect our ability to obtain financing, impede our ability to hire and retain qualified personnel, hinder our business prospects or adversely impact the trading price of our securities. Perceptions regarding the practices of our competitors or the financial services and mortgage industries as a whole, particularly as they relate to the current economic crisis, may also adversely impact our reputation. Adverse reputation impacts on third parties with whom we have important relationships may impair market confidence or investor confidence in our

business operations as well. In addition, negative publicity could expose us to adverse legal and regulatory consequences, including greater regulatory scrutiny or adverse regulatory or legislative changes. These adverse consequences could result from perceptions concerning our activities and role in addressing the mortgage market crisis or our actual or alleged action or failure to act in any number of activities, including corporate governance, regulatory compliance, financial reporting and disclosure, purchases of products perceived to be predatory, safeguarding or using nonpublic personal information, or from actions taken by government regulators and community organizations in response to our actual or alleged conduct.

Business and Operational Risks

Programs to reduce foreclosures, modify loan terms and refinance mortgages may fail to mitigate our credit losses and may adversely affect our results of operations or financial condition.

Loss mitigation activities are a key component of our strategy for managing and resolving troubled assets and lowering credit losses. However, there can be no assurance that any of our loss mitigation strategies will be successful and that credit losses will not escalate.

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Due to the higher rates of delinquency in 2008, we have significantly increased our use of loss mitigation programs. Working with our Conservator, we are increasing loan modification and refinancing programs. For example, effective December 15, 2008, we directed our servicers to begin offering fast-track loan modifications to certain troubled borrowers. We also suspended all foreclosure sales involving occupied single family and 2-4 unit properties with Freddie Mac-owned mortgages from November 26, 2008 through January 31, 2009 and from February 14, 2009 through March 6, 2009 to allow more borrowers to take advantage of the loan modification programs. We also suspended evictions on REO properties from November 26, 2008 through April 1, 2009. Various states have initiated programs to help troubled borrowers find alternatives to foreclosure.

The success of any of our loss mitigation programs may be constrained by the difficulty in contacting borrowers, the inability of many borrowers to qualify for the programs, and servicers' difficulties in processing high volumes of applications. Loss mitigation programs can increase our expenses, due to the costs associated with contacting eligible borrowers and processing loan modifications. These programs may result in us making significant concessions to delinquent borrowers. Even if we are able to modify a loan, there can be no assurance that the loan will not return to delinquent status, due to the severity of economic conditions affecting delinquent borrowers.

Pursuant to the HASP, we expect that we and our servicers will be involved in significant loan modification and refinancing activity with respect to mortgages we own or guarantee to reduce interest rates for many borrowers. However, notwithstanding such reduced interest rates, borrowers may continue to default on their loans, due to the stressful economic conditions. Thus, the loan modification and refinancing activity may fail to significantly reduce credit losses. In addition, our role as compliance agent for the HASP is expected to be substantial, requiring significant levels of internal resources and management attention, which may therefore be shifted away from current corporate initiatives.

Our seller/servicers have a key role in the success of our loss mitigation activities. The significant increases in delinquent loan volume and the deteriorating conditions of the mortgage market during 2008 placed a strain on the loss mitigation resources of many of our seller/servicers. A decline in the performance of any seller/servicers in mitigation efforts could result in missed opportunities for successful loan modifications and an increase in our credit losses.

Depending on the type of loss mitigation activities we pursue, those activities could result in accelerating or slowing prepayments on our PCs or Structured Securities, either of which could negatively affect the pricing of such PCs or Structured Securities.

We may experience further write-downs and losses relating to our assets, including our investment securities, net deferred tax assets, REO properties, mortgage loans or investments in LIHTC partnerships, that could materially adversely affect our business, results of operations, financial condition, liquidity and net worth.

We have experienced a significant increase in losses and write-downs relating to our assets during 2008, including significant declines in market value, impairments of our investment securities, market-based write-downs of REO properties, losses on non-performing loans purchased out of PC pools, and to a much lesser extent losses on our investments in LIHTC partnerships and other assets. A substantial portion of our impairment losses and write-downs relate to our investments in non-agency mortgage-related securities backed by subprime, Alt-A and MTA mortgage loans. We also incurred significant losses during 2008 relating to the non-mortgage investment securities in our cash and other investments portfolio, primarily as a result of a substantial decline in the market value of these assets due to the financial market crisis. The fair value of the investment securities we hold may be further adversely affected by continued deterioration in the housing and financial markets, additional ratings downgrades or other events.

Due to the continued deterioration in the housing and financial markets, we may experience additional write-downs and losses relating to our assets, including those that are currently AAA-rated, and the fair values of our assets may continue to decline. This could adversely affect our results of operations, financial condition, liquidity and net worth. In addition, many of these assets do not trade in a liquid secondary market and the size of our holdings relative to normal market activity are such that, if we were to attempt to sell a significant quantity of assets, the market pricing in such markets could be significantly disrupted. Therefore, if we were to sell any of these assets, the price we ultimately realize may be materially lower than the value at which we carry these assets on our consolidated balance sheets.

In the third quarter of 2008, we recorded a \$14.1 billion partial valuation allowance against our net deferred tax assets. In the fourth quarter of 2008, we recorded an additional \$8.3 billion valuation allowance against our net deferred tax assets. As of December 31, 2008, we determined that a valuation allowance is not necessary for the remainder of our \$15.4 billion of deferred tax asset, which are dependent upon our intent and ability to hold available-for-sale debt securities until the recovery of unrealized losses that are deemed to be temporary. The future status and role of Freddie Mac could be affected by the Conservator, and legislative and regulatory action that alters the ownership, structure and mission of the company. The uncertainty of these developments, as well as future legislative actions, could materially affect our operations, which could in turn affect our ability or intent to hold investments until the recovery of any temporary unrealized losses. If future events significantly alter our current outlook, a valuation allowance may need to be established for the remaining deferred tax asset.

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If we are unable to recruit, retain and engage employees with the necessary skills, our ability to conduct our business activities effectively during the conservatorship may be adversely affected.

Our ability to recruit, retain and engage employees with the necessary skills to conduct our business may be adversely affected by the conservatorship, the uncertainty regarding its duration and the potential for future legislative or regulatory actions that could significantly affect our status as a GSE and our role in the secondary mortgage market. For example, our Chief Executive Officer recently resigned, effective no later than March 13, 2009. In addition, new statutory and regulatory requirements restricting executive compensation at institutions that have received federal financial assistance, even if not expressly applicable to us, may be interpreted as limiting the compensation that we are able to provide to our executive officers and other employees. Although we have established a retention program providing for cash awards that are designed to help retain key employees, we are not currently in a position to offer employees financial incentives that are equity-based and, as a result of this and other factors relating to the conservatorship that may affect our attractiveness as an employer, we may be at a competitive disadvantage compared to other potential employers. Accordingly, we may not be able to retain or replace executives or other employees with key skills and our ability to conduct our business effectively could be adversely affected.

The price and trading liquidity of our common stock and our NYSE-listed issues of preferred stock may be adversely affected if those securities are delisted from the NYSE.

If we do not satisfy the minimum share price, corporate governance and other requirements of the continued listing standards of the NYSE, our common stock and NYSE-listed issues of preferred stock could be delisted from the NYSE. On November 17, 2008, we received a notice from the NYSE that we had failed to satisfy the NYSE's minimum share price standards for continued listing of our common stock. During the consecutive 30 trading-day period ended November 17, 2008, the average closing price of our common stock on the NYSE was less than \$1.00 per share, and it has remained below \$1.00 per share since that date. Under an NYSE rule change effective as of February 26, 2009, the minimum price listing standard has been suspended until June 30, 2009. If we do not regain compliance during the suspension period, the six-month compliance period that began on November 17, 2008 will recommence and we will have the remaining balance of that period to meet the standard.

If we are not able to cure the price deficiency, our common stock could be delisted from the NYSE, and this would also likely result in the delisting of our NYSE-listed preferred stock. The delisting of our common stock or NYSE-listed preferred stock would require any trading in these securities to occur in the over-the-counter market and could adversely affect the market prices and liquidity of the markets for these securities.

Material weaknesses and other deficiencies in internal control over financial reporting and disclosure controls could result in errors, affect operating results and cause investors to lose confidence in our reported results.

We face continuing challenges because of deficiencies in our accounting infrastructure and controls and the operational complexities of our business. As of December 31, 2008, we had four material weaknesses in internal control over financial reporting, and have determined that our disclosure controls and procedures were not effective as of December 31, 2008, at a reasonable level of assurance. These material weaknesses and other control deficiencies could result in errors, affect operating results and cause investors to lose confidence in our reported results. For a description of our existing material weaknesses, see **CONTROLS AND PROCEDURES** Internal Control Over Financial Reporting.

There are a number of factors that may impede our efforts to establish and maintain effective internal control and a sound accounting infrastructure, including: the nature of the conservatorship and our relationship with FHFA; the complexity of our business activities and related GAAP requirements; significant turnover in our senior management and Board of Directors; uncertainty regarding the operating effectiveness and sustainability of newly established

controls; and the uncertain impacts of recent housing and credit market volatility on the reliability of our models used to develop our accounting estimates. We cannot be certain that our efforts to improve our internal control over financial reporting will ultimately be successful.

Controls and procedures, no matter how well designed and operated, provide only reasonable assurance that material errors in our financial statements will be prevented or detected on a timely basis. A failure to establish and maintain effective internal control over financial reporting increases the risks of a material error in our reported financial results and delay in our financial reporting timeline. Depending on the nature of a failure and any required remediation, ineffective controls could have a material adverse effect on our business.

Delays in meeting our financial reporting obligations could affect our ability to maintain the listing of our securities on the NYSE. Ineffective controls could also cause investors to lose confidence in our reported financial information, which may have an adverse effect on the trading price of our securities.

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Recent market conditions impair the reliability of the internal models we use for financial accounting and reporting purposes, to make business decisions and to manage risks, and our business could be adversely affected if those models fail to produce reliable results.

We make significant use of business and financial models for financial accounting and reporting purposes and to manage risk. For example, we use models in determining the fair value of financial instruments for which independent price quotes are not available or reliable or in extrapolating third-party values to certain of our assets and liabilities. We also use models to measure and monitor our exposures to interest-rate and other market risks and credit risk. The information provided by these models is also used in making business decisions relating to strategies, initiatives, transactions and products.

We use market-based information as inputs to our models. The turmoil in the housing and credit markets creates additional risk regarding the reliability of our models, particularly since we are making adjustments to our models in response to rapid changes in economic conditions. This may increase the risk that our models could produce unreliable results or estimates that vary widely or prove to be inaccurate.

Models are inherently imperfect predictors of actual results because they are based on assumptions and/or historical experience. Our models could produce unreliable results for a number of reasons, including incorrect coding of the models, invalid or incorrect assumptions underlying the models, the need for manual adjustments to respond to rapid changes in economic conditions, incorrect data being used by the models or actual results that do not conform to historical trends and experience. In addition, the complexity of the models and the impact of the recent turmoil in the housing and credit markets create additional risk regarding the reliability of our models, since models may not function well in situations for which there are few or no recent historical precedents, such as the extreme economic conditions we are now experiencing. The valuations, risk metrics, amortization results, loan loss reserve estimations and security impairment charges produced by our internal models may be different from actual results, which could adversely affect our business results, cash flows, fair value of net assets, business prospects and future financial results. Changes in any of our models or in any of the assumptions, judgments or estimates used in the models may cause the results generated by the model to be materially different. The different results could cause a revision of previously reported financial condition or results of operations, depending on when the change to the model, assumption, judgment or estimate is implemented. Any such changes may also cause difficulties in comparisons of the financial condition or results of operations of prior or future periods. If our models are not reliable, we could also make poor business decisions, impacting loan purchases, management and guarantee fee pricing, asset and liability management, or other decisions. Furthermore, any strategies we employ to attempt to manage the risks associated with our use of models may not be effective. See MD&A CRITICAL ACCOUNTING POLICIES AND ESTIMATES Valuation of Financial Instruments and QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK Interest-Rate Risk and Other Market Risks for more information on our use of models.

Changes in our accounting policies, as well as estimates we make, could materially affect how we report our financial condition or results of operations; our financial results and net worth may also be adversely affected by the accounting effects of our activities under conservatorship, including our implementation of HASP. In particular, (i) proposed amendments to SFAS 140 and FIN 46(R); and (ii) potential accounting effects of our implementation of HASP could have a significant impact on our net worth, and could require us to request additional draws under the Purchase Agreement.

Our accounting policies are fundamental to understanding our financial condition and results of operations. We have identified certain accounting policies and estimates as being critical to the presentation of our financial condition and results of operations because they require management to make particularly subjective or complex judgments about matters that are inherently uncertain and for which materially different amounts could be recorded using different assumptions or estimates. For a description of our critical accounting policies, see MD&A CRITICAL

ACCOUNTING POLICIES AND ESTIMATES. As new information becomes available and we update the assumptions underlying our estimates, we could be required to revise previously reported financial results.

From time to time, the FASB and the SEC can change the financial accounting and reporting standards that govern the preparation of our financial statements. These changes are beyond our control, can be difficult to predict and could materially impact how we report our financial condition and results of operations. We could be required to apply a new or revised standard retrospectively, which may result in the revision of prior period financial statements by material amounts. The implementation of new or revised accounting standards could result in material adverse effects to our stockholders' equity (deficit) and result in or contribute to the need for additional draws under the Purchase Agreement.

For example, FASB has proposed changes to SFAS 140 and FIN 46(R), which may be effective as early as January 2010. If the FASB adopts the changes as proposed, we would be required to consolidate our PC trusts in our financial statements. If we are required to consolidate a significant portion of the assets and liabilities of our PC trusts, this could have a significant adverse impact on our net worth and could require us to take additional draws under the Purchase Agreement.

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Such consolidation could also significantly increase our required level of capital under existing capital rules (which have been suspended by the Conservator). Implementation of these proposed changes would require significant operational and systems changes. Depending on the implementation date ultimately required by FASB, it may be difficult or impossible for us to make all such changes in a controlled manner by the effective date.

In addition, our implementation of HASP may require us to incur substantial costs and recognize potentially substantial accounting impacts.

See NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES to our consolidated financial statements for more information.

A failure in our operational systems or infrastructure, or those of third parties, could impair our liquidity, disrupt our business, damage our reputation and cause losses.

Shortcomings or failures in our internal processes, people or systems could lead to impairment of our liquidity, financial loss, disruption of our business, liability to customers, legislative or regulatory intervention or reputational damage. For example, our business is highly dependent on our ability to process a large number of transactions on a daily basis. The transactions we process have become increasingly complex and are subject to various legal, accounting and regulatory standards. Our financial, accounting, data processing or other operating systems and facilities may fail to operate properly or become disabled, adversely affecting our ability to process these transactions. The inability of our systems to accommodate an increasing volume of transactions or new types of transactions or products could constrain our ability to pursue new business initiatives.

We also face the risk of operational failure or termination of any of the clearing agents, exchanges, clearing houses or other financial intermediaries we use to facilitate our securities and derivatives transactions. Any such failure or termination could adversely affect our ability to effect transactions, service our customers and manage our exposure to risk.

Most of our key business activities are conducted in our principal offices located in McLean, Virginia. Despite the contingency plans and facilities we have in place, our ability to conduct business may be adversely impacted by a disruption in the infrastructure that supports our business and the communities in which we are located. Potential disruptions may include those involving electrical, communications, transportation or other services we use or that are provided to us. If a disruption occurs and our employees are unable to occupy our offices or communicate with or travel to other locations, our ability to service and interact with our customers or counterparties may suffer and we may not be able to successfully implement contingency plans that depend on communication or travel.

We are exposed to the risk that a catastrophic event, such as a terrorist event or natural disaster, could result in a significant business disruption and an inability to process transactions through normal business processes. To mitigate this risk, we maintain and test business continuity plans and have established backup facilities for critical business processes and systems away from, although in the same metropolitan area as, our main offices. However, these measures may not be sufficient to respond to the full range of catastrophic events that may occur.

Our operations rely on the secure processing, storage and transmission of confidential and other information in our computer systems and networks. Although we take protective measures and endeavor to modify them as circumstances warrant, our computer systems, software and networks may be vulnerable to unauthorized access, computer viruses or other malicious code and other events that could have a security impact. If one or more of such events occur, this potentially could jeopardize confidential and other information, including nonpublic personal information and sensitive business data, processed and stored in, and transmitted through, our computer systems and networks, or otherwise cause interruptions or malfunctions in our operations or the operations of our customers or

counterparties, which could result in significant losses or reputational damage. We may be required to expend significant additional resources to modify our protective measures or to investigate and remediate vulnerabilities or other exposures, and we may be subject to litigation and financial losses that are not fully insured.

We rely on third parties for certain functions that are critical to financial reporting, our mortgage-related investments portfolio activity and mortgage loan underwriting. Any failures by those vendors could disrupt our business operations.

We outsource certain key functions to external parties, including but not limited to: (a) processing functions for trade capture, market risk management analytics, and asset valuation; (b) custody and recordkeeping for our investment portfolios; and (c) processing functions for mortgage loan underwriting. We may enter into other key outsourcing relationships in the future. If one or more of these key external parties were not able to perform their functions for a period of time, at an acceptable service level, or for increased volumes, our business operations could be constrained, disrupted or otherwise negatively impacted. Our use of vendors also exposes us to the risk of a loss of intellectual property or of confidential information or other harm. Financial or operational difficulties of an outside vendor could also hurt our operations if those difficulties interfere with the vendor's ability to provide services to us.

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Our risk management and loss mitigation efforts may not effectively mitigate the risks we seek to manage.

We could incur substantial losses and our business operations could be disrupted if we are unable to effectively identify, manage, monitor and mitigate operational risks, interest-rate and other market risks and credit risks related to our business. Our risk management policies, procedures and techniques may not be sufficient to mitigate the risks we have identified or to appropriately identify additional risks to which we are subject. See **QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**, **MD&A CREDIT RISKS** and **MD&A OPERATIONAL RISKS** for a discussion of our approach to managing the risks we face.

Legal and Regulatory Risks

The future status and role of Freddie Mac could be materially affected by legislative and regulatory action that alters the ownership, structure and mission of the company.

We believe that it is highly likely that the role of the company and our business model will be substantially affected by future legislation, which could substantially affect our structure and future results of operations. Some or all of our functions could be transferred to other institutions, and we could cease to exist as a stockholder-owned company or at all. If any of these events were to occur, our shares could substantially diminish in value, or cease to have any value, and there can be no assurance that our stockholders would receive any compensation for such loss in value. In addition, the Reform Act provides FHFA with more expansive regulatory authority over us than was held by OFHEO and the manner in which this authority will be implemented currently is unclear.

Legislation or regulation affecting the financial services, mortgage and investment banking industries may adversely affect our business activities and financial results.

We expect that the financial services, mortgage and investment banking industries will face increased regulation, whether by legislation or regulatory actions at the federal or state level. Our business activities may be directly affected by any such legislative and regulatory actions. For example, we could be negatively affected by legislation at the state level that changes the foreclosure process of any individual state. We may also be indirectly affected to the extent any such actions affect the activities of banks, savings institutions, insurance companies, securities dealers and other regulated entities that constitute a significant part of our customer base or counterparties. Congress may introduce legislation that could result in a broad overhaul of the financial services industry's regulatory system. Legislative or regulatory provisions that create or remove incentives for these entities either to sell mortgage loans to us or to purchase our securities could have a material adverse effect on our business results. Among the legislative and regulatory provisions applicable to these entities are capital requirements for federally insured depository institutions and regulated bank holding companies.

Congress is currently considering legislation that would allow bankruptcy judges to unilaterally change the terms of many mortgage loans, including by reducing the loan balance. If enacted, this legislation could cause us to suffer substantial GAAP losses, including increased losses on our credit guarantee portfolio and additional other-than-temporary impairments on our non-agency mortgage-related securities, and may require us to request additional draws under the Purchase Agreement.

Our financial condition and results of operations and our ability to return to long-term profitability may be affected by the nature, extent and success of the actions taken by the U.S. government to stabilize the economy and financial markets.

Conditions in the overall economy and the mortgage markets in particular may be affected in both the short and long-term by the implementation of the EESA, the Recovery Act, the Financial Stability Plan announced by Treasury Secretary Geithner on February 10, 2009 and HASP. The effect that the implementation of these laws and programs may have on our business is uncertain. In addition, there can be no assurance as to the actual impact that these laws and programs will have on the financial markets, including the extreme levels of volatility and limited credit availability currently being experienced. The failure of these laws and programs to help stabilize the financial markets and a continuation or worsening of current financial market conditions could materially and adversely affect our business, financial condition, results of operations, or access to the debt markets.

We may make certain changes to our business in an attempt to meet the housing goals and subgoals that may increase our losses.

We may make adjustments to our mortgage sourcing and purchase strategies in an effort to meet our housing goals and subgoals, including changes to our underwriting guidelines and the expanded use of targeted initiatives to reach underserved populations. For example, we may purchase loans and mortgage-related securities that offer lower expected returns on our investment and increase our exposure to credit losses. Doing so could cause us to forgo other purchase opportunities that we would expect to be more profitable. If our current efforts to meet the goals and subgoals prove to be insufficient, we may need to take additional steps that could further increase our losses.

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We are involved in legal proceedings and governmental investigations that could result in the payment of substantial damages or otherwise harm our business.

We are a party to various legal actions, and are subject to investigations by the SEC and the U.S. Attorney's Office for the Eastern District of Virginia. In addition, certain of our directors, officers and employees are involved in legal proceedings for which they may be entitled to reimbursement by us for costs and expenses of the proceedings. The defense of these or any future claims or proceedings could divert management's attention and resources from the needs of the business. We may be required to establish reserves and to make substantial payments in the event of adverse judgments or settlements of any such claims, investigations or proceedings. Any legal proceeding or governmental investigation, even if resolved in our favor, could result in negative publicity or cause us to incur significant legal and other expenses. Furthermore, developments in, outcomes of, impacts of, and costs, expenses, settlements and judgments related to these legal proceedings and governmental investigations may differ from our expectations and exceed any amounts for which we have reserved or require adjustments to such reserves. See LEGAL PROCEEDINGS for information about our pending legal proceedings.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our principal offices consist of five office buildings in McLean, Virginia. We own a 75% interest in a limited partnership that owns four of the office buildings, comprising approximately 1.3 million square feet. We occupy these buildings under a long-term lease from the partnership. We occupy the fifth building, comprising approximately 200,000 square feet, under a lease from a third party.

ITEM 3. LEGAL PROCEEDINGS

We are involved as a party to a variety of legal proceedings arising from time to time in the ordinary course of business. See NOTE 13: LEGAL CONTINGENCIES to our consolidated financial statements for more information regarding our involvement as a party to various legal proceedings.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the quarter ended December 31, 2008. As described above under BUSINESS Conservatorship and Related Developments, the rights and powers of our stockholders, including voting rights, are suspended during the conservatorship.

Table of Contents**PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES****Market Information**

Our common stock, par value \$0.00 per share, is listed on the NYSE under the symbol FRE. From time to time, our common stock may be admitted to unlisted trading status on other national securities exchanges. At February 25, 2009, there were 647,364,714 shares outstanding of our common stock. See BUSINESS Conservatorship and Related Developments *New York Stock Exchange Matters* for further information related to the listing status of our common stock.

Table 4 sets forth the high and low sale prices of our common stock for the periods indicated.

Table 4 Quarterly Common Stock Information

	Sale Prices	
	High	Low
2008 Quarter Ended		
December 31	\$ 2.03	\$ 0.40
September 30	16.59	0.25
June 30	29.74	16.20
March 31	34.63	16.59
2007 Quarter Ended		
December 31	\$ 65.88	\$ 22.90
September 30	67.20	54.97
June 30	68.12	58.62
March 31	68.55	58.88

Holders

As of February 25, 2009, we had 2,118 common stockholders of record.

Dividends

Table 5 sets forth the cash dividends per common share that we have declared for the periods indicated.

Table 5 Dividends Per Common Share

	Regular Cash Dividend Per Share
2008 Quarter Ended	

December 31	\$ 0.00
September 30	0.00
June 30	0.25
March 31	0.25
2007 Quarter Ended	
December 31	\$ 0.25
September 30	0.50
June 30	0.50
March 31	0.50

Dividend Restrictions

Our payment of dividends is subject to the following restrictions:

Restrictions Relating to Conservatorship

As Conservator, FHFA announced on September 7, 2008 that we would not pay any dividends on the common stock or on any series of preferred stock (other than the senior preferred stock). FHFA has also instructed our Board of Directors that it should consult with and obtain the approval of FHFA before taking actions involving dividends.

Restrictions Under Purchase Agreement

The Purchase Agreement prohibits us from declaring or paying any dividends on Freddie Mac equity securities (other than the senior preferred stock) without the prior written consent of Treasury.

Restrictions Under Reform Act

Under the Reform Act, FHFA has authority to prohibit capital distributions, including payment of dividends, if we fail to meet applicable capital requirements. If FHFA classifies us as significantly undercapitalized, approval of the Director of FHFA is required for any dividend payment. Under the Reform Act, we are not permitted to make a capital distribution if, after making the distribution, we would be undercapitalized, except the Director of FHFA may permit us to repurchase shares if the repurchase is made in connection with the issuance of additional shares or obligations in at least an equivalent amount and will reduce our financial obligations or otherwise improve our financial condition. Our capital requirements have been suspended during conservatorship.

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Restrictions Relating to Charter

Without regard to our capital classification, we must obtain prior written approval of FHFA to make any capital distribution that would decrease total capital to an amount less than the risk-based capital level or that would decrease core capital to an amount less than the minimum capital level. As noted above, our capital requirements have been suspended during conservatorship.

Restrictions Relating to Subordinated Debt

During any period in which we defer payment of interest on qualifying subordinated debt, we may not declare or pay dividends on, or redeem, purchase or acquire, our common stock or preferred stock. Our qualifying subordinated debt provides for the deferral of the payment of interest for up to five years if either: (i) our core capital is below 125% of our critical capital requirement; or (ii) our core capital is below our statutory minimum capital requirement, and the Secretary of the Treasury, acting on our request, exercises his or her discretionary authority pursuant to Section 306(c) of our charter to purchase our debt obligations. In a September 23, 2008 statement concerning the conservatorship, the Director of FHFA stated that we would continue to make interest and principal payments on our subordinated debt, even if we fail to maintain required capital levels. As a result, the terms of any of our subordinated debt that provide for us to defer payments of interest under certain circumstances, including our failure to maintain specified capital levels, are no longer applicable. As noted above, our capital requirements have been suspended during conservatorship.

Restrictions Relating to Preferred Stock

Payment of dividends on our common stock is also subject to the prior payment of dividends on our 24 series of preferred stock and one series of senior preferred stock, representing an aggregate of 464,170,000 shares and 1,000,000 shares, respectively, outstanding as of December 31, 2008. Payment of dividends on all outstanding preferred stock, other than the senior preferred stock, is also subject to the prior payment of dividends on the senior preferred stock. On December 31, 2008, we paid dividends of \$172 million in cash on the senior preferred stock at the direction of the Conservator. We did not declare or pay dividends on any other series of preferred stock outstanding during the fourth quarter of 2008.

Restrictions on Receipt of Dividends from REIT Subsidiaries

On September 19, 2008, FHFA, as Conservator, advised us of FHFA's determination that no further common or preferred stock dividends should be paid by our real estate investment trust, or REIT, subsidiaries, Home Ownership Funding Corporation and Home Ownership Funding Corporation II. Since we are the majority owner of both the common and preferred shares of these two REITs, this action has eliminated our access through such dividend payments to the cash flows of the REITs.

For a description of our capital requirements, refer to NOTE 10: REGULATORY CAPITAL to our consolidated financial statements.

Stock Performance Graph

The following graph compares the five-year cumulative total stockholder return on our common stock with that of the Standard & Poor's, or S&P, 500 Financial Sector Index and the S&P 500 Index. The graph assumes \$100 invested in each of our common stock, the S&P 500 Financial Sector Index and the S&P 500 Index on December 31, 2003. Total return calculations assume annual dividend reinvestment. The graph does not forecast performance of our common stock.

Table of Contents**Comparative Cumulative Total Stockholder Return
(in dollars)**

	2003	2004	At December 31,		2007	2008
			2005	2006		
Freddie Mac	\$ 100	\$ 129	\$ 117	\$ 125	\$ 65	\$ 1
S&P 500 Financials	100	111	118	141	115	51
S&P 500	100	111	116	135	142	90

Recent Sales of Unregistered Securities

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

Following the implementation of the conservatorship, we have suspended the operation of our Employee Stock Purchase Plan, or ESPP, and are no longer making grants under our 2004 Stock Compensation Plan, or 2004 Employee Plan, or our 1995 Directors' Stock Compensation Plan, as amended and restated, or Directors' Plan. Under the Purchase Agreement, we cannot issue any new options, rights to purchase, participations or other equity interests without Treasury's prior approval. However, grants outstanding as of the date of the Purchase Agreement remain in effect in accordance with their terms. Prior to the implementation of the conservatorship, we regularly provided stock compensation to our employees and members of our Board of Directors under the ESPP, the 2004 Employee Plan and the Directors' Plan. Prior to the stockholder approval of the 2004 Employee Plan, employee stock-based compensation was awarded in accordance with the terms of the 1995 Stock Compensation Plan, or 1995 Employee Plan. Although grants are no longer made under the 1995 Employee Plan, we currently have awards outstanding under this plan. We collectively refer to the 2004 Employee Plan and 1995 Employee Plan as the Employee Plans.

During the three months ended December 31, 2008, no stock options were granted or exercised under our Employee Plans or Directors' Plan. Under our ESPP, no options to purchase shares of common stock were exercised and no options to purchase shares of common stock were granted during the three months ended December 31, 2008. Further, for the three months ended December 31, 2008, under the Employee Plans and Directors' Plan, no restricted stock units were granted and restrictions lapsed on 102,829 restricted stock units.

See NOTE 11: STOCK-BASED COMPENSATION to our consolidated financial statements for more information.

Issuer Purchases of Equity Securities

We did not repurchase any of our common or preferred stock during the three months ended December 31, 2008. Additionally, we do not currently have any outstanding authorizations to repurchase common or preferred stock. Under the Purchase Agreement, we cannot repurchase our common or preferred stock without Treasury's prior consent, and we may only purchase or redeem the senior preferred stock in certain limited circumstances set forth in the Certificate of Creation, Designation, Powers, Preferences, Rights, Privileges, Qualifications, Limitations, Restrictions, Terms and Conditions of Variable Liquidation Preference Senior Preferred Stock.

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Defaults Upon Senior Securities

On September 19, 2008, the Director of FHFA, acting as Conservator of Freddie Mac, advised the company of FHFA's determination that no further preferred stock dividends should be paid by Freddie Mac's REIT subsidiaries; Home Ownership Funding Corporation and Home Ownership Funding Corporation II. FHFA specifically directed Freddie Mac (as the controlling stockholder of both companies) and the boards of directors of both companies not to declare or pay any dividends on the Step-Down Preferred Stock of the REITs until FHFA directs otherwise. As a result, these companies are in arrears in the payment of dividends with respect to the preferred stock. For more information, see NOTE 19: MINORITY INTERESTS to our consolidated financial statements.

Transfer Agent and Registrar

Computershare Trust Company, N.A.
P.O. Box 43078
Providence, RI 02940-3078
Telephone: 781-575-2879
<http://www.computershare.com/investors>

Table of Contents**ITEM 6. SELECTED FINANCIAL DATA⁽¹⁾**

	At or for the Year Ended December 31,				
	2008	2007	2006	2005	2004
	(dollars in millions, except share-related amounts)				
Statement of Operations Data					
Net interest income	\$ 6,796	\$ 3,099	\$ 3,412	\$ 4,627	\$ 8,313
Non-interest income (loss)	(29,175)	(275)	1,679	683	(3,005)
Non-interest expense	(22,190)	(8,801)	(2,809)	(2,780)	(2,096)
Net income (loss) before cumulative effect of change in accounting principle	(50,119)	(3,094)	2,327	2,172	2,603
Cumulative effect of change in accounting principle, net of taxes				(59)	
Net income (loss)	(50,119)	(3,094)	2,327	2,113	2,603
Net income (loss) available to common stockholders	(50,795)	(3,503)	2,051	1,890	2,392
Per common share data:					
Earnings (loss) before cumulative effect of change in accounting principle:					
Basic	(34.60)	(5.37)	3.01	2.82	3.47
Diluted	(34.60)	(5.37)	3.00	2.81	3.46
Earnings (loss) after cumulative effect of change in accounting principle:					
Basic	(34.60)	(5.37)	3.01	2.73	3.47
Diluted	(34.60)	(5.37)	3.00	2.73	3.46
Cash common dividends	0.50	1.75	1.91	1.52	1.20
Weighted average common shares outstanding (in thousands) ⁽²⁾ :					
Basic	1,468,062	651,881	680,856	691,582	689,282
Diluted	1,468,062	651,881	682,664	693,511	691,521
Balance Sheet Data					
Total assets	\$ 850,963	\$ 794,368	\$ 804,910	\$ 798,609	\$ 779,572
Short-term debt	435,114	295,921	285,264	279,764	266,024
Long-term senior debt	403,402	438,147	452,677	454,627	443,772
Long-term subordinated debt	4,505	4,489	6,400	5,633	5,622
All other liabilities	38,579	28,911	33,139	31,945	32,720
Minority interests in consolidated subsidiaries					
	94	176	516	949	1,509
Stockholders equity (deficit)	(30,731)	26,724	26,914	25,691	29,925

Portfolio Balances⁽³⁾

Mortgage-related investments portfolio ⁽⁴⁾	\$ 804,762	\$ 720,813	\$ 703,959	\$ 710,346	\$ 653,261
Total PCs and Structured Securities issued ⁽⁵⁾	1,827,238	1,738,833	1,477,023	1,335,524	1,208,968
Total mortgage portfolio	2,207,476	2,102,676	1,826,720	1,684,546	1,505,531
Non-performing assets	48,385	18,446	9,546	9,673	9,383

Ratios

Return on average assets ⁽⁶⁾	(6.1)%	(0.4)%	0.3%	0.3%	0.3%
Non-performing assets ratio ⁽⁷⁾	2.6	1.1	0.6	0.7	0.8
Return on common equity ⁽⁸⁾	N/A	(21.0)	9.8	8.1	9.4
Return on total equity ⁽⁹⁾	N/A	(11.5)	8.8	7.6	8.6
Dividend payout ratio on common stock ⁽¹⁰⁾	N/A	N/A	63.9	56.9	34.9
Equity to assets ratio ⁽¹¹⁾	(0.2)	3.4	3.3	3.5	3.8
Preferred stock to core capital ratio ⁽¹²⁾	N/A	37.3	17.3	13.2	13.5

- (1) See NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Recently Adopted Accounting Standards – *Other Changes in Accounting Principles* to our consolidated financial statements for more information regarding our accounting policies and adjustments made to previously reported results due to changes in accounting principles. Effective January 1, 2006, we changed our method of estimating prepayments for the purpose of amortizing premiums, discounts and deferred fees related to certain mortgage-related securities. Effective January 1, 2005, we changed the effective interest method of accounting for interest expense related to callable debt.
- (2) Includes the weighted average number of shares during the 2008 periods that are associated with the warrant for our common stock issued to Treasury as part of the Purchase Agreement. This warrant is included in basic earnings per share, because it is unconditionally exercisable by the holder at a cost of \$.00001 per share.
- (3) Represents the unpaid principal balance and excludes mortgage loans and mortgage-related securities traded, but not yet settled. Effective in December 2007, we established a trust for the administration of cash remittances received related to the underlying assets of our PCs and Structured Securities issued. As a result, for December 2007 and each period in 2008, we report the balance of our mortgage portfolios to reflect the publicly-available security balances of our PCs and Structured Securities. For periods prior to December 2007, we report these balances based on the unpaid principal balance of the underlying mortgage loans. We reflected this change as an increase in the unpaid principal balance of our mortgage-related investments portfolio by \$2.8 billion at December 31, 2007.
- (4) The mortgage-related investments portfolio presented on our consolidated balance sheets differs from the mortgage-related investments portfolio in this table because the consolidated balance sheet caption includes valuation adjustments and deferred balances. See MD&A – CONSOLIDATED BALANCE SHEETS ANALYSIS – Table 24 – Characteristics of Mortgage Loans and Mortgage-Related Securities in our Mortgage-Related Investments Portfolio for more information.
- (5) Includes PCs and Structured Securities that are held in our mortgage-related investments portfolio. See MD&A – OUR PORTFOLIOS – Table 50 – Total Mortgage Portfolio and Segment Portfolio Composition for the composition of our total mortgage portfolio. Excludes Structured Securities for which we have resecuritized our PCs and Structured Securities. These resecuritized securities do not increase our credit-related exposure and consist of single-class Structured Securities backed by PCs, REMICs, and principal-only strips. The notional balances of interest-only strips are excluded because this line item is based on unpaid principal balance. Includes other guarantees issued that are not in the form of a PC, such as long-term standby commitments and credit enhancements for multifamily housing revenue bonds.
- (6) Ratio computed as annualized net income (loss) divided by the simple average of the beginning and ending balances of total assets.

- (7) Ratio computed as non-performing assets divided by the simple average of the beginning and ending unpaid principal balances of mortgage loans held by us and those underlying our total PCs and Structured Securities issued.
- (8) Ratio computed as annualized net income (loss) available to common stockholders divided by the simple average of the beginning and ending balances of stockholders' equity (deficit), net of preferred stock (at redemption value). Ratio is not computed for periods in which stockholders' equity (deficit) is less than zero.
- (9) Ratio computed as annualized net income (loss) divided by the simple average of the beginning and ending balances of stockholders' equity (deficit). Ratio is not computed for periods in which stockholders' equity (deficit) is less than zero.
- (10) Ratio computed as common stock dividends declared divided by net income available to common stockholders. Ratio is not computed for periods in which net income (loss) available to common stockholders was a loss.
- (11) Ratio computed as the simple average of the beginning and ending balances of stockholders' equity (deficit) divided by the simple average of the beginning and ending balances of total assets.
- (12) Ratio computed as preferred stock (excluding senior preferred stock), at redemption value divided by core capital. Senior preferred stock does not meet the statutory definition of core capital. Ratio is not computed for periods in which core capital is less than zero. See NOTE 10: REGULATORY CAPITAL to our consolidated financial statements for more information regarding core capital.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

EXECUTIVE SUMMARY

You should read this MD&A in conjunction with our consolidated financial statements and related notes for the year ended December 31, 2008.

Our financial results for the year ended December 31, 2008 reflect the adverse conditions in the U.S. mortgage markets during the year, which deteriorated dramatically during the second half of the year. We also experienced major changes in our regulatory environment and our management and supervision during the year, principally associated with our entry into conservatorship. Under conservatorship, we have made changes to certain business practices that are designed to provide support for the mortgage market in a manner that serves public policy and other non-financial objectives but that may not contribute to profitability. Some of these changes have increased our expenses or caused us to forego revenue opportunities.

Deterioration of market conditions, including rapidly declining home prices, higher mortgage delinquency rates and higher loss severities, contributed to large credit-related expenses for the third and fourth quarters and the full year of 2008. In addition, non-cash fair value adjustments and a partial valuation allowance against our net deferred tax assets have resulted in deficits in our stockholders' equity and made it necessary for us to make large draws on Treasury's funding commitment. These draws will result in a large dividend obligation on our senior preferred stock. We expect to make additional draws on Treasury's funding commitment in the future. The size of such draws will be determined by a variety of factors, including whether market conditions continue to deteriorate.

Conservatorship

For information on the conservatorship, see **BUSINESS** Conservatorship and Related Developments. The conservatorship and related developments have had a wide-ranging impact on us, including our regulatory supervision, management, business objectives, financial condition and results of operations. The conservatorship has no specified termination date. There can be no assurance as to when or how the conservatorship will be terminated or what changes may occur to our business structure during or following conservatorship, including whether we will continue to exist.

Key actions related to the conservatorship and the conduct of our business since the conservatorship was established include the following:

the execution of the Purchase Agreement with Treasury, pursuant to which we issued to Treasury both senior preferred stock and a warrant to purchase common stock, our receipt of \$13.8 billion from Treasury in November 2008 pursuant to its commitment under the Purchase Agreement, and FHFA's request to Treasury of a draw of \$30.8 billion;

the execution of the Lending Agreement under which Treasury has established a temporary secured lending credit facility that is available to us through December 31, 2009;

the appointment by the Conservator of a new Chief Executive Officer and the appointment of a new non-executive Chairman and 10 other directors to our reconstituted Board of Directors (David M. Moffett recently resigned as Chief Executive Officer and resigned as a member of our Board of Directors, effective no

later than March 13, 2009; John A. Koskinen has been appointed Interim Chief Executive Officer and Robert R. Glauber has been appointed interim non-executive Chairman of the Board of Directors, effective upon Mr. Moffett's resignation);

the elimination by the Conservator of dividends on common and preferred stock (other than on the senior preferred stock); and

the announcement by FHFA that existing statutory and FHFA-directed regulatory capital requirements will not be binding during the conservatorship.

On February 18, 2009, Treasury Secretary Geithner issued a statement outlining Treasury's efforts to strengthen its commitment to us by increasing the funding available under the Purchase Agreement from \$100 billion to \$200 billion, affirming Treasury's plans to continue purchasing Freddie Mac mortgage-related securities and increasing the size limit on our mortgage-related investments portfolio by \$50 billion to \$900 billion with a corresponding increase in the amount of allowable debt outstanding. As of the filing of this annual report on Form 10-K, the Purchase Agreement has not been amended to reflect the increase in Treasury's commitment.

Based on our charter, public statements from Treasury and FHFA officials and guidance from our Conservator, our business objectives include:

providing liquidity, stability and affordability in the mortgage market;

immediately providing additional assistance to the struggling housing and mortgage markets;

reducing the need to draw funds from Treasury pursuant to the Purchase Agreement;

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returning to long-term profitability; and

protecting the interests of taxpayers.

These objectives create conflicts in strategic and day-to-day decision making that will likely lead to suboptimal outcomes for one or more, or possibly all, of these objectives. Our business is also subject to significant new restrictions that could limit our ability to achieve one or more of these objectives, including the requirements under the Purchase Agreement that we (i) limit the size of our mortgage-related investments portfolio to \$900 billion as of December 31, 2009 and, thereafter, decrease the size of our mortgage-related investments portfolio at the rate of 10% per year until it reaches \$250 billion, and (ii) not incur indebtedness that would result in our aggregate indebtedness exceeding a specified amount, without the prior written consent of Treasury. The balance of our mortgage-related investments portfolio and indebtedness at December 31, 2008 did not exceed the Purchase Agreement limits.

On February 18, 2009, the Obama Administration announced the HASP, which includes (a) an initiative that will allow mortgages currently owned or guaranteed by us to be refinanced without obtaining additional credit enhancement beyond that already in place for that loan; and (b) an initiative to encourage modifications of mortgages for both homeowners who are in default and those who are at risk of imminent default, through various government incentives to servicers, mortgage holders and homeowners. At present, it is difficult for us to predict the full extent of our activities under these initiatives and assess their impact on us. However, to the extent that our servicers and borrowers participate in these programs in large numbers, it is likely that the costs we incur associated with modifications of loans, the costs associated with servicer and borrower incentive fees and the potential accounting impacts, will be substantial.

As a result of the draws under the Purchase Agreement, the aggregate liquidation preference of the senior preferred stock will increase from \$1.0 billion as of September 8, 2008 to \$45.6 billion. Our annual dividend obligation on the senior preferred stock, based on that liquidation preference, will be \$4.6 billion, which is in excess of our annual historical earnings in most periods. These dividend obligations make it more likely that we will face increasingly negative cash flows from operations. To date, our need for funding under the Purchase Agreement has not been caused by cash flow shortfalls but rather primarily reflects large credit-related expenses and non-cash fair value adjustments as well as a partial valuation allowance against our net deferred tax assets that resulted in reductions to our GAAP stockholders' equity (deficit). Under the Purchase Agreement, our ability to repay the liquidation preference of the senior preferred stock is limited and we may not be able to do so for the foreseeable future, if at all. The aggregate liquidation preference of the senior preferred stock and our related dividend obligations could increase further as a result of additional draws under the Purchase Agreement or any dividends or quarterly commitment fees payable under the Purchase Agreement that are not paid in cash. The amounts we are obligated to pay in dividends on the senior preferred stock are substantial and will have an adverse impact on our financial position and net worth and could substantially delay our return to long-term profitability or make long-term profitability unlikely. For more information, see **RISK FACTORS** *Conservatorship and Related Developments* *Factors including credit losses from our mortgage guarantee activities have had an increasingly negative impact on our cash flows from operations during 2007 and 2008. As we anticipate these trends to continue for the foreseeable future, it is likely that the company will increasingly rely upon access to the public debt markets as a source of funding for ongoing operations.*

For more information on the risks to our business relating to the conservatorship and uncertainties regarding the future of our business, see **RISK FACTORS**.

Housing and Economic Conditions and Impact on 2008 Results

The U.S. residential mortgage market experienced substantial deterioration during 2008 and early 2009, which adversely affected our financial condition and results of operations. We expect the residential mortgage market will continue to deteriorate in 2009.

Home price declines accelerated nationwide during 2008, with significant regional variations. We estimate that the national decline in home prices from the end of the third quarter of 2006 until the end of 2008 was approximately 16.8%, based on our own index, which is based on our single-family mortgage portfolio. We believe that there will be additional declines of 5 to 10% during 2009 based on our index. Other indices of home price changes may have different results than our own, as they are determined using different pools of mortgage loans. The percentage decline in home prices was particularly large in California, Florida, Arizona and Nevada, where we have significant concentrations of mortgage loans in our single-family mortgage portfolio, which includes loans underlying our PCs and Structured Securities. We estimate that home prices, as measured by our index, declined during 2008 by 26%, 25%, 26% and 30% in California, Florida, Arizona and Nevada, respectively.

Unemployment rates also worsened significantly. The U.S. Bureau of Labor Statistics reported unemployment rates in California, Florida, Arizona and Nevada of 9.3%, 8.1%, 6.9% and 9.1%, respectively, while the national rate was 7.2% as of December 31, 2008. Although inflation moderated by year end, an upward spike in food and energy prices during 2008 further eroded household financial conditions, and real consumer spending declined significantly. Both consumer and

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business credit tightened considerably during the second half of 2008 as financial institutions curtailed their lending activities. This contributed to significant increases in credit spreads for both mortgage and corporate loans.

These macroeconomic conditions contributed to a substantial increase in the number of delinquent loans in our single-family mortgage portfolio during 2008 as well as the rate of transition of these loans from delinquency through foreclosure. Significant increases in market-reported delinquency rates for mortgages serviced by financial institutions during 2008 were reported not only for subprime and Alt-A loans, but also for prime loans. This delinquency data suggests that continuing home price declines and growing unemployment are now affecting behavior by a broader segment of mortgage borrowers, increasing numbers of whom are underwater, or owing more on their mortgage loans than their homes are currently worth. Our loan loss severities, or the average amount of recognized losses per loan, and redefault rates on modified loans also significantly increased during 2008, especially in California, Florida, Arizona and Nevada, where we have significant concentrations of mortgage loans with higher average loan balances than in other states.

We are operating in a challenging environment. A number of our major customers or counterparties have failed, been acquired, or received substantial government assistance in 2008, including Washington Mutual Bank, Lehman Brothers Holdings Inc., or Lehman, JP Morgan Chase & Co., American International Group, Inc., Bank of America Corporation, Merrill Lynch & Co., Inc., IndyMac Bank, FSB, Citigroup Inc. and Wachovia Corporation. In an attempt to stabilize the markets and restore liquidity, the U.S. government introduced several unprecedented programs to provide various forms of financial support to market participants. One of these programs, the Troubled Asset Relief Program, or TARP, was created pursuant to EESA to help stabilize the financial markets and has provided more than \$250 billion of capital investments into U.S. financial institutions. Many of our largest single-family seller/servicers participated and have received capital from Treasury through the TARP. Another of these programs involves guarantees by the FDIC of the debt obligations issued by banks that elect to participate in the program. Certain of these programs and reduced investor demand for corporate debt have limited our access to long-term and callable funding. Uncertainty in the debt market has also contributed to an increase in our borrowing costs relative to the U.S. Treasury market and LIBOR indices. See **LIQUIDITY AND CAPITAL RESOURCES** for further information.

Adverse market developments have been the principal drivers of our substantially increased losses for 2008. Our provision for credit losses increased from \$2.9 billion in 2007 to \$16.4 billion in 2008, principally due to increased estimates of incurred losses on loans we own or guarantee caused by the deteriorating economic conditions as evidenced by our increased rates of delinquency and foreclosure; increased mortgage loan loss severities; and, to a lesser extent, heightened concerns that certain of our seller/servicer counterparties may fail to perform their recourse or repurchase obligations to us. For information regarding how we derive our estimate for the provision for credit losses, see **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**.

The deteriorating market conditions during 2008 also led to a considerably more pessimistic outlook for the performance of the non-agency mortgage-related securities we own. We recorded security impairments on non-agency mortgage-related securities of \$16.6 billion in 2008. The loans backing these securities exhibited much worse delinquency behavior as compared to loans in our single-family mortgage portfolio, which includes loans we have guaranteed. The deteriorating market conditions not only contributed to poor performance during 2008, but significantly impacted our expectations regarding future performance, both of which are critical in assessing security impairments. Furthermore, the mortgage-related securities backed by subprime loans, Alt-A and other loans and MTA loans, have significantly greater concentrations in the states that are undergoing the greatest economic stress, including California, Florida, Arizona and Nevada. Our non-agency mortgage-related securities backed by other loans, include securities backed by FHA/VA mortgages, home equity lines of credit and other residential loans. Additionally, during the second half of 2008 there were significant negative ratings actions and sustained categorical asset price declines most notably in the mortgage-related securities backed by MTA loans, which are a type of option ARM. Our non-agency mortgage-related securities backed by subprime and Alt-A and other loans do not include a significant

amount of option ARM. At December 31, 2008 and 2007, our net unrealized losses on mortgage-related securities were \$38.2 billion and \$10.1 billion, respectively. Our net unrealized losses related to non-agency mortgage-related securities backed by MTA loans of \$4.7 billion and \$1.3 billion at December 31, 2008 and 2007, respectively. We believe that these unrealized losses on non-agency mortgage-related securities at December 31, 2008 were principally a result of decreased liquidity and larger risk premiums in the non-agency mortgage market. The combination of all of these factors not only had a material, negative impact on our view of expected performance, but also significantly reduced the likelihood of more favorable outcomes, resulting in a substantial increase in other-than-temporary impairments in 2008.

Due to the rapid deterioration of market conditions discussed above, the uncertainty of future market conditions on our results of operations and the uncertainty surrounding our future business model as a result of our placement into conservatorship, we recorded a \$22.2 billion non-cash charge in the second half of 2008 in order to establish a partial valuation allowance against our net deferred tax assets. As a result, at December 31, 2008, we had a remaining deferred tax asset of \$15.4 billion, principally representing the tax effect of unrealized losses on our available-for-sale securities portfolio.

Table of Contents**Credit Overview**

The factors affecting all residential mortgage market participants during 2008 adversely impacted our single-family mortgage portfolio during 2008. The following statistics illustrate the credit deterioration of loans in our single-family mortgage portfolio, which consists of single-family mortgage loans on our consolidated balance sheets as well as those backing our guaranteed PCs and Structured Securities.

Table 6 Credit Statistics, Single-Family Mortgage Portfolio⁽¹⁾

	As of				
	12/31/2008	09/30/2008	06/30/2008	03/31/2008	12/31/2007
Delinquency rate ⁽²⁾	1.72%	1.22%	0.93%	0.77%	0.65%
Non-performing assets (in millions) ⁽³⁾	\$ 47,959	\$ 35,497	\$ 27,480	\$ 22,379	\$ 18,121
REO inventory (in units)	29,340	28,089	22,029	18,419	14,394

	For the Three Months Ended				
	12/31/2008	09/30/2008	06/30/2008	03/31/2008	12/31/2007
	(in units, unless noted)				
Loan modifications ⁽⁴⁾	17,695	8,456	4,687	4,246	2,272
REO acquisitions	12,296	15,880	12,410	9,939	7,284
REO disposition severity ratio ⁽⁵⁾	32.8%	29.3%	25.2%	21.4%	18.1%
Single-family credit losses (in millions) ⁽⁶⁾	\$ 1,151	\$ 1,270	\$ 810	\$ 528	\$ 236

- (1) Consists of single-family mortgage loans for which we actively manage credit risk, which are those loans held in our mortgage-related investments portfolio as well as those loans underlying our PCs and Structured Securities and excluding certain Structured Transactions and that portion of our Structured Securities that are backed by Ginnie Mae Certificates.
- (2) We report single-family delinquency rate information based on the number of loans that are 90 days or more past due and those in the process of foreclosure, excluding Structured Transactions. Mortgage loans whose contractual terms have been modified under agreement with the borrower are not included if the borrower is less than 90 days delinquent under the modified terms. Our delinquency rates for the single-family mortgage portfolio including Structured Transactions were 1.83% and 0.76% at December 31, 2008 and 2007, respectively. See **CREDIT RISKS Mortgage Credit Risk Delinquencies** for further information.
- (3) Includes those loans in our single-family mortgage portfolio, based on unpaid principal balances, that are past due for 90 days or more or where contractual terms have been modified as a troubled debt restructuring. Also includes single-family loans purchased under our financial guarantees as well as REO, which are acquired principally through foreclosure on loans within our single-family mortgage portfolio.
- (4) Consist of modifications under agreement with the borrower. Excludes forbearance agreements, which are made in certain circumstances and under which reduced or no payments are required during a defined period, as well as repayment plans, which are separate agreements with the borrower to repay past due amounts and return to compliance with the original terms.
- (5) Calculated as the aggregate amount of our losses recorded on disposition of REO properties during the respective quarterly period divided by the aggregate unpaid principal balances of the related loans with the borrowers. The amount of losses recognized on disposition of the properties is equal to the amount by which the unpaid principal balance of loans exceeds the amount of net sales proceeds from disposition of the properties. Excludes other related credit losses, such as property maintenance and costs, as well as related recoveries from credit

enhancements, such as mortgage insurance.

- (6) Consists of single-family REO operations expense plus charge-offs, net of recoveries from third-party insurance and other credit enhancements. See **CREDIT RISKS** Mortgage Credit Risk *Credit Loss Performance* for further information.

The main contributors to our worsening credit statistics during 2008 were single-family loans originated in 2006 and 2007 as well as certain loan groups, such as Alt-A and interest-only mortgage loans. As of December 31, 2008, loans originated during 2006 and 2007 represented approximately 34% of the unpaid principal balance of single-family loans underlying our PCs and Structured Securities and 18% of the unpaid principal balance of single-family loans on our consolidated balance sheet. Although the credit characteristics of loans underlying our newly issued guarantees during 2008 have progressively improved, we have experienced weak credit performance to date from loans purchased in the first half of 2008, which we attribute to the combination of the timeframe of implementation of new loan underwriting requirements, which became effective as our customer contracts permitted, and the poor housing and economic conditions during the year. Sufficient time has not yet elapsed to evaluate the credit performance of loans purchased during the second half of 2008.

The Alt-A and interest-only loan groups have been particularly adversely affected by certain macroeconomic factors, such as declines in home prices, which have resulted in erosion in the borrower's equity. Our holdings of loans in these groups are concentrated in the West region. The West region comprised 26% of the unpaid principal balance of our single-family mortgage portfolio as of December 31, 2008, but accounted for 30% and 11% of our REO acquisitions, based on property count during 2008 and 2007, respectively. The West region also accounted for approximately 45% and 8% of our credit losses during 2008 and 2007, respectively. Alt-A loans, which represented approximately 10% of our single-family mortgage portfolio as of both December 31, 2008 and 2007, accounted for approximately 50% of our credit losses in 2008 compared to 18% during 2007. In addition, stressed markets in the West region (especially California, Arizona and Nevada) and Florida tend to have higher average loan balances than the rest of the U.S. and were more affected by the steep home price declines. If home prices continue to decline in these and other regions, the credit statistics of our single-family mortgage portfolio will continue to deteriorate in 2009.

As of December 31, 2008, single-family mortgage loans in the state of Florida comprised approximately 7% of our single-family mortgage portfolio, based on unpaid principal balances; however, the loans in this state made up approximately 21% of the total delinquent loans in our single-family mortgage portfolio, based on unpaid principal balances. Consequently, Florida remains our leading state for seriously delinquent mortgage loans; however, these have been slow to transition to REO and be reflected in our recognized credit losses due to the duration of Florida's foreclosure process and our suspension

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of foreclosure sales discussed below. California and Florida were the states where we experienced the highest credit losses during 2008; these states comprised 41% of our single-family credit losses on a combined basis. These and other factors caused us to significantly increase our estimate for loan loss reserves during 2008.

We have taken several steps during 2008 and continuing in 2009 designed to support homeowners in the U.S. and mitigate the continued growth of our non-performing assets, some of which were undertaken at the direction of FHFA. We continue to expand our efforts to increase our use of foreclosure alternatives, and have expanded our staff to assist our seller/servicers in completing loan modifications and other outreach programs with the objective of keeping more borrowers in their homes. We expect that many of these efforts will have a negative impact on our financial results. Some of these initiatives during 2008 and 2009 include:

approving approximately 81,000 workout plans and agreements with borrowers for the estimated 400,000 single-family loans in our single-family mortgage portfolio that were or became delinquent (90 days or more past due or were in foreclosure) during 2008;

delegating expanded workout authority to our seller/servicers and doubling the amount of compensation we provide to seller/servicers for successful workouts of delinquent loans;

assisting our seller/servicers in efforts to reach out to delinquent borrowers earlier and developing programs to do so on a broad scale;

in conjunction with FHFA, the HOPE NOW Alliance and other industry participants, initiating implementation of the Streamlined Modification Program;

temporarily suspending all foreclosure sales of occupied homes from November 26, 2008 through January 31, 2009 and from February 14, 2009 through March 6, 2009 to allow for implementation of the Streamlined Modification Program by our seller/servicers; and

the HASP announced by the Obama Administration, under which we and our servicers will increase loan modification and refinancing efforts. We expect our efforts under HASP will replace the Streamlined Modification Program. Beginning March 7, 2009, we will suspend foreclosure sales for those loans that are eligible for modification under the HASP until our servicers determine that the borrower of such a loan is not responsive or that the loan does not qualify for a modification under HASP or any of our other alternatives to foreclosure.

These activities will create fluctuations in our credit statistics. For example, the suspension of foreclosure sales for occupied homes has temporarily reduced the rate of growth of our REO inventory and credit losses since November 2008; however, this also has created a temporary increase in the number of delinquent loans that remain in our single-family mortgage portfolio, which results in higher reported delinquency rates than without our suspension of foreclosures. In addition, the implementation of the Streamlined Modification Program and the HASP will cause the number of our forbearance agreements, troubled debt restructurings and related losses, such as losses on loans purchased, to rise.

Our investments in non-agency mortgage-related securities, which are primarily backed by subprime, Alt-A and MTA mortgage loans, also were affected by the deteriorating credit conditions during 2008. The table below illustrates the increases in delinquency rates for subprime, Alt-A and MTA loans that back the non-agency mortgage-related securities we own. Given the recent substantial deterioration in the economic outlook and the renewed acceleration of housing price declines, the performance of the loans backing these securities could continue to deteriorate. See

CONSOLIDATED BALANCE SHEETS ANALYSIS Mortgage-Related Investments Portfolio for additional

information regarding our investments in mortgage-related securities backed by subprime, Alt-A and MTA loans.

Table of Contents**Table 7 Credit Statistics, Non-Agency Mortgage-Related Securities Backed by Subprime, Alt-A and MTA Loans**

	12/31/2008	09/30/2008	As of 06/30/2008	03/31/2008	12/31/2007
Delinquency rates ⁽¹⁾ :					
Non-agency mortgage-related securities backed by:					
Subprime first lien	38%	35%	31%	27%	21%
Alt-A ⁽²⁾	17	14	12	10	8
MTA	30	24	18	12	7
Cumulative collateral loss: ⁽³⁾					
Non-agency mortgage-related securities backed by:					
Subprime first lien	6%	4%	2%	1%	1%
Alt-A ⁽²⁾	1	1			
MTA	1	1			
Gross unrealized losses, pre-tax (in millions) ⁽⁴⁾	\$ 30,671	\$ 22,411	\$ 25,858	\$ 28,065	\$ 11,127
Impairment loss for the three months ended (in millions)	\$ 6,794	\$ 8,856	\$ 826	\$	\$

- (1) Based on the number of loans that are 60 days or more past due. Mortgage loans whose contractual terms have been modified under agreement with the borrower are not included if the borrower is less than 60 days delinquent under the modified terms.
- (2) Excludes non-agency mortgage-related securities backed by other loans primarily comprised of securities backed by home equity lines of credit.
- (3) Based on the actual losses incurred on the collateral underlying these securities. Actual losses incurred on the securities that we hold are less than the losses on the underlying collateral as these securities include significant credit enhancements, particularly through subordination.
- (4) Gross unrealized losses, pre-tax, represent the aggregate of the amount by which amortized cost exceeds fair value measured at the individual lot level.

We held unpaid principal balances of \$119.5 billion of non-agency mortgage-related securities backed by subprime, Alt-A and other loans and MTA loans, in our mortgage-related investments portfolio as of December 31, 2008 compared to \$152.6 billion as of December 31, 2007. We received monthly remittances of principal payments on these securities, which totaled more than \$33.7 billion during 2008 representing a partial return of our investment in these securities. We recognized impairment losses on mortgage-related securities primarily backed by subprime, Alt-A and other and MTA loans of \$16.6 billion for 2008. The portion of these impairment charges associated with expected recoveries that we estimate may be recognized as net interest income in future periods was \$11.8 billion on securities backed primarily by subprime, Alt-A and other and MTA loans as of December 31, 2008. The increase in unrealized losses, despite the decline in unpaid principal balance, is due to the significant declines in non-agency mortgage asset prices which occurred during 2008, and which accelerated significantly for Alt-A and MTA loans during the latter half of 2008. We believe the majority of the declines in the fair value of these securities are attributable to decreased liquidity and larger risk premiums in the mortgage market. See CONSOLIDATED BALANCE SHEETS ANALYSIS Mortgage-Related Investments Portfolio for further information.

GAAP Results 2008 versus 2007

Two accounting changes had a significant positive impact on our financial results for 2008: our adoptions of SFAS No. 157, *Fair Value Measurements*, or SFAS 157, and SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities, Including an Amendment of FASB Statement No. 115*, or SFAS 159 or the fair value option. For more information, see CRITICAL ACCOUNTING POLICIES AND ESTIMATES. In connection with the adoption of SFAS 157, we changed our method for determining the fair value of our newly-issued guarantee obligations. Under SFAS 157, the initial fair value of our guarantee obligation equals the fair value of compensation received, consisting of management and guarantee fees and upfront compensation, in the related securitization transaction, which is a practical expedient for determining fair value. As a result, prospectively from January 1, 2008, we no longer record estimates of deferred gains or immediate, day one losses on most guarantees. SFAS 159 permits companies to choose to measure certain eligible financial instruments at fair value that are not currently required to be measured at fair value in order to mitigate volatility in reported earnings caused by measuring assets and liabilities differently. We initially elected the fair value option for certain available-for-sale mortgage-related securities and our foreign-currency denominated debt. Upon adoption of SFAS 159, we recognized a \$1.0 billion after-tax increase to our retained earnings (accumulated deficit) at January 1, 2008. We may continue to elect the fair value option for certain securities to mitigate interest-rate aspects of changes in the fair value of our guarantee asset and changes in the fair value of certain pay-fixed interest-rate swaps.

Net loss was \$50.1 billion and \$3.1 billion for 2008 and 2007, respectively. Net loss increased during 2008 compared to 2007, principally due to an increase in credit-related expenses, impairment losses on interest-only mortgage securities and certain non-agency mortgage-related securities, the establishment of a partial valuation allowance against our net deferred tax assets and increased derivative losses and losses on our guarantee asset. We refer to the combination of our provision for credit losses and REO operations expense as credit-related expenses when we use this term and specifically exclude other market-based impairment losses. These loss and expense items for 2008 were partially offset by higher net interest income and higher income on our guarantee obligation as well as lower losses on certain credit guarantees due to our use of the practical expedient for determining fair value under SFAS 157, and lower losses on loans purchased due to changes in our operational practice of purchasing delinquent loans out of PC securitization pools.

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Net interest income was \$6.8 billion for 2008, compared to \$3.1 billion for 2007. The 2% annualized limitation on the growth of our mortgage-related investments portfolio previously established by FHFA expired during March 2008 as we met FHFA's criterion of becoming a timely filer of our financial statements. As a result, we were able to hold higher amounts of fixed-rate agency mortgage-related securities at significantly wider spreads relative to our funding costs during 2008 as compared to 2007. Our funding costs were lower in 2008, as compared to 2007, due to declines in interest rates combined with our greater use of lower-cost short-term debt. Net interest income also includes \$0.6 billion of income related to the accretion of other-than-temporary impairments of investments in available-for-sale securities recorded in the second and third quarters of 2008.

Non-interest income (loss) was \$(29.2) billion and \$(0.3) billion for 2008 and 2007, respectively. The increase in non-interest loss during 2008 was primarily due to higher losses on investment activity, higher derivative losses excluding foreign-currency related effects, and higher losses on our guarantee asset driven by increased uncertainty in the market and declines in long-term interest rates. Losses on investment activity totaled \$16.1 billion in 2008, as compared to gains of \$294 million in 2007, due primarily to impairments on available-for-sale securities of \$17.7 billion during 2008. We believe a significant amount of the declines in fair values represented by these impairments are due to decreased liquidity and larger risk premiums in the mortgage market. If our assumptions concerning the future performance of these securities are correct, we will recapture a significant portion of these write-downs as interest income, as remittances on the securities are received. We recognized a significant increase in net derivative losses during 2008 compared to 2007 due to declines in interest rates during 2008, resulting in losses on our pay-fixed swap positions, partially offset by gains on receive-fixed swaps principally used as economic hedges on our outstanding debt. These losses were partially offset by increased income on our guarantee obligation and higher management and guarantee income in 2008.

Non-interest expense for 2008 and 2007 totaled \$22.2 billion and \$8.8 billion, respectively, and included credit-related expenses of \$17.5 billion and \$3.1 billion, respectively. Excluding credit-related expenses, our non-interest expense declined from \$5.7 billion in 2007 to \$4.7 billion in 2008 and was primarily due to the reductions in losses on certain credit guarantees and losses on loans purchased. These declines were partially offset by a \$1.1 billion loss on the Lehman short-term lending transactions. See **CONSOLIDATED RESULTS OF OPERATIONS** *Non-Interest Expense* *Securities Administrator Loss on Investment Activity* for further information on the Lehman short-term lending transactions. Administrative expenses totaled \$1.5 billion for 2008, down from \$1.7 billion for 2007 as we implemented several cost reduction measures.

Segment Earnings

Our business operations consist of three reportable segments, which are based on the type of business activities each performs: Investments, Single-family Guarantee and Multifamily. The activities of our business segments are described in **BUSINESS** *Our Business and Statutory Mission* *Our Business Segments*. Certain activities that are not part of a segment are included in the All Other category. We manage and evaluate performance of the segments and All Other using a Segment Earnings approach, subject to the conduct of our business under the direction of the Conservator.

In managing our business, we present the operating performance of our segments using Segment Earnings. Segment Earnings differs significantly from, and should not be used as a substitute for, net income (loss) as determined in accordance with GAAP. For more information on Segment Earnings, including its limitations as a measure of our financial performance, see **CONSOLIDATED RESULTS OF OPERATIONS** *Segment Earnings* and **NOTE 16: SEGMENT REPORTING** to our consolidated financial statements.

The objectives set forth for us under our charter and by our Conservator, as well as the restrictions on our business under the Purchase Agreement with Treasury, may negatively impact our Segment Earnings and the performance of

individual segments. For example:

the required reduction in our mortgage-related investments portfolio balance to \$250 billion, through successive annual 10% declines commencing in 2010, will likely cause our Investments segment results to decline;

our objective of assisting the mortgage market may cause us to change our pricing strategy in our core mortgage loan purchase or guarantee business, which may negatively impact our Single-family Guarantee segment results; and

the public policy objective of keeping borrowers in their homes may result in us making substantial concessions to troubled borrowers, which could negatively impact our results.

For more information, see **BUSINESS** Conservatorship and Related Developments.

Segment Earnings is calculated for the segments by adjusting GAAP net income (loss) for certain investment-related activities and credit guarantee-related activities. Segment Earnings includes certain reclassifications among income and expense categories that have no impact on net income (loss) but provide us with a meaningful metric to assess the performance of each segment and our company as a whole. Segment Earnings does not include the effect of the establishment of the valuation allowance against our net deferred tax assets.

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Table 8 presents Segment Earnings by segment and the All Other category and includes a reconciliation of Segment Earnings to net income (loss) prepared in accordance with GAAP.

Table 8 Reconciliation of Segment Earnings to GAAP Net Income (Loss)

	Year Ended December 31,		
	2008	2007	2006
	(in millions)		
Segment Earnings, net of taxes:			
Investments	\$ (1,175)	\$ 2,028	\$ 2,111
Single-family Guarantee	(9,318)	(256)	1,289
Multifamily	364	398	434
All Other	134	(103)	19
Total Segment Earnings (loss), net of taxes	(9,995)	2,067	3,853
Reconciliation to GAAP net income (loss):			
Derivative- and foreign currency denominated debt-related adjustments	(13,219)	(5,667)	(2,371)
Credit guarantee-related adjustments	(3,928)	(3,268)	(201)
Investment sales, debt retirements and fair value-related adjustments	(10,462)	987	231
Fully taxable-equivalent adjustments	(419)	(388)	(388)
Total pre-tax adjustments	(28,028)	(8,336)	(2,729)
Tax-related adjustments ⁽¹⁾	(12,096)	3,175	1,203
Total reconciling items, net of taxes	(40,124)	(5,161)	(1,526)
GAAP net income (loss)	\$ (50,119)	\$ (3,094)	\$ 2,327

(1) 2008 includes a non-cash charge related to the establishment of a partial valuation allowance against our net deferred tax assets of approximately \$22 billion that is not included in Segment Earnings.

Investments

Our Investments segment is responsible for our investment activity in mortgages and mortgage-related securities, other investments, debt financing and managing our interest rate risk, liquidity and capital positions. We invest principally in mortgage-related securities and single-family mortgage loans.

Performance comparison for 2008 versus 2007:

Segment Earnings (loss) decreased to \$(1.2) billion for 2008, compared to Segment Earnings of \$2.0 billion for 2007.

Segment Earnings net interest yield increased 3 basis points to 54 basis points in 2008 compared to 2007 due to both the purchases of fixed-rate assets at wider spreads relative to our funding costs and the replacement of higher cost short- and long-term debt with lower cost debt issuances. Partially offsetting the increase in net interest yield was the impact of declining rates on our floating rate assets and an increase in derivative interest

carry expense on net pay-fixed swaps in a declining rate environment.

Segment Earnings included security impairments of \$4.3 billion during 2008 that reflect expected credit-related losses. Non-credit related security impairments of \$13.4 billion were not included in Segment Earnings during 2008.

Segment Earnings non-interest expense for 2008 includes a loss of \$1.1 billion on investment transactions related to the Lehman short-term lending transactions. See CONSOLIDATED RESULTS OF OPERATIONS Non-Interest Expense *Securities Administrator Loss on Investment Activity* for more information.

The unpaid principal balance of our mortgage-related investments portfolio increased 10.4% to \$732 billion at December 31, 2008 compared to \$663 billion at December 31, 2007. Contributing to the growth in the portfolio during the second half of 2008 was FHFA's directive that we acquire and hold increased amounts of mortgage loans and mortgage-related securities in our mortgage portfolio to provide additional liquidity to the mortgage market. Agency securities comprised approximately 68% of the unpaid principal balance of the mortgage-related investments portfolio at December 31, 2008 versus 61% at December 31, 2007.

Due to the substantial levels of volatility in worldwide financial markets in 2008, our ability to access both the term and callable debt markets has been limited and we have relied increasingly on the issuance of shorter-term debt. While we use interest rate derivatives to economically hedge a significant portion of our interest rate exposure, we are exposed to risks relating to our ability to issue new debt when our outstanding debt matures and to the variability in interest costs on our new issuances of debt, which directly impacts our Investments Segment earnings.

Single-Family Guarantee

In our Single-family Guarantee segment, we securitize substantially all of the newly or recently originated single-family mortgages we have purchased and issue mortgage-related securities, called PCs, that can be sold to investors or held by us in our Investments segment.

Performance comparison for 2008 versus 2007:

Segment Earnings (loss) increased to \$(9.3) billion in 2008 compared to \$(256) million in 2007.

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Segment Earnings provision for credit losses for the Single-family Guarantee segment increased to \$16.7 billion in 2008 from \$3.0 billion in 2007.

Realized single-family credit losses were 21 basis points of the average single-family credit guarantee portfolio for 2008, compared to 3 basis points for 2007.

We implemented several delivery fee increases that were effective at varying dates between March and June 2008, or as our customers' contracts permitted. We cancelled certain of our planned increases in delivery fees that were to be implemented in November 2008. Our efforts to provide increased support to the mortgage market under the direction of our Conservator have affected our guarantee pricing decisions and will likely continue to do so.

Average rates of management and guarantee fee income for the Single-family Guarantee segment increased to 20.7 basis points during 2008 compared to 18.0 basis points in 2007.

The average balance of the single-family credit guarantee portfolio increased by 12% during 2008, compared to 14% during 2007.

Multifamily

Our Multifamily segment activities include purchases of multifamily mortgages for our mortgage-related investments portfolio, and guarantees of payments of principal and interest on multifamily mortgage-related securities and mortgages underlying multifamily housing revenue bonds.

Performance comparison for 2008 versus 2007:

Segment Earnings decreased 9% to \$364 million in 2008 versus \$398 million in 2007.

Segment Earnings net interest income was \$426 million in 2008, unchanged from 2007. However, we recognized an increase in interest income on mortgage loans due to higher average balances and purchases of higher yield assets that was offset by lower yield maintenance fees in 2008.

Mortgage purchases into our multifamily loan portfolio increased approximately 4% during 2008 to \$18.9 billion from \$18.2 billion during 2007.

Unpaid principal balance of our multifamily loan portfolio increased to \$72.7 billion at December 31, 2008 from \$57.6 billion at December 31, 2007 as market fundamentals continued to provide attractive purchase opportunities.

Unpaid principal balance of our multifamily guarantee portfolio increased 35% to \$15.7 billion as of December 31, 2008 as we continued to increase our resecuritization and guarantees of mortgage revenue bonds during 2008 to support the mortgage market.

Segment Earnings provision for credit losses for the Multifamily segment totaled \$229 million and \$38 million during 2008 and 2007, respectively. We increased our reserve estimates in 2008 to reflect the recent deterioration of market conditions, such as unemployment and vacancy rates, which worsened during the second half of 2008 and resulted in increased estimated severities of incurred loss.

Capital Management

Our entry into conservatorship resulted in significant changes to the assessment of our capital adequacy and our management of capital. On October 9, 2008, FHFA announced that it was suspending capital classification of us during conservatorship in light of the Purchase Agreement. Concurrent with this announcement, FHFA classified us as undercapitalized as of June 30, 2008 based on discretionary authority provided by statute.

FHFA has directed us to focus our risk and capital management on, among other things, maintaining a positive balance of GAAP stockholders' equity in order to reduce the likelihood that we will need to make additional draws on the Purchase Agreement with Treasury, while returning to long-term profitability. However, as discussed in

BUSINESS Conservatorship and Related Developments *Supervision of Our Business During Conservatorship*, certain of the Conservator's directives are expected to conflict with these objectives. The Purchase Agreement provides that, if FHFA determines as of quarter end that our liabilities have exceeded our assets under GAAP, Treasury will contribute funds to us in an amount equal to the difference between such liabilities and assets, up to the maximum aggregate amount that may be funded under the Purchase Agreement.

Under the Reform Act, FHFA must place us into receivership if FHFA determines in writing that our assets are less than our obligations for a period of 60 days. FHFA has notified us that the measurement period for any mandatory receivership determination with respect to our assets and obligations would commence no earlier than the SEC public filing deadline for our quarterly or annual financial statements and would continue for 60 calendar days after that date. See BUSINESS Regulation and Supervision *Federal Housing Finance Agency Receivership* for additional information on mandatory receivership. At December 31, 2008, our liabilities exceeded our assets under GAAP by \$30.6 billion while our stockholders' equity (deficit) totaled \$(30.7) billion. Accordingly, we must obtain funding from Treasury pursuant to its commitment under the Purchase Agreement in order to avoid being placed into receivership by FHFA. On November 24, 2008, we received

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\$13.8 billion from Treasury under the Purchase Agreement. The Director of FHFA has submitted a draw request to Treasury under the Purchase Agreement in the amount of \$30.8 billion, which we expect to receive in March 2009. As a result of these draws, the aggregate liquidation preference on the senior preferred stock will increase from \$1.0 billion as of September 8, 2008 to \$45.6 billion and the remaining funding available under Treasury's announced commitment will decrease to approximately \$155.4 billion. We expect to make additional draws on Treasury's funding commitment in the future. The size of such draws will be determined by a variety of factors, including whether market conditions continue to deteriorate.

The senior preferred stock accrues quarterly cumulative dividends at a rate of 10% per year or 12% per year in any quarter in which dividends are not paid in cash until all accrued dividends have been paid in cash. We paid our first quarterly dividend of \$172 million in cash on the senior preferred stock on December 31, 2008 at the direction of our Conservator. Following receipt of our pending draw, Treasury will be entitled to annual cash dividends of \$4.6 billion, as calculated based on the aggregate liquidation preference of \$45.6 billion. If we make additional draws under the Purchase Agreement, this would further increase our dividend obligation.

This substantial ongoing dividend obligation, combined with potentially substantial commitment fees payable to Treasury starting in 2010 and limited flexibility to pay down draws under the Purchase Agreement, will have an adverse impact on our future financial position and net worth. For additional information concerning the potential impact of the Purchase Agreement, including taking additional large draws, see **RISK FACTORS**. For additional information on our capital management and capital requirements, see **LIQUIDITY AND CAPITAL RESOURCES** Capital Adequacy and **NOTE 10: REGULATORY CAPITAL** to our consolidated financial statements.

The Purchase Agreement places several restrictions on our business activities, which, in turn, affect our management of capital. For instance, our mortgage-related investments portfolio may not exceed \$900 billion as of December 31, 2009 and must then decline by 10% per year until it reaches \$250 billion. We are also unable to issue capital stock of any kind without Treasury's prior approval, other than in connection with the common stock warrant issued to Treasury under the Purchase Agreement or binding agreements in effect on the date of the Purchase Agreement. In addition, on September 7, 2008, the Director of FHFA announced the elimination of dividends on our common and preferred stock, excluding the senior preferred stock. See **BUSINESS** Conservatorship and Related Developments for additional information regarding the Purchase Agreement and the senior preferred stock.

A variety of factors could materially affect the level and volatility of our GAAP stockholders' equity (deficit) in future periods and the amount of additional draws we are required to take under the Purchase Agreement. Key factors include continued deterioration in the housing market, which could increase credit expenses and cause additional other-than-temporary impairments of our non-agency mortgage-related securities; the pursuit of policy-related objectives that may adversely impact our financial results; adverse changes in interest rates, the yield curve, implied volatility or mortgage OAS, which could increase realized and unrealized mark-to-fair value losses recorded in earnings or AOCI; dividend obligations on the senior preferred stock; our inability to access the public debt markets on terms sufficient for our needs, absent support from Treasury and the Federal Reserve; establishment of a valuation allowance for our remaining deferred tax asset; changes in accounting practices or standards, including the initial implementation of proposed amendments to SFAS 140 and FIN 46(R); potential accounting consequences of our implementation of HASP; or changes in business practices resulting from legislative and regulatory developments, such as the enactment of legislation providing bankruptcy judges with the authority to revise the terms of a mortgage, including the principal amount. At December 31, 2008, our remaining deferred tax asset, which could be subject to a valuation allowance in future periods, totaled \$15.4 billion. As a result of the factors described above, it is difficult for us to maintain a positive level of stockholders' equity (deficit).

Liquidity

In the second half of 2008, we experienced less demand for our debt securities, as reflected in wider spreads on our term and callable debt. This reflected overall deterioration in our access to unsecured medium and long term debt markets to fund our purchases of mortgage assets and to refinance maturing debt. As a result, we have been required to refinance our debt on a more frequent basis, exposing us to an increased risk of insufficient demand and adverse credit market conditions. We use pay-fixed swaps to synthetically create the substantive economic equivalent of various debt funding structures. Thus, if our access to the derivative markets were disrupted, our business results would be adversely affected. The use of these derivatives also exposes us to additional counterparty credit risk. This funding strategy may increase the volatility of our GAAP results through mark-to-fair value impacts on our pay-fixed swaps and other derivatives. However, the Federal Reserve has been an active purchaser of our long-term debt under its purchase program as discussed below and spreads on our debt and access to the debt markets have improved in early 2009 as a result of this activity. See **LIQUIDITY AND CAPITAL RESOURCES** Liquidity for more information on our debt funding activities and risks posed by our current market challenges and **RISK FACTORS** for a discussion of the risks to our business posed by our reliance on the issuance of debt to fund our operations.

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As described under **BUSINESS** Conservatorship and Related Developments, Treasury and the Federal Reserve have taken a number of actions affecting our access to debt financing, including the following:

Treasury entered into the Lending Agreement with us, under which we may request funds through December 31, 2009. As of December 31, 2008, we had not borrowed against the Lending Agreement.

The Federal Reserve has implemented a program to purchase up to \$100 billion in direct obligations of Freddie Mac, Fannie Mae and the FHLBs. The Federal Reserve will purchase these direct obligations from primary dealers. The Federal Reserve began purchasing direct obligations under this program in December 2008. The support of the Federal Reserve has helped to improve spreads on our debt and our access to the debt markets.

The Lending Agreement is scheduled to expire on December 31, 2009. Upon expiration, we will not have a substantial liquidity backstop available to us (other than Treasury's ability to purchase up to \$2.25 billion of our obligations under its permanent authority) if we are unable to obtain funding from issuances of debt or other conventional sources. Consequently, our long-term liquidity contingency strategy is currently dependent on extension of the Lending Agreement beyond December 31, 2009.

As discussed above, our dividend obligations on the senior preferred stock are substantial, and make it more likely that we will face increasingly negative cash flows from operations.

Fair Value Results

Our consolidated fair value measurements are a component of our risk management processes, as we use daily estimates of the changes in fair value to calculate our Portfolio Market Value Sensitivity, or PMVS, and duration gap measures. Included in our fair value results for 2008 are the funds received from Treasury of \$13.8 billion under the Purchase Agreement. For information about how we estimate the fair value of financial instruments, see **NOTE 17: FAIR VALUE DISCLOSURES** to our consolidated financial statements.

During 2008, the fair value of net assets, before capital transactions, decreased by \$120.9 billion compared to a \$24.7 billion decrease during 2007. Included in the reduction of the fair value of net assets is \$40.2 billion related to our valuation allowance for our net deferred tax assets at fair value during 2008.

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

During 2008, our investment activities decreased fair value of net assets by approximately \$75.1 billion. This estimate includes declines in fair value of approximately \$90.7 billion attributable to the net widening of mortgage-to-debt OAS. Of this amount, approximately \$74.9 billion was related to the impact of the net mortgage-to-debt OAS widening primarily on our portfolio of non-agency mortgage-related securities with a limited, but increasing amount attributable to the risk of future losses. The reduction in fair value was partially offset by higher core spread income. Core spread income on our mortgage-related investments portfolio is a fair value estimate of the net current period accrual of income from the spread between mortgage-related investments and debt, calculated on an option-adjusted basis.

During 2007, our investment activities decreased fair value of net assets by approximately \$18.9 billion. This estimate includes declines in fair value of approximately \$23.8 billion attributable to the net widening of mortgage-to-debt OAS. Of this amount, approximately \$13.4 billion was related to the impact of the net mortgage-to-debt OAS widening on our portfolio of non-agency mortgage-related securities.

The impact of mortgage-to-debt OAS widening during 2008 decreased the current fair value of our investment activities. Due to the relatively wide OAS levels for purchases during the period, we believe there is a likelihood that, in future periods, we will be able to recognize core-spread income from our investment activities at a higher spread level than historically. We estimate that at December 31, 2008, we will recognize core spread income at a net mortgage-to-debt OAS level of approximately 350 to 450 basis points in the long run, compared to approximately 100 to 105 basis points estimated at December 31, 2007. As market conditions change, our estimate of expected fair value gains from OAS may also change, leading to significantly different fair value results.

During 2008, our credit guarantee activities, including our single-family mortgage loan credit exposure, decreased fair value of net assets by an estimated \$40.1 billion. This estimate includes an increase in the single-family guarantee obligation of approximately \$36.7 billion, primarily due to a declining credit environment. This increase in the single-family guarantee obligation includes a reduction of \$7.1 billion in the fair value of our guarantee obligation recorded on January 1, 2008, as a result of our adoption of SFAS 157.

During 2007, our credit guarantee activities decreased fair value of net assets by an estimated \$18.5 billion. This estimate includes an increase in the single-family guarantee obligation of approximately \$22.2 billion, primarily attributable to a declining credit environment. This increase in the single-family guarantee obligation was partially offset by a fair value

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increase in the single-family guarantee asset of approximately \$2.1 billion and cash receipts primarily related to management and guarantee fees and other up-front fees.

See CONSOLIDATED FAIR VALUE BALANCE SHEETS ANALYSIS for additional information regarding attribution of changes in the fair value of net assets.

CONSOLIDATED RESULTS OF OPERATIONS

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

Effective December 31, 2007, we retrospectively changed our method of accounting for our guarantee obligation: (a) to a policy of no longer extinguishing our guarantee obligation when we purchase all or a portion of our issued PCs and Structured Securities from a policy of effective extinguishment through the recognition of a Participation Certificate residual and (b) to a policy that amortizes our guarantee obligation into earnings in a manner that corresponds more closely to our economic release from risk under our guarantee than our former policy, which amortized our guarantee obligation according to the contractual expiration of our guarantee as observed by the decline in the unpaid principal balance of securitized mortgage loans. All years' results presented herein reflect consistent application of this change.

Table 9 Summary Consolidated Statements of Operations GAAP Results

	Year Ended December 31,		
	2008	2007	2006
	(in millions)		
Net interest income	\$ 6,796	\$ 3,099	\$ 3,412
Non-interest income (loss):			
Management and guarantee income	3,370	2,635	2,393
Gains (losses) on guarantee asset	(7,091)	(1,484)	(978)
Income on guarantee obligation	4,826	1,905	1,519
Derivative gains (losses)	(14,954)	(1,904)	(1,173)
Gains (losses) on investment activity	(16,108)	294	(473)
Gains (losses) on foreign-currency denominated debt recorded at fair value ⁽¹⁾	406		
Gains (losses) on debt retirement	209	345	466
Recoveries on loans impaired upon purchase	495	505	
Foreign-currency gains (losses), net ⁽¹⁾		(2,348)	96
Low-income housing tax credit partnerships	(453)	(469)	(407)
Other income	125	246	236
Non-interest income (loss)	(29,175)	(275)	1,679
Non-interest expense	(22,190)	(8,801)	(2,809)
Income (loss) before income tax (expense) benefit	(44,569)	(5,977)	2,282
Income tax (expense) benefit	(5,550)	2,883	45

Net income (loss) \$ (50,119) \$ (3,094) \$ 2,327

(1) We elected the fair value option for our foreign-currency denominated debt effective January 1, 2008 in connection with our adoption of SFAS 159. Accordingly, foreign-currency changes are now recorded in gains (losses) on foreign-currency denominated debt recorded at fair value. Prior to that date, translation gains and losses on our foreign-currency denominated debt were reported in foreign-currency gains (losses), net in our consolidated statements of operations.

Net Interest Income

Table 10 summarizes our net interest income and net interest yield and provides an attribution of changes in annual results to changes in interest rates or changes in volumes of our interest-earning assets and interest-bearing liabilities. Average balance sheet information is presented because we believe end-of-period balances are not representative of activity throughout the periods presented. For most components of the average balances, a daily weighted average balance was calculated for the period. When daily weighted average balance information was not available, a simple monthly average balance was calculated.

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	Year Ended December 31,							
	Average Balance ⁽¹⁾⁽²⁾	2008 Interest Income (Expense) ⁽¹⁾	Average Rate	Average Balance ⁽¹⁾⁽²⁾	2007 Interest Income (Expense) ⁽¹⁾	Average Rate	Average Balance ⁽¹⁾⁽²⁾	2006 Interest Income (Expense) ⁽¹⁾
(dollars in millions)								
Earning assets:								
Loans ⁽³⁾⁽⁴⁾	\$ 93,649	\$ 5,369	5.73%	\$ 70,890	\$ 4,449	6.28%	\$ 63,870	\$ 4,152
Mortgage-related securities	661,756	34,263	5.18	645,844	34,893	5.40	650,992	33,850
Mortgage-related investments	755,405	39,632	5.25	716,734	39,342	5.49	714,862	38,002
Mortgage-related securities ⁽⁵⁾	19,757	804	4.07	32,724	1,694	5.18	45,570	2,171
Cash equivalents ⁽⁵⁾	28,137	618	2.19	11,186	594	5.31	12,135	622
Bonds sold and securities held under agreements to repurchase	23,018	423	1.84	24,469	1,280	5.23	28,577	1,469
Interest-earning assets	\$ 826,317	\$ 41,477	5.02	\$ 785,113	\$ 42,910	5.46	\$ 801,144	\$ 42,264
Bearing liabilities:								
Interest-bearing debt	\$ 244,569	\$ (6,800)	(2.78)	\$ 174,418	\$ (8,916)	(5.11)	\$ 179,882	\$ (8,665)
Interest-bearing debt ⁽⁶⁾	561,261	(26,532)	(4.73)	576,973	(29,148)	(5.05)	587,978	(28,218)
Interest-bearing debt	805,830	(33,332)	(4.14)	751,391	(38,064)	(5.07)	767,860	(36,883)
Interest-bearing liabilities	805,830	(33,332)	(4.14)	759,211	(38,482)	(5.07)	775,335	(37,270)
Interest-bearing liabilities related to derivatives		(1,349)	(0.17)		(1,329)	(0.17)		(1,582)
Interest-bearing liabilities net non-interest-bearing	20,487		0.11	25,902		0.17	25,809	
Interest-bearing liabilities net of interest-earning	\$ 826,317	\$ (34,681)	(4.20)	\$ 785,113	\$ (39,811)	(5.07)	\$ 801,144	\$ (38,852)
Interest income/yield on interest-bearing liabilities		\$ 6,796	0.82		\$ 3,099	0.39		\$ 3,412
Interest income/yield (fully equivalent basis) ⁽⁸⁾		404	0.05		392	0.05		392
Interest income/yield (fully equivalent basis)		\$ 7,200	0.87%		\$ 3,491	0.44%		\$ 3,804

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	2008 vs. 2007 Variance			2007 vs. 2006 Variance		
	Due to		Total Change (in millions)	Due to		Total Change
	Rate ⁽⁹⁾	Volume ⁽⁹⁾		Rate ⁽⁹⁾	Volume ⁽⁹⁾	
Interest-earning assets:						
Mortgage loans	\$ (411)	\$ 1,331	\$ 920	\$ (147)	\$ 444	\$ 297
Mortgage-related securities	(1,476)	846	(630)	1,312	(269)	1,043
Total mortgage-related investments portfolio	(1,887)	2,177	290	1,165	175	1,340
Non-mortgage related securities ⁽⁵⁾	(313)	(577)	(890)	176	(653)	(477)
Cash and cash equivalents ⁽⁵⁾	(496)	520	24	22	(50)	(28)
Federal funds sold and securities purchased under agreements to resell ⁽⁵⁾	(785)	(72)	(857)	25	(214)	(189)
Total interest-earning assets	\$ (3,481)	\$ 2,048	\$ (1,433)	\$ 1,388	\$ (742)	\$ 646
Interest-bearing liabilities:						
Short-term debt	\$ 4,936	\$ (2,820)	\$ 2,116	\$ (520)	\$ 269	\$ (251)
Long-term debt	1,837	779	2,616	(1,465)	535	(930)
Total debt	6,773	(2,041)	4,732	(1,985)	804	(1,181)
Due to Participation Certificate investors ⁽⁷⁾		418	418	(13)	(18)	(31)
Total interest-bearing liabilities	6,773	(1,623)	5,150	(1,998)	786	(1,212)
Expense related to derivatives	(20)		(20)	253		253
Total funding of interest-earning assets	\$ 6,753	\$ (1,623)	\$ 5,130	\$ (1,745)	\$ 786	\$ (959)
Net interest income	\$ 3,272	\$ 425	\$ 3,697	\$ (357)	\$ 44	\$ (313)
Fully taxable-equivalent adjustments	(9)	21	12	9	(9)	
Net interest income (fully taxable-equivalent basis)	\$ 3,263	\$ 446	\$ 3,709	\$ (348)	\$ 35	\$ (313)

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

(2) For securities, we calculated average balances based on their unpaid principal balance plus their associated deferred fees and costs (e.g., premiums and discounts), but excluded the effects of mark-to-fair-value changes.

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

(4) Loan fees included in mortgage loan interest income were \$102 million, \$290 million and \$280 million for 2008, 2007 and 2006, respectively.

(5) Certain prior period amounts have been adjusted to conform to the current year presentation.

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

(7) As a result of the creation of the securitization trusts in December 2007, due to Participation Certificate investors interest expense is now recorded in trust management fees within other income on our consolidated statements of operations. See *Non-Interest Income (Loss) Other Income* for additional information about due to Participation Certificate investors interest expense.

(8)

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

- (9) Rate and volume changes are calculated on the individual financial statement line item level. Combined rate/volume changes were allocated to the individual rate and volume change based on their relative size.

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Table 11 summarizes components of our net interest income.

Table 11 Net Interest Income

	Year Ended December 31,		
	2008	2007	2006
	(in millions)		
Contractual amounts of net interest income	\$ 9,001	\$ 6,038	\$ 7,472
Amortization income (expense), net: ⁽¹⁾			
Accretion of impairments on available-for-sale securities ⁽²⁾	551	4	7
Asset-related amortization	(259)	(272)	(882)
Long-term debt-related amortization	(1,148)	(1,342)	(1,603)
Total amortization income (expense), net	(856)	(1,610)	(2,478)
Expense related to derivatives:			
Amortization of deferred balances in AOCI ⁽³⁾	(1,257)	(1,329)	(1,620)
Accrual of periodic settlements of derivatives: ⁽⁴⁾			
Receive-fixed swaps ⁽⁵⁾			502
Foreign-currency swaps			(464)
Pay-fixed swaps	(92)		
Total accrual of periodic settlements of derivatives	(92)		38
Total expense related to derivatives	(1,349)	(1,329)	(1,582)
Net interest income	6,796	3,099	3,412
Fully taxable-equivalent adjustments	404	392	392
Net interest income (fully taxable-equivalent basis)	\$ 7,200	\$ 3,491	\$ 3,804

(1) Represents amortization related to premiums, discounts, deferred fees and other adjustments to the carrying value of our financial instruments and the reclassification of previously deferred balances from AOCI for certain derivatives in cash flow hedge relationships related to individual debt issuances and mortgage purchase transactions.

(2) We estimate that the future expected principal and interest shortfall on impaired available-for-sale securities will be significantly less than the probable impairment loss required to be recorded under GAAP, as we expect these shortfalls to be less than the recent fair value declines. The portion of the impairment charges associated with these expected recoveries is recognized as net interest income in future periods.

(3) Represents changes in fair value of derivatives in cash flow hedge relationships that were previously deferred in AOCI and have been reclassified to earnings as the associated hedged forecasted issuance of debt and mortgage purchase transactions affect earnings.

(4) Reflects the accrual of periodic cash settlements of all derivatives in qualifying hedge accounting relationships.

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

Net interest income and net interest yield on a fully taxable-equivalent basis increased during 2008 compared to 2007 primarily due to purchases of fixed-rate assets at wider spreads relative to our funding costs, a decrease in funding costs, due to the replacement of higher cost short- and long-term debt with lower cost debt issuances, and a significant

increase in the average size of the mortgage-related investments portfolio. During 2008, liquidity concerns in the market resulted in more favorable investment opportunities for agency mortgage-related securities at wider spreads. FHFA's directive that we acquire and hold increased amounts of mortgage loans and mortgage-related securities in our mortgage-related investments portfolio to provide additional liquidity to the mortgage market also led to the growth in the portfolio during the second half of 2008. In response, we increased our purchase activities resulting in an increase in the average balance of our interest-earning assets. Interest income for 2008 includes \$551 million of income related to the accretion of other-than-temporary impairments of investments in available-for-sale securities recorded during the second and third quarters of 2008. Net interest income and net interest yield for 2008 also benefited from funding fixed-rate assets with a higher proportion of short-term debt in a steep yield curve environment. However, our use of short-term debt funding has also been driven by the substantial levels of volatility in the worldwide financial markets, which has limited our ability to obtain long-term and callable debt funding. During 2008, our short-term funding balances increased significantly when compared to 2007. We use derivatives to synthetically create the substantive economic equivalent of various debt funding structures. For example, the combination of a series of short-term debt issuances over a defined period and a pay-fixed swap with the same maturity as the last debt issuance is the substantive economic equivalent of a long-term fixed-rate debt instrument of comparable maturity. However, the use of these derivatives exposes us to additional counterparty credit risk. See *Non-Interest Income (Loss) Derivative Gains (Losses)* for additional information about the impact of these pay-fixed swaps and other derivatives on our consolidated statements of operations.

The increases in net interest income and net interest yield on a fully taxable-equivalent basis during 2008 were partially offset by the impact of declining interest rates on our floating rate assets held in our mortgage-related investments portfolio during 2008, as well as a decline in prepayment fees, or yield maintenance income, on our multifamily whole loans as a result of a decline in prepayments. The shift within our cash and other investments portfolio during 2008 from higher-yielding, longer-term non-mortgage-related securities to lower-yielding, shorter-term cash and cash equivalent investments, such as commercial paper, in combination with lower short-term rates, also partially offset the increase in net interest income and net interest yield.

During 2007, we experienced higher funding costs for our mortgage-related investments portfolio as our long-term debt interest expense increased, reflecting the replacement of maturing debt that had been issued at lower interest rates with higher cost debt. The decrease in net interest income and net interest yield on a fully taxable-equivalent basis for 2007

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compared to 2006 was partially offset by a decrease in our mortgage-related securities premium amortization expense as purchases into our mortgage-related investments portfolio in 2007 largely consisted of securities purchased at a discount. In addition, wider mortgage-to-debt OAS due to continued lower demand for mortgage-related securities from depository institutions and foreign investors, along with heightened market uncertainty regarding mortgage-related securities, resulted in favorable investment opportunities during 2007. However, to manage to our 30% mandatory target capital surplus then in effect, we reduced our average balance of interest earning assets and as a result, we were not able to take full advantage of these opportunities.

Non-Interest Income (Loss)***Management and Guarantee Income***

Management and guarantee income primarily consists of contractual management and guarantee fees, representing a portion of the interest collected on loans underlying our PCs and Structured Securities. The primary drivers affecting management and guarantee income are changes in the average balance of our issued PCs and Structured Securities and changes in management and guarantee fee rates for newly-issued guarantees. Contractual management and guarantee fees reflect adjustments for buy-ups and buy-downs, whereby the management and guarantee fee rate is adjusted for up-front cash payments we make (buy-up) or receive (buy-down) upon issuance of our guarantee. Our guarantee fee rates are established at issuance and remain fixed over the life of the guarantee. Our average rates of management and guarantee income are affected by the mix of products we issue, competition in the market and customer preference for buy-up and buy-down fees. The appointment of FHFA as Conservator and the Conservator's subsequent directive that we provide increased support to the mortgage market has affected our guarantee pricing decisions by limiting our ability to adjust our fees for current expectations of credit risk, and will likely continue to do so.

Table 12 provides summary information about management and guarantee income. Management and guarantee income consists of contractual amounts due to us (reflecting buy-ups and buy-downs to base management and guarantee fees) as well as amortization of pre-2003 deferred delivery and buy-down fees received by us which are recorded as deferred income as a component of other liabilities. Beginning in 2003, delivery and buy-down fees are included within income on guarantee obligation.

Table 12 Management and Guarantee Income

	Year Ended December 31,					
	2008		2007		2006	
	Amount	Rate	Amount	Rate	Amount	Rate
	(dollars in millions, rates in basis points)					
Contractual management and guarantee fees ⁽¹⁾	\$ 3,124	17.5	\$ 2,591	16.3	\$ 2,201	15.7
Amortization of deferred fees included in other liabilities	246	1.4	44	0.3	192	1.4
Total management and guarantee income	\$ 3,370	18.9	\$ 2,635	16.6	\$ 2,393	17.1
Unamortized balance of deferred fees included in other liabilities, at period end	\$ 176		\$ 410		\$ 440	

(1) Consists of management and guarantee fees received related to our mortgage-related guarantees, including those issued prior to adoption of FIN 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, an interpretation of FASB Statements No. 5, 57 and 107

and rescission of FASB Interpretation No. 34, or FIN 45, in January 2003, which did not require the establishment of a guarantee asset.

Management and guarantee income increased in 2008 compared to 2007 primarily due to a 12% increase in the average balance of our issued PCs and Structured Securities. In addition, the average contractual management and guarantee fee rate for 2008 was higher than 2007 primarily due to an increase in the preference for buy-ups in these rates by our customers. Management and guarantee income and the related average rates also increased in 2008 compared to 2007 due to an increase in the amortization of pre-2003 deferred fees due to declines in interest rates in 2008. To a lesser extent, increased purchases of 30-year fixed-rate product during 2008, which has higher guarantee fee rates relative to 15-year fixed-rate and certain other products, also contributed to the increase in guarantee fee rates.

Management and guarantee income increased in 2007 compared to 2006 resulting from a 13% increase in the average balance of our issued PCs and Structured Securities. The total management and guarantee fee rate decreased in 2007 compared to 2006 due to declines in amortization income resulting from slowing prepayments. The decline was partially offset by an increase in contractual management and guarantee fee rates as a result of an increase in buy-up activity in 2007.

Gains (Losses) on Guarantee Asset

Upon issuance of a guarantee of securitized assets, we record a guarantee asset on our consolidated balance sheets representing the fair value of the management and guarantee fees (reflecting adjustments for buy-ups and buy-downs) we expect to receive over the life of our PCs or Structured Securities. Subsequent changes in the fair value of the future cash flows of the guarantee asset are reported in current period income as gains (losses) on guarantee asset.

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The change in fair value of the guarantee asset reflects:

reductions related to the management and guarantee fees received that are considered a return of our recorded investment on the guarantee asset; and

changes in present value of future management and guarantee fees we expect to receive over the life of the related PCs or Structured Securities.

The changes in fair value of future management and guarantee fees are driven by expected changes in interest rates that affect the estimated life of the mortgages underlying our PCs and Structured Securities issued and the related discount rates used to determine the net present value of the cash flows. For example, an increase in interest rates extends the life of the guarantee asset and increases the fair value of future management and guarantee fees. Our valuation methodology for the guarantee asset uses market-based information, including market values of excess servicing, interest-only securities, to determine the present, or fair value of future cash flows associated with the guarantee asset.

Table 13 Attribution of Change Gains (Losses) on Guarantee Asset

	Year Ended December 31,		
	2008	2007	2006
	(in millions)		
Contractual management and guarantee fees	\$ (2,871)	\$ (2,288)	\$ (1,873)
Portion related to imputed interest income	1,121	549	580
Return of investment on guarantee asset	(1,750)	(1,739)	(1,293)
Change in fair value of management and guarantee fees	(5,341)	255	315
Gains (losses) on guarantee asset	\$ (7,091)	\$ (1,484)	\$ (978)

Contractual management and guarantee fees shown in Table 13 represents cash received in each period related to our PCs and Structured Securities with an established guarantee asset. A portion of these contractual management and guarantee fees is attributed to imputed interest income on the guarantee asset. Contractual management and guarantee fees increased in both 2008 and 2007, primarily due to increases in the average balance of our PCs and Structured Securities issued and, to a lesser extent, increases in average management and guarantee fee rates.

Losses in fair value of management and guarantee fees in 2008 were primarily attributed to lower market valuations for excess servicing, interest-only securities, which were caused by decreases in interest rates during 2008 combined with the effects of a decline in investor demand for mortgage-related securities. Gains in fair value of management and guarantee fees in 2007 were primarily due to an increase in interest rates.

Income on Guarantee Obligation

Upon issuance of a guarantee of securitized assets, we record a guarantee obligation on our consolidated balance sheets representing the fair value of our obligation to perform under the terms of the guarantee. Our guarantee obligation is amortized into income using a static effective yield calculated and fixed at inception of the guarantee based on forecasted unpaid principal balances. The static effective yield is evaluated and adjusted when significant

changes in economic events cause a shift in the pattern of our economic release from risk, or the loss curve. For example, certain market environments may lead to sharp and sustained changes in home prices or prepayments of mortgages, leading to the need for an adjustment in the static effective yield for specific mortgage pools underlying the guarantee. When a change is required, a cumulative catch-up adjustment, which could be significant in a given period, is recognized and a new static effective yield is used to determine our guarantee obligation amortization. The resulting amortization recorded to income on guarantee obligation results in a pattern of revenue recognition that is more consistent with our economic release from risk under changing economic scenarios and the timing of the recognition of losses on the pools of mortgage loans that we guarantee. Over time, we recognize a provision for credit losses on loans underlying a guarantee contract as those losses are incurred. Those incurred losses may equal, exceed or be less than the expected losses we estimated as a component of our guarantee obligation at inception of the guarantee contract.

Effective January 1, 2008, we began estimating the fair value of our newly issued guarantee obligations at their inception using the practical expedient provided by FIN 45, as amended by SFAS 157. Using this approach, the initial guarantee obligation is recorded at an amount equal to the fair value of the compensation received in the related guarantee transactions, including upfront delivery and other fees. As a result, we no longer record estimates of deferred gains or immediate day one losses (*i.e.*, where the fair value of the guarantee obligation at issuance exceeded the fair value of the guarantee and credit enhancement-related assets) on most guarantees. All unamortized amounts recorded prior to January 1, 2008 will continue to be deferred and amortized using the static effective yield method.

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Table 14 provides information about the components of income on guarantee obligation.

Table 14 Income on Guarantee Obligation

	Year Ended December 31,		
	2008	2007	2006
	(in millions)		
Amortization income related to:			
Static effective yield	\$ 2,660	\$ 1,706	\$ 1,338
Cumulative catch-up	2,166	199	181
Total income on guarantee obligation	\$ 4,826	\$ 1,905	\$ 1,519

Amortization income increased for 2008, compared to 2007. This increase was due to (1) higher amortization income recognized from guarantee obligation balances associated with 2007 issuances, which included significant market risk premiums, including those that resulted in significant day one losses, (2) higher cumulative catch-up adjustments during 2008, and (3) higher average balances of our issued PCs and Structured Securities during 2008. The cumulative catch-up adjustments recognized during 2008 were due to significant declines in home prices. We estimate that the national decline in home prices, based on our own index of our single-family mortgage portfolio, during 2008 was approximately 12% as compared to approximately a 4% decline during 2007. We believe that there will be a continued decline in home prices during 2009 based on our index, and thus we may experience additional cumulative catch-up adjustments. Cumulative catch-up adjustments during 2007 and 2006 were principally due to increases in mortgage prepayment speeds attributed to declining interest rates.

Derivative Overview

Table 15 presents the effect of derivatives on our consolidated financial statements, including notional or contractual amounts of our derivatives and our hedge accounting classifications.

Table 15 Summary of the Effect of Derivatives on Selected Consolidated Financial Statement Captions

	Consolidated Balance Sheets					
	December 31, 2008			December 31, 2007		
Description	Notional or			Notional or	Fair	
	Contractual	Fair Value	AOCI	Contractual	Value	AOCI
	Amount⁽¹⁾	(Pre-Tax)⁽²⁾	(Net of Taxes)⁽³⁾	Amount⁽¹⁾	(Pre-Tax)⁽²⁾	(Net of Taxes)⁽³⁾
	(in millions)					
No hedge designation	\$ 1,327,020	\$ (3,827)	\$	\$ 1,322,881	\$ 4,790	\$
Balance related to closed cash flow hedges			(3,678)			(4,059)
Subtotal	1,327,020	(3,827)	(3,678)	1,322,881	4,790	(4,059)

Derivative interest receivable (payable), net			1,051			1,659						
Trade/settle receivable (payable), net												
Derivative cash collateral (held) posted, net			1,454			(6,204)						
Total	\$	1,327,020	\$	(1,322)	\$	(3,678)	\$	1,322,881	\$	245	\$	(4,059)

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Description	2008		2007		2006					
	Derivative Gains (Losses)	Hedge Accounting Gains (Losses) ⁽⁴⁾	Derivative Gains (Losses)	Hedge Accounting Gains (Losses) ⁽⁴⁾	Derivative Gains (Losses)	Hedge Accounting Gains (Losses) ⁽⁴⁾				
			(in millions)							
Fair value hedges ⁽⁵⁾	\$	\$	\$	\$	\$	\$	2			
Cash flow hedges ⁽⁵⁾		(16)								
No hedge designation ⁽⁵⁾	(14,954)		(1,904)		(1,173)					
Total	\$	(14,954)	\$	(16)	\$	(1,904)	\$	(1,173)	\$	2

- (1) Notional or contractual amounts are used to calculate the periodic settlement amounts to be received or paid and generally do not represent actual amounts to be exchanged. Notional or contractual amounts are not recorded as assets or liabilities on our consolidated balance sheets.
- (2) The value of derivatives on our consolidated balance sheets is reported as derivative assets, net and derivative liability, net, and includes derivative interest receivable or (payable), net, trade/settle receivable or (payable), net and derivative cash collateral (held) or posted, net.
- (3) Derivatives that meet specific criteria may be accounted for as cash flow hedges. Net deferred gains and losses on closed cash flow hedges (*i.e.*, where the derivative is either terminated or redesignated) are included in AOCI, net of taxes, until the related forecasted transaction affects earnings or is determined to be probable of not occurring.
- (4) Hedge accounting gains (losses) arise when the fair value change of a derivative does not exactly offset the fair value change of the hedged item attributable to the hedged risk, and is a component of other income in our consolidated statements of operations. For further information, see NOTE 12: DERIVATIVES to our consolidated financial statements.
- (5) For all derivatives in qualifying hedge accounting relationships, the accrual of periodic cash settlements is recorded in net interest income on our consolidated statements of operations and those amounts are not included in the table. For derivatives not in qualifying hedge accounting relationships, the accrual of periodic cash settlements is recorded in derivative gains (losses) on our consolidated statements of operations.

In the periods presented prior to 2008, we only elected cash flow hedge accounting relationships for certain commitments to sell mortgage-related securities, for which we discontinued hedge accounting in December 2008. In the first quarter of 2008, we began designating certain derivative positions as cash flow hedges of changes in cash flows associated

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with our forecasted issuances of debt consistent with our risk management goals. We expanded this hedge accounting strategy in 2008 in an effort to reduce volatility in our consolidated statements of operations. For a derivative accounted for as a cash flow hedge, changes in fair value are reported in AOCI, net of taxes, on our consolidated balance sheets to the extent the hedge is effective. The ineffective portion of changes in fair value is reported as other income on our consolidated statements of operations. We record changes in the fair value, including periodic settlements, of derivatives not in hedge accounting relationships as derivative gains (losses) on our consolidated statements of operations. However, in conjunction with our placement in conservatorship on September 6, 2008, we determined that we could no longer assert that the associated forecasted issuances of debt are probable of occurring and, as a result, we ceased designating derivative positions as cash flow hedges associated with forecasted issuances of debt. While we can no longer assert that the associated forecasted issuances of debt are probable of occurring, we are also unable to assert that the forecasted issuances of debt are probable of not occurring; therefore the previous deferred amount related to these hedges remain in our AOCI balance. This amount will be recognized into earnings over the expected time period for which the forecasted issuances of debt impact earnings. Any subsequent changes in fair value of those derivative instruments are included in derivative gains (losses) on our consolidated statements of operations. As a result of this discontinued hedge accounting strategy, we transferred \$27.6 billion in notional amount and \$(488) million in market value from open cash-flow hedges to closed cash-flow hedges on September 6, 2008. See NOTE 12: DERIVATIVES to our consolidated financial statements for additional information about our discontinuation of derivatives designated as cash-flow hedges.

At December 31, 2008 and 2007, the net cumulative change in the fair value of all derivatives designated in cash flow hedge relationships for which the forecasted transactions had not yet affected earnings (net of amounts previously reclassified to earnings through each year-end) was an after-tax loss of approximately \$3.7 billion and \$4.1 billion, respectively. These amounts relate to net deferred losses on closed cash flow hedges. In addition, due to our establishment of a partial valuation allowance for our net deferred tax assets during 2008, net deferred losses of \$472 million on our cash flow hedges closed during 2008 were not adjusted for tax effects in our AOCI balance. The majority of all closed cash flow hedges relate to hedging the variability of cash flows from forecasted issuances of debt. Fluctuations in prevailing market interest rates have no impact on the deferred portion of AOCI, net of taxes, relating to closed cash flow hedges. The deferred amounts related to closed cash flow hedges will be recognized into earnings as the hedged forecasted transactions affect earnings, unless it becomes probable that the forecasted transactions will not occur. If it is probable that the forecasted transactions will not occur, then the deferred amount associated with the forecasted transactions will be recognized immediately in earnings.

At December 31, 2008, over 70% and 90% of the \$3.7 billion net deferred losses in AOCI, net of taxes, relating to closed cash flow hedges were linked to forecasted transactions occurring in the next 5 and 10 years, respectively. Over the next 10 years, the forecasted debt issuance needs associated with these hedges range from approximately \$15.8 billion to \$92.4 billion in any one quarter, with an average of \$50.1 billion per quarter.

Table 16 presents the scheduled amortization of the net deferred losses in AOCI at December 31, 2008 related to closed cash flow hedges. The scheduled amortization is based on a number of assumptions. Actual amortization will differ from the scheduled amortization, perhaps materially, as we make decisions on debt funding levels or as changes in market conditions occur that differ from these assumptions. For example, for the scheduled amortization for cash flow hedges related to future debt issuances, we assume that we will not repurchase the related debt and that no other factors affecting debt issuance probabilities will change.

Table 16 Scheduled Amortization into Earnings of Net Deferred Losses in AOCI Related to Closed Cash Flow Hedge Relationships**December 31, 2008**

Period of Scheduled Amortization into Earnings	Amount (Pre-tax)	Amount (After-tax)
	(in millions)	
2009	\$ (1,166)	\$ (774)
2010	(999)	(666)
2011	(769)	(517)
2012	(610)	(413)
2013	(455)	(312)
2014 to 2018	(1,016)	(738)
Thereafter	(398)	(258)
Total net deferred losses in AOCI related to closed cash flow hedge relationships	\$ (5,413)	\$ (3,678)

Derivative Gains (Losses)

Table 17 provides a summary of the notional or contractual amounts of, and the gains and losses related to, derivatives that were not accounted for in hedge accounting relationships. Derivative gains (losses) represents the change in fair value of derivatives not accounted for in hedge accounting relationships because the derivatives did not qualify for, or we did not elect to pursue, hedge accounting, resulting in fair value changes being recorded to earnings. Derivative gains (losses) also

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includes the accrual of periodic settlements for derivatives that are not in hedge accounting relationships. Although derivatives are an important aspect of our management of interest-rate risk, they generally increase the volatility of reported net income (loss), particularly when they are not accounted for in hedge accounting relationships.

Table 17 Derivatives Not in Hedge Accounting Relationships

	Year Ended December 31,					
	2008		2007		2006	
	Notional or Contractual Amount	Derivative Gains (Losses)	Notional or Contractual Amount (in millions)	Derivative Gains (Losses)	Notional or Contractual Amount	Derivative Gains (Losses)
Call swaptions						
Purchased	\$ 177,922	\$ 17,242	\$ 259,272	\$ 2,472	\$ 194,200	\$ (1,128)
Written		14	1,900	(121)		
Put swaptions						
Purchased	41,550	(1,095)	18,725	(4)	29,725	(100)
Written	6,000	156	2,650	(72)		
Receive-fixed swaps						
Foreign-currency denominated	12,924	489	18,321	(335)	26,804	(254)
U.S. dollar denominated	266,685	29,732	283,328	4,240	195,827	(36)
Total receive-fixed swaps	279,609	30,221	301,649	3,905	222,631	(290)
Pay-fixed swaps	404,359	(58,295)	409,682	(11,362)	217,565	649
Futures	128,698	(2,074)	196,270	142	22,400	(248)
Foreign-currency swaps ⁽¹⁾	12,924	(584)	20,118	2,341	29,234	(92)
Forward purchase and sale commitments	108,273	(112)	72,662	445	9,942	(95)
Other ⁽²⁾	167,685	868	39,953	18	32,342	39
Subtotal	1,327,020	(13,659)	1,322,881	(2,236)	758,039	(1,265)
Accrual of periodic settlements:						
Receive-fixed swaps ⁽³⁾		1,928		(327)		(418)
Pay-fixed swaps		(3,482)		703		541
Foreign-currency swaps		319		(48)		(34)
Other		(60)		4		3
Total accrual of periodic settlements		(1,295)		332		92
Total	\$ 1,327,020	\$ (14,954)	\$ 1,322,881	\$ (1,904)	\$ 758,039	\$ (1,173)

(1) Foreign-currency swaps are defined as swaps in which the net settlement is based on one leg calculated in a foreign-currency and the other leg calculated in U.S. dollars.

(2) Consists of basis swaps, certain option-based contracts (including written options), interest-rate caps, swap guarantee derivatives and credit derivatives. Includes \$27 million loss related to the Lehman bankruptcy for the

year ended December 31, 2008. For additional information, see CREDIT RISKS Institutional Credit Risk *Derivative Counterparty Credit Risk*.

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

We use receive- and pay-fixed swaps to adjust the interest rate characteristics of our debt funding in order to more closely match changes in the interest-rate characteristics of our mortgage assets. A receive-fixed swap results in our receipt of a fixed interest-rate payment from our counterparty in exchange for a variable-rate payment to our counterparty. Conversely, a pay-fixed swap requires us to make a fixed interest-rate payment to our counterparty in exchange for a variable-rate payment from our counterparty. Receive-fixed swaps increase in value and pay-fixed swaps decrease in value when interest rates decrease (with the opposite being true when interest rates increase).

We use swaptions and other option-based derivatives to adjust the characteristics of our debt in response to changes in the expected lives of mortgage-related assets in our mortgage-related investments portfolio. Purchased call and put swaptions, where we make premium payments, are options for us to enter into receive- and pay-fixed swaps, respectively. Conversely, written call and put swaptions, where we receive premium payments, are options for our counterparty to enter into receive- and pay-fixed swaps, respectively. The fair values of both purchased and written call and put swaptions are sensitive to changes in interest rates and are also driven by the market's expectation of potential changes in future interest rates (referred to as implied volatility). Purchased swaptions generally become more valuable as implied volatility increases and less valuable as implied volatility decreases. Recognized losses on purchased options in any given period are limited to the premium paid to purchase the option plus any unrealized gains previously recorded. Potential losses on written options are unlimited.

We also use derivatives to synthetically create the substantive economic equivalent of various debt funding structures. For example, the combination of a series of short-term debt issuances over a defined period and a pay-fixed swap with the same maturity as the last debt issuance is the substantive economic equivalent of a long-term fixed-rate debt instrument of comparable maturity. Similarly, the combination of non-callable debt and a call swaption with the same maturity as the non-callable debt, is the substantive economic equivalent of callable debt. However, the use of these derivatives exposes us to additional counterparty credit risk.

During 2008, we recognized a significantly larger derivative loss than we recognized for 2007 primarily because swap interest rates declined significantly in 2008 resulting in a loss of \$58.3 billion on our pay-fixed swap positions, partially

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offset by gains of \$30.2 billion on our receive-fixed swaps. Additionally, the decrease in forward swap interest rates during 2008, combined with an increase in implied volatility, resulted in a gain of \$17.2 billion related to our purchased call swaptions. In 2008, we responded to the declining availability of longer-term debt by maintaining our pay-fixed swap position even though rates decreased. This resulted in a loss on our pay-fixed swap position, while the economically hedged short-term debt did not have an offsetting gain in our current period statement of operations. For a further discussion related to our debt issuances see **LIQUIDITY AND CAPITAL RESOURCES** *Liquidity Debt Securities*.

During 2007, overall decreases in interest rates across the swap yield curve resulted in fair value losses on our interest-rate swap derivative portfolio that were partially offset by fair value gains on our option-based derivative portfolio. Gains on our option-based derivative portfolio resulted from an overall increase in implied volatility and decreasing interest rates. The overall decline in interest rates resulted in a loss of \$11.4 billion on our pay-fixed swaps that was only partially offset by a \$3.9 billion gain on our receive-fixed swap position. Gains on option-based derivatives, particularly purchased call swaptions, increased in 2007 to \$2.3 billion. We recognized a gain of \$2.3 billion on our foreign-currency swaps as the Euro continued to strengthen against the dollar. The gains on foreign-currency swaps offset a \$2.3 billion loss on the translation of our foreign-currency denominated debt, which is recorded in foreign-currency gains (losses), net.

During 2006, fair value losses on our swaptions increased as implied volatility declined and both long-term and short-term swap interest rates increased. During 2006, fair value changes of our pay-fixed and receive-fixed swaps were driven by increases in long-term swap interest rates.

Effective January 1, 2008, we elected the fair value option for our foreign-currency denominated debt. As a result of this election, foreign-currency translation gains and losses and fair value adjustments related to our foreign-currency denominated debt are recognized on our consolidated statements of operations as gains (losses) on foreign-currency denominated debt recorded at fair value. Prior to January 1, 2008, translation gains and losses on our foreign-currency denominated debt were recorded in foreign-currency gains (losses), net and the non-currency related changes in fair value were not recognized. We use a combination of foreign-currency swaps and foreign-currency denominated receive-fixed swaps to hedge the changes in fair value of our foreign-currency denominated debt related to fluctuations in exchange rates and interest rates, respectively. For 2008, we recognized fair value gains of \$406 million on our foreign-currency denominated debt, made up of \$710 million in translation gains offset by \$(304) million related to interest-rate and instrument-specific credit risk adjustments. Derivative gains (losses) on foreign-currency swaps were \$(584) million, \$2.3 billion and \$(92) million for 2008, 2007 and 2006, respectively. These amounts were offset by fair value gains (losses) related to translation of \$710 million, \$(2.3) billion and \$96 million for 2008, 2007 and 2006, respectively, on our foreign-currency denominated debt. In addition, the derivative gains of \$489 million for 2008 on foreign-currency denominated receive-fixed swaps largely offset interest-rate and instrument-specific credit risk adjustments included in gains (losses) on foreign-currency denominated debt recorded at fair value of \$(304) million for 2008. For a discussion related to the instrument-specific credit risk on our foreign-currency denominated debt see **NOTE 17: FAIR VALUE DISCLOSURES** *Fair Value Election Foreign-Currency Denominated Debt with the Fair Value Option Elected* to our consolidated financial statements. Prior to our election of the fair value option on our foreign-currency denominated debt, the fair value changes attributable to interest rates of the derivative gains (losses) of \$(335) million and \$(254) million for 2007 and 2006, respectively, on foreign-currency denominated receive-fixed swaps were not offset within our consolidated statements of operations. See *Gains (Losses) on Foreign-Currency Denominated Debt Recorded at Fair Value* and **NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** to our consolidated financial statements for additional information about our election to adopt the fair value option for foreign-currency denominated debt.

Gains (Losses) on Investment Activity

Gains (losses) on investment activity includes gains and losses on certain assets where changes in fair value are recognized through earnings, gains and losses related to sales, impairments and other valuation adjustments. Table 18 summarizes the components of gains (losses) on investment activity.

Table of Contents**Table 18 Gains (Losses) on Investment Activity**

	Year Ended December 31,		
	2008	2007	2006
	(in millions)		
Gains (losses) on trading securities ⁽¹⁾⁽²⁾	\$ 955	\$ 506	\$ (106)
Gains on sale of mortgage loans ⁽³⁾	117	14	90
Gains (losses) on sale of available-for-sale securities	546	232	(140)
Impairments on available-for-sale securities ⁽²⁾	(17,682)	(365)	(297)
Lower-of-cost-or-fair-value adjustments	(30)	(93)	(20)
Gains (losses) on mortgage loans elected at fair value	(14)		
Total gains (losses) on investment activity	\$ (16,108)	\$ 294	\$ (473)

(1) Includes mark-to-fair value adjustments recorded in accordance with Emerging Issues Task Force, or EITF, 99-20, *Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests That Continue to Be Held by a Transferor in Securitized Financial Assets* on securities classified as trading of \$(2.2) billion, \$(34) million and \$(107) million for 2008, 2007 and 2006, respectively.

(2) Prior period amounts have been revised to conform to the current year presentation.

(3) Represents gains on mortgage loans sold in connection with securitization transactions.

Gains (Losses) on Trading Securities

We recognized net gains on trading securities of \$955 million for 2008, as compared to net gains of \$506 million for 2007. On January 1, 2008, we implemented fair value option accounting pursuant to our adoption of SFAS 159 and transferred approximately \$87 billion in securities, primarily ARMs and fixed-rate PCs, from available-for-sale securities to trading securities, which significantly increased the balance of our securities classified as trading. The unpaid principal balance of our securities classified as trading was approximately \$184 billion at December 31, 2008 compared to approximately \$12 billion at December 31, 2007 as we increased our purchases of agency mortgage-related securities classified as trading during 2008. The increased balance in our trading portfolio when compared to the balance at December 31, 2007, combined with lower interest rates, contributed to the gains of \$3.2 billion on these trading securities for 2008. Partially offsetting these gains were mark-to-fair value adjustments of \$(2.2) billion recorded during 2008 in accordance with EITF 99-20 on interest-only securities classified as trading principally as a result of declining interest rates during the fourth quarter. In addition, during 2008, we sold agency securities classified as trading with unpaid principal balances of \$95 billion, which generated realized losses of \$481 million. We realized the majority of these losses on sales that occurred prior to our entry into conservatorship during the third quarter of 2008 in an effort to meet the mandatory target capital surplus requirement then in effect.

In 2007, the overall decrease in long-term interest rates resulted in gains related to our agency securities classified as trading.

In 2006, the increase in long-term interest rates resulted in gains related to our interest-only mortgage related securities classified as trading. These gains were more than offset by losses on other mortgage-related securities classified as trading as a result of the rise in interest rates.

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

Net gains on the sale of available-for-sale securities increased for 2008, as compared to 2007. During 2008, we entered into structured transactions and sales of seasoned securities with unpaid principal balances of \$36 billion, primarily consisting of agency mortgage-related securities, which generated a net gain of \$546 million. These sales occurred principally during the first quarter and prior to our entry into conservatorship during the third quarter of 2008, when market conditions were favorable and we sold assets in an effort to meet the mandatory target capital surplus requirement then in effect. We were not required to sell these securities.

We realized net gains on the sale of available-for-sale securities of \$232 million for 2007, compared to net losses of \$140 million for 2006. During the fourth quarter of 2007, we sold approximately \$27.2 billion of PCs and Structured Securities, classified as available-for-sale, for capital management purposes. These sales generated gross gains of approximately \$216 million and gross losses of \$30 million included in gains (losses) on sale of available-for-sale securities. The securities sold at a loss had an unpaid principal balance of \$6 billion. These sales were part of a broader set of strategic management decisions made in the fourth quarter of 2007 to help maintain our minimum capital requirements in the face of the unanticipated extraordinary market conditions that existed in the latter half of 2007. In an effort to improve our capital position in light of these conditions, we strategically selected blocks of securities to sell, the majority of which were in a gain position.

In 2006, losses on sales of available-for-sale securities were primarily driven by resecuritization activity, partially offset by net gains of \$188 million related to the sale of certain commercial mortgage-backed securities, or CMBS, as discussed below.

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Impairments on Available-For-Sale Securities

During 2008 and 2007, we recorded other-than-temporary impairments related to investments in available-for-sale securities of \$17.7 billion and \$365 million, respectively. Of the other-than-temporary impairments recognized during 2008, \$16.6 billion related primarily to non-agency securities backed by subprime, Alt-A and other loans and MTA loans. See CONSOLIDATED BALANCE SHEETS ANALYSIS Mortgage-Related Investments Portfolio *Other-Than-Temporary Impairments* for additional information regarding the other-than-temporary impairments on mortgage-related securities in 2008. The remaining \$1.1 billion related to other-than-temporary impairments of our available-for-sale non-mortgage-related securities during 2008 where we did not have the intent to hold to a forecasted recovery. The decision to impair these securities is consistent with our consideration of securities in the cash and other investments portfolio as a contingent source of liquidity.

Security impairments in 2007 were primarily related to other-than-temporary impairments recognized during the second quarter of 2007 on agency securities that we sold in the third quarter of 2007 and thus did not have the intent to hold until the loss would be recovered.

For 2006, other-than-temporary security impairments included \$236 million of interest-rate related impairments related to mortgage-related securities where we did not have the intent to hold the security until the loss would be recovered. Other-than-temporary security impairments during 2006 also included \$61 million related to certain CMBSs backed by cash flows from mixed pools of multifamily and non-residential commercial mortgages which were sold. HUD had determined that these mixed-pool investments were not authorized under our charter and FHFA subsequently directed us to divest these investments.

Gains (Losses) on Foreign-Currency Denominated Debt Recorded at Fair Value

We elected the fair value option for our foreign-currency denominated debt effective January 1, 2008 in connection with our adoption of SFAS 159. Accordingly, foreign-currency exposure is now a component of gains (losses) on foreign-currency denominated debt recorded at fair value. Prior to that date, translation gains and losses on our foreign-currency denominated debt were reported in foreign-currency gains (losses), net in our consolidated statements of operations. We manage the foreign-currency exposure associated with our foreign-currency denominated debt through the use of derivatives. For 2008, we recognized fair value gains of \$406 million on our foreign-currency denominated debt primarily due to the U.S. dollar strengthening relative to the Euro, partially offset by a decline in interest rates. See *Derivative Gains (Losses)* for additional information about how we mitigate changes in the fair value of our foreign-currency denominated debt by using derivatives. See *Foreign-Currency Gains (Losses), Net* and NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES to our consolidated financial statements for additional information about our adoption of SFAS 159.

Gains (Losses) on Debt Retirement

We repurchase or call our outstanding debt securities from time to time to help support the liquidity and predictability of the market for our debt securities and to manage the mix of liabilities funding our assets. When we repurchase or call outstanding debt securities, we recognize a gain or loss related to the difference between the amount paid to redeem the debt security and the carrying value, including any remaining unamortized deferred items (e.g., premiums, discounts, issuance costs and hedging-related basis adjustments), in earnings in the period of extinguishment as a component of gains (losses) on debt retirement.

Contemporaneous transfers of cash between us and a creditor in connection with the issuance of a new debt security and satisfaction of an existing debt security are accounted for as either an extinguishment of the existing debt security or a modification, or debt exchange, of an existing debt security. If the debt securities have substantially different

terms, the transaction is accounted for as an extinguishment of the existing debt security with recognition of any gains or losses in earnings in gains (losses) on debt retirement, the issuance of a new debt security is recorded at fair value, fees paid to the creditor are expensed, and fees paid to third parties are deferred and amortized into interest expense over the life of the new debt obligation using the effective interest method. If the terms of the existing debt security and the new debt security are not substantially different, the transaction is accounted for as a debt exchange, fees paid to the creditor are deferred and amortized over the life of the modified debt security using the effective interest method, and fees paid to third parties are expensed as incurred. In a debt exchange, the following are each considered to be a basis adjustment on the new debt security and are amortized as an adjustment of interest expense over the remaining term of the new debt security: (a) the fees associated with the new debt security and any existing unamortized premium or discount; (b) concession fees; and (c) hedge gains and losses on the existing debt security.

Gains (losses) on debt retirement were \$209 million, \$345 million and \$466 million during 2008, 2007 and 2006, respectively. During 2008, we recognized gains due to the increased level of call activity, primarily involving our debt with coupon levels that increase at pre-determined intervals, which led to gains upon retirement and write-offs of previously recorded interest expense.

Table of Contents***Recoveries on Loans Impaired upon Purchase***

Recoveries on loans impaired upon purchase represent the recapture into income of previously recognized losses on loans purchased and provision for credit losses associated with purchases of delinquent loans from our PCs and Structured Securities in conjunction with our guarantee activities. Recoveries occur when a non-performing loan is repaid in full or when at the time of foreclosure the estimated fair value of the acquired property, less costs to sell, exceeds the carrying value of the loan. For impaired loans where the borrower has made required payments that return the loan to less than 90 days delinquent, the recovery amounts are instead recognized as interest income over time as periodic payments are received. The amount of impaired loans purchased into our mortgage-related investments portfolio increased significantly during 2007. However, since December 2007, when we changed our practice for optional purchases of delinquent loans, the increase in the carrying balances of these loans has slowed. See **CREDIT RISKS** Mortgage Credit Risk *Loans Purchased Under Financial Guarantees* for more information. During 2008 and 2007 we recognized recoveries on loans impaired upon purchase of \$495 million and \$505 million, respectively. Recoveries on impaired loans decreased in 2008 compared to 2007 because in 2008 a greater percentage of loans purchased from PC pools were modified instead of being repaid in full or proceeding to foreclosure. Modifications on delinquent loans can delay the ultimate resolution of losses and consequently extend the timeframe for the recognition of our recoveries. In addition, the amount of our average recoveries per property on impaired loans began to decline during the second half of 2008 due to declining home prices. Our temporary suspension of foreclosures on occupied homes that began during the fourth quarter of 2008 also may cause temporary declines in our recoveries in the first half of 2009.

Foreign-Currency Gains (Losses), Net

We manage the foreign-currency exposure associated with our foreign-currency denominated debt through the use of derivatives. We elected the fair value option for foreign-currency denominated debt effective January 1, 2008. Prior to this election, gains and losses associated with the foreign-currency exposure of our foreign-currency denominated debt were recorded as foreign-currency gains (losses), net in our consolidated statements of operations. With the adoption of SFAS 159, foreign-currency exposure is now a component of gains (losses) on foreign-currency denominated debt recorded at fair value. Because the fair value option is prospective, prior period amounts have not been reclassified. See *Derivative Gains (Losses)* and *Gains (Losses) on Foreign-Currency Denominated Debt Recorded at Fair Value* and **NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** to our consolidated financial statements for additional information.

For 2007, we recognized net foreign-currency translation losses primarily related to our foreign-currency denominated debt of \$2.3 billion as the U.S. dollar weakened relative to the Euro during the period. During the same period, these losses were offset by an increase of \$2.3 billion in the fair value of foreign-currency-related derivatives recorded in derivative gains (losses).

Other Income

Other income primarily consists of resecuritization fees, trust management income, net hedging gains and losses, fees associated with servicing and technology-related programs, various fees related to multifamily loans (including application and other fees) and various other fees received from mortgage originators and servicers. Other income decreased in 2008 compared to 2007 as a result of lower trust management income, lower resecuritization fees resulting from a decline in REMIC volumes and, to a lesser extent, the losses in 2008 associated with the ineffective portion of cash flow hedge transactions. Other income increased in 2007 compared to 2006 due to trust management income that was related to the establishment of securitization trusts in December 2007 for the underlying assets of our PCs and Structured Securities. Prior to December 2007, these amounts were presented as due to PC investors, a component of net interest income. Trust management income (expense) was \$(71) million, \$18 million and \$ million

in 2008, 2007 and 2006, respectively. Resecuritization activity has declined during 2008 and 2007 and to remain competitive we have reduced or eliminated fees for certain transaction types. For 2008, 2007, and 2006, we recognized resecuritization fees of \$44 million, \$85 million and \$95 million, respectively, at the time of issuance. Trust management income represents the fees we earn as master servicer, issuer, administrator, and trustee for our PCs and Structured Securities, net of related expenses. These fees are derived from interest earned on principal and interest cash flows between the time they are remitted to the trust by servicers and the date of distribution to our PC and Structured Securities holders, offset by interest expense we incur when a borrower prepays or when a loan is purchased from a pool.

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Table 19 summarizes the components of non-interest expense.

Table 19 Non-Interest Expense

	Year Ended December 31,		
	2008	2007	2006
	(in millions)		
Administrative expenses:			
Salaries and employee benefits	\$ 828	\$ 828	\$ 784
Professional services	262	392	399
Occupancy expense	67	64	61
Other administrative expenses	348	390	397
Total administrative expenses	1,505	1,674	1,641
Provision for credit losses	16,432	2,854	296
REO operations expense	1,097	206	60
Losses on certain credit guarantees	17	1,988	406
Losses on loans purchased	1,634	1,865	148
Securities administrator loss on investment activity	1,082		
Minority interests in (earnings) loss of consolidated subsidiaries	8	(8)	58
Other expenses	415	222	200
Total non-interest expense	\$ 22,190	\$ 8,801	\$ 2,809

Administrative Expenses

Salaries and employee benefits expenses for 2008 reflect reductions in short-term performance compensation and reductions in employee headcount that were offset by higher employee retention and severance compensation costs. Professional services expense decreased in 2008 compared to 2007 as we continued to decrease our reliance on consultants and relied more heavily on our employee base to complete certain financial initiatives and our control remediation activities. Overall, administrative expenses declined in 2008 as compared to 2007 as we implemented these and other cost reduction measures.

Provision for Credit Losses

Our reserves for mortgage loan and guarantee losses reflects our best projection of defaults we believe are likely as a result of loss events that have occurred through December 31, 2008 and 2007, respectively. Our reserves also include the impact of our projections of the results of strategic loss mitigation initiatives, including a higher volume of loan modifications for troubled borrowers and projections of recoveries through repurchases by seller/servicers of defaulted loans due to failure to follow contractual underwriting requirements at the time of the loan origination.

Our reserve estimates also reflect our projections of defaults. However, the substantial deterioration in the national housing market, the uncertainty in other macroeconomic factors and the uncertainty of the effect of any current or future government actions to address the economic and housing crisis makes forecasting of default rates increasingly

imprecise. An inability to realize the benefits of our loss mitigation plans, a lower realized rate of seller/servicer repurchases or default rates that exceed our current projections will cause our losses to be significantly higher than those currently estimated.

The provision for credit losses increased significantly in 2008 compared to 2007, as continued weakening in the housing market and a rapid rise in unemployment affected our single-family mortgage portfolio. For more information regarding how we derive our estimate for the provision for credit losses, see **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**. In 2008, and to a lesser extent in 2007, we recorded additional reserves for credit losses on loans within our mortgage-related investments portfolio and mortgages underlying our PCs, Structured Securities and other financial guarantees as a result of:

increased estimates of incurred losses on both multifamily and single-family mortgage loans that are expected to experience higher default rates. Our estimates of incurred losses are higher for single-family loans we purchased or guaranteed in certain years, particularly those we purchased during 2006, 2007 and to a lesser extent 2005 and 2008. Continued deterioration of macroeconomic factors, such as decreases in home prices and home sales during 2008 have negatively impacted our estimates of the severity of loss on a per-property basis. Our estimates of incurred loss have also increased, especially for certain product-types, such as Alt-A and interest-only mortgage products and for loans on properties in certain states, such as California, Florida, Nevada and Arizona;

an observed increase in delinquency rates and the percentage of single-family loans that transition from delinquency to foreclosure, with more significant increases concentrated in certain regions of the U.S. and for loans with second lien, third-party financing. For example, as of both December 31, 2008 and 2007, single-family mortgage loans in the state of Florida comprised approximately 7% of our single-family mortgage portfolio; however, the loans in this state made up approximately 21% and 15%, respectively, of the total delinquent loans in our single-family mortgage portfolio, based on unpaid principal balances. Similarly, as of both December 31, 2008 and 2007, approximately 14% of loans in our single-family mortgage portfolio had second lien, third-party financing at origination; however, we

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estimate as of December 31, 2008, that these loans comprise more than 25% of our delinquent loans, based on unpaid principal balances;

increases in the average loss per loan, or severity as compared to the prior year. During 2008, there was a significant increase in the average size of delinquent loans, primarily attributed to the increasing percentage of these loans in the West region, which comprised approximately 32% and 23% of our total delinquent loans in the single-family mortgage portfolio as of December 31, 2008 and 2007, respectively; and

to a lesser extent, increases in counterparty exposure related to our estimates of recoveries through repurchases by seller/servicers of defaulted loans due to failure to follow contractual underwriting requirements at origination and under separate recourse agreements. During 2008, several of our seller/servicers were acquired by the FDIC, declared bankruptcy or merged with other institutions. These and other events increase our counterparty exposure, or the likelihood that we may bear the risk of mortgage credit losses without the benefit of recourse to our counterparty. See **CREDIT RISKS** Institutional Credit Risk for additional information.

We expect our provisions for credit losses to remain high in 2009. The likelihood that our credit losses will remain high beyond 2009 will depend on a number of factors, including changes in property values, regional economic conditions, the success of our loan modification and other loss mitigation efforts, third-party mortgage insurance coverage and recoveries and the realized rate of seller/servicer repurchases. See Table 6 Credit Statistics, Single-Family Mortgage Portfolio for a presentation of the quarterly trend in the deterioration of our credit statistics, including REO disposition severity. We may further increase our single-family loan loss reserves in future periods if home prices decline further than our expectations or our loss severity estimates increase.

REO Operations Expense

The increase in REO operations expense in 2008, as compared to 2007, was primarily due to a significant increase in our REO property inventory in 2008 and declining single-family REO property values. The decline in home prices during 2008 and 2007, combined with our higher REO inventory balances, resulted in increased market-based write-downs of REO, which totaled \$495 million, \$129 million and \$5 million in 2008, 2007 and 2006, respectively. We expect REO operations expense to increase during 2009, if our single-family REO volume continues to rise and home prices continue to decline. Our temporary suspension of foreclosures on occupied homes from November 26, 2008 through January 31, 2009 (subsequently extended from February 14, 2009 through March 6, 2009), reduced the growth of REO acquisitions and inventory in December 2008. However, the expiration of this suspension will likely result in increased acquisitions of REO properties in 2009. Beginning March 7, 2009, we will suspend foreclosure sales for those loans that are eligible for modification under the HASP until our servicers determine that the borrower of such a loan is not responsive or that the loan does not qualify for a modification under HASP or any of our other alternatives to foreclosure.

Losses on Certain Credit Guarantees

Losses on certain credit guarantees consist of losses recognized upon the issuance of certain PCs in guarantor swap transactions. Prior to January 1, 2008, our recognition of losses on certain guarantee contracts occurred due to any one or a combination of several factors, including long-term contract pricing for our flow business, the difference in overall transaction pricing versus pool-level accounting measurements and, less significantly, efforts to support our affordable housing mission. Upon adoption of SFAS 157, our losses on certain credit guarantees in subsequent periods, if any, will generally relate to our efforts to meet our affordable housing goals.

Effective January 1, 2008, upon the adoption of SFAS 157, which amended FIN 45, we estimate the fair value of our newly issued guarantee obligations as an amount equal to the fair value of compensation received, inclusive of all

rights related to the transaction, in exchange for our guarantee. As a result, we no longer record estimates of deferred gains or immediate day one losses on most guarantees. This change had a significant positive impact on our financial results during 2008.

In 2008, 2007 and 2006 we recognized losses of \$17 million, \$2.0 billion and \$406 million, respectively, on certain guarantor transactions entered into during those periods. The decline in losses on certain guarantees in 2008 as compared to 2007 was due to the adoption of SFAS 157, discussed above. Increased losses on certain credit guarantees during 2007 as compared to 2006, reflect expectations of higher defaults and severity in the credit market in 2007 which were not fully offset by increases in guarantee and delivery fees due to competitive pressures and contractual fee arrangements.

Losses on Loans Purchased

Losses on delinquent and modified loans purchased from the mortgage pools underlying our PCs and Structured Securities occur when the acquisition basis of the purchased loan exceeds the estimated fair value of the loan on the date of purchase. Effective December 2007, we made certain operational changes for purchasing delinquent loans from PC pools, which significantly reduced the volume of our delinquent loan purchases and consequently the amount of our losses on loans purchased during 2008. Operationally, we no longer automatically purchase loans from PC pools once they become 120 days

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delinquent, but rather we purchase loans from pools (a) when the loans are modified, (b) when foreclosure sales occur, (c) when the loans have been delinquent for 24 months, or (d) when the loans are 120 days or more delinquent and when the cost of guarantee payments to PC holders, including advances of interest at the PC coupon, exceeds the expected cost of holding the non-performing mortgage in our mortgage-related investments portfolio.

Our operational changes for purchasing delinquent loans from PC pools did not impact our process or timing of modifying the loans, and thus, have had no effect on the existing loss mitigation alternatives that are available to us or our servicers. This change in practice does not have an impact on our credit losses, as measured by the amount of charge-offs, nor on the cure rates of modified loans. However, when viewed in isolation, this change in practice results in a higher provision for credit losses associated with our PCs and Structured Securities and a reduction in our losses on loans purchased.

Losses on loans purchased decreased from \$1.9 billion in 2007 to \$1.6 billion in 2008 due to the decline in the volume of our purchases resulting from the operational changes discussed above. Although the volume of our purchases of delinquent loans declined, the number of loans purchased due to modification increased, particularly in the second half of 2008. The implementation of our Streamlined Modification Program beginning in late 2008 and the HASP in 2009 may result in an increased volume of purchases of loans modified with concessions to the borrower and for which we may recognize significant losses on loans purchased. The reduction in losses due to the decline in volume of our purchases during 2008 was significantly offset by decreases in the fair values of impaired and delinquent loans, which caused higher losses on a per-loan basis. The fair values of impaired and delinquent loans are based on market pricing, which declined throughout 2008, with the most severe declines occurring during the fourth quarter. We expect to recover a portion of these losses over time since the market-based valuations imply losses that are higher than our historical experience. See *Recoveries on Loans Impaired upon Purchase* for discussion of recoveries on those previously purchased loans.

Losses on loans purchased increased from \$148 million in 2006 to \$1.9 billion in 2007 due to the combination of higher volumes of our impaired and delinquent loan purchases during 2007 as compared to 2006 as well as declines in fair values for these loans.

The total number of loans we purchase from PC pools is dependent on a number of factors, including management decisions about the timing of repurchases, the expected increase in loan delinquencies within our PC pools resulting from the current adverse conditions in the housing market, our temporary suspension of foreclosures discussed above and directives from our Conservator, including our recently implemented Streamlined Modification Program and the recently announced HASP. The credit environment remains fluid, and the number of loans that we purchase from PC pools will continue to be affected by events and conditions that occur nationally and in regional markets, as well as changes in our business practices to respond to the current conditions.

Securities Administrator Loss on Investment Activity

In August 2008, acting as the security administrator for a trust that holds mortgage loan pools backing our PCs, we invested in \$1.2 billion of short-term, unsecured loans which we made to Lehman on the trust's behalf. We refer to these transactions as the Lehman short-term lending transactions. These transactions were due to mature on September 15, 2008; however, Lehman failed to repay these loans and the accrued interest. On September 15, 2008, Lehman filed a chapter 11 bankruptcy petition in the Bankruptcy Court for the Southern District of New York. To the extent there is a loss related to an eligible investment for the trust, we, as the administrator are responsible for making up that shortfall. During 2008, we recorded a \$1.1 billion loss to reduce the carrying amount of this asset to our estimate of the net realizable amount on these transactions. See *OFF-BALANCE SHEET ARRANGEMENTS* for further discussion.

Income Tax Expense (Benefit)

For 2008, 2007 and 2006, we reported income tax expense (benefit) of \$5.6 billion, \$(2.9) billion and \$(45) million, respectively, resulting in effective tax rates of (12)%, 48% and (2)%, respectively. The volatility in our effective tax rate over the past three years is primarily the result of fluctuations in pre-tax income. Our 2006 effective tax rate benefited from releases of tax reserves of \$174 million primarily as a result of a U.S. Tax Court decision and a separate settlement with the IRS. Included in income tax expense for 2008, is a non-cash charge of \$22.2 billion to establish a partial valuation allowance against our net deferred tax assets. See NOTE 14: INCOME TAXES to our consolidated financial statements for additional information.

Segment Earnings

Our business operations consist of three reportable segments, which are based on the type of business activities each performs Investments, Single-family Guarantee and Multifamily. The activities of our business segments are described in BUSINESS Our Business and Statutory Mission *Our Business Segments* and are subject to the direction of the Conservator, as discussed in BUSINESS Conservatorship and Related Developments *Managing Our Business During Conservatorship* . Certain activities that are not part of a segment are included in the All Other category; this category

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consists of certain unallocated corporate items, such as costs associated with remediating our internal controls and near-term restructuring costs, costs related to the resolution of certain legal matters and certain income tax items. We manage and evaluate performance of the segments and All Other using a Segment Earnings approach, subject to the conduct of our business under the direction of the Conservator. We expect our pursuit of public policy objectives at the direction of the Conservator will, in many cases, have a negative impact on the financial results of our segments.

In managing our business, we present the operating performance of our segments using Segment Earnings. Segment Earnings differs significantly from, and should not be used as a substitute for, net income (loss) as determined in accordance with GAAP. There are important limitations to using Segment Earnings as a measure of our financial performance. Among them, the need to obtain funding under the Purchase Agreement is based on our GAAP results, as are our regulatory capital requirements (which are suspended during conservatorship). Segment Earnings adjusts for the effects of certain gains and losses and mark-to-fair value items, which, depending on market circumstances, can significantly affect, positively or negatively, our GAAP results and which, in recent periods, have contributed to our significant GAAP net losses. GAAP net losses will adversely impact our GAAP stockholders' equity (deficit), as well as our need for funding under the Purchase Agreement, regardless of results reflected in Segment Earnings. Also, our definition of Segment Earnings may differ from similar measures used by other companies. However, we believe that the presentation of Segment Earnings highlights the results from ongoing operations and the underlying results of the segments in a manner that is useful to the way we manage and evaluate the performance of our business.

Segment Earnings presents our results on an accrual basis as the cash flows from our segments are earned over time. The objective of Segment Earnings is to present our results in a manner more consistent with our business models. The business model for our investment activity is one where we generally buy and hold our investments in mortgage-related assets for the long term, fund our investments with debt and use derivatives to minimize interest rate risk. The business model for our credit guarantee activity is one where we are a long-term guarantor in the conforming mortgage markets, manage credit risk and generate guarantee and credit fees, net of incurred credit losses. We believe it is meaningful to measure the performance of our investment and guarantee businesses using long-term returns, not short-term value. As a result of these business models, we believe that this accrual-based metric is a meaningful way to present our results as actual cash flows are realized, net of credit losses and impairments. We believe Segment Earnings provides us with a view of our financial results that is more consistent with our business objectives and helps us better evaluate the performance of our business, both from period-to-period and over the longer term.

Segment Earnings is calculated for the segments by adjusting GAAP net income (loss) for certain investment-related activities and credit guarantee-related activities. Segment Earnings includes certain reclassifications among income and expense categories that have no impact on net income (loss) but provide us with a meaningful metric to assess the performance of each segment and our company as a whole. We continue to assess the methodologies used for segment reporting and refinements may be made in future periods. See NOTE 16: SEGMENT REPORTING to our consolidated financial statements for further information regarding our segments and the adjustments and reclassifications used to calculate Segment Earnings, as well as the management reporting and allocation process used to generate our segment results.

Segment Earnings Results**Investments**

Our Investments business is responsible for investment activity in mortgages and mortgage-related securities, other investments, debt financing, and managing our interest rate risk, liquidity and capital positions. We invest principally in mortgage-related securities and single-family mortgages through our mortgage-related investments portfolio.

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Table 20 presents the Segment Earnings of our Investments segment.

Table 20 Segment Earnings and Key Metrics Investments

	Year Ended December 31,		
	2008	2007	2006
	(in millions)		
Segment Earnings:			
Net interest income	\$ 4,079	\$ 3,626	\$ 3,736
Non-interest income (loss)	(4,304)	40	38
Non-interest expense:			
Administrative expenses	(473)	(515)	(495)
Other non-interest expense	(1,111)	(31)	(31)
Total non-interest expense	(1,584)	(546)	(526)
Segment Earnings (loss) before income tax (expense) benefit	(1,809)	3,120	3,248
Income tax (expense) benefit	634	(1,092)	(1,137)
Segment Earnings (loss), net of taxes	(1,175)	2,028	2,111
Reconciliation to GAAP net income (loss):			
Derivative and foreign currency denominated debt-related adjustments	(13,207)	(5,658)	(2,374)
Credit guarantee-related adjustments		2	1
Investment sales, debt retirements and fair value-related adjustments	(10,448)	987	231
Fully taxable-equivalent adjustment	(419)	(388)	(388)
Tax-related adjustments ⁽¹⁾	(2,333)	2,026	1,139
Total reconciling items, net of taxes	(26,407)	(3,031)	(1,391)
GAAP net income (loss)	\$ (27,582)	\$ (1,003)	\$ 720
Key metrics Investments:			
<i>Growth:</i>			
Purchases of securities Mortgage-related investments portfolio ⁽²⁾⁽³⁾			
Guaranteed PCs and Structured Securities	\$ 219,156	\$ 141,059	\$ 103,524
Non-Freddie Mac mortgage-related securities:			
Agency mortgage-related securities	68,061	12,033	12,273
Non-agency mortgage-related securities	2,115	74,468	116,768
Total purchases of securities Mortgage-related investments portfolio	\$ 289,332	\$ 227,560	\$ 232,565
Growth rate of mortgage-related investments portfolio (annualized)	10.37%	0.68%	(1.57)%
<i>Return:</i>			
Net interest yield Segment Earnings basis	0.54%	0.51%	0.51%

(1) 2008 includes an allocation of the non-cash charge related to the establishment of the partial valuation allowance against our net deferred tax assets that are not included in Segment Earnings.

(2) Based on unpaid principal balance and excludes mortgage-related securities traded, but not yet settled.

(3) Excludes single-family mortgage loans.

Segment Earnings for our Investments segment decreased \$3.2 billion in 2008 compared to 2007. Segment Earnings for our Investments segment includes the recognition of security impairments during 2008 of \$4.3 billion that reflect expected credit-related losses on our non-agency mortgage-related securities compared to \$4 million of security impairments recognized during 2007. Security impairments that reflect expected or realized credit-related losses are realized immediately pursuant to GAAP and in Segment Earnings. In contrast, non-credit-related security impairments of \$13.4 billion are included in our GAAP results but are not included in Segment Earnings. Segment Earnings non-interest expense for 2008 includes a loss of \$1.1 billion related to the Lehman short-term lending transactions. Segment Earnings net interest income increased \$453 million and Segment Earnings net interest yield increased 3 basis points to 54 basis points for 2008 compared to 2007. The increases in Segment Earnings net interest income and Segment Earnings net interest yield were primarily due to purchases of fixed-rate assets at wider spreads relative to our funding costs, decreased funding costs due to the replacement of higher cost short- and long-term debt with lower cost debt issuances, and growth in the mortgage-related investments portfolio. Partially offsetting these increases in Segment Earnings net interest income and Segment Earnings net interest yield were the impact of declining rates on our floating rate assets as well as an increase in derivative interest carry expense on net pay-fixed swaps as a result of decreased interest rates and higher notional balances resulting from higher issuances of shorter-term debt. We use derivatives to synthetically create the substantive economic equivalent of various debt funding structures. For example, the combination of a series of short-term debt issuances over a defined period and a pay-fixed swap with the same maturity as the last debt issuance is the substantive economic equivalent of a long-term fixed-rate debt instrument of comparable maturity. However, the use of these derivatives exposes us to additional counterparty credit risk.

In 2008, the growth rate of our mortgage-related investments portfolio was 10.4% compared to 0.7% for 2007. The unpaid principal balance of our mortgage-related investments portfolio increased from \$663 billion at December 31, 2007 to \$732 billion at December 31, 2008. The overall increase in the unpaid principal balance of our mortgage-related investments portfolio was primarily due to more favorable investment opportunities for agency securities, due to liquidity concerns in the market, during 2008. The portfolio also grew in the second half of 2008 due to FHFA's directive that we acquire and hold

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increased amounts of mortgage loans and mortgage-related securities in our mortgage related investments portfolio to provide additional liquidity to the mortgage market.

Due to the substantial levels of volatility in the worldwide financial markets in 2008, our ability to access both the term and callable debt markets has been limited and we have relied increasingly on the issuance of shorter-term debt. Therefore, we are exposed to risks relating to both our ability to issue new debt when our outstanding debt matures and to the variability in interest costs on our new issuances of debt that directly impacts our Investments Segment earnings.

We held \$70.9 billion of non-Freddie Mac agency mortgage-related securities and \$197.9 billion of non-agency mortgage-related securities as of December 31, 2008 compared to \$47.8 billion of non-Freddie Mac agency mortgage-related securities and \$233.8 billion of non-agency mortgage-related securities as of December 31, 2007. The decline in the unpaid principal balance of non-agency mortgage-related securities is due to the receipt of monthly principal repayments on these securities. See **CONSOLIDATED BALANCE SHEETS ANALYSIS Mortgage-Related Investments Portfolio** for additional information regarding our mortgage-related securities.

The objectives set forth for us under our charter and conservatorship may negatively impact our Investments segment results over the long term. For example, the planned reduction in our mortgage-related investments portfolio balance to \$250 billion, through successive annual 10% declines commencing in 2010, will cause a corresponding reduction in our net interest income. This may cause our Investments segment results to decline. However, at the Conservator's direction, we increased the size of our mortgage-related investments portfolio to provide additional liquidity to the mortgage market, which has caused our Investments segment net interest income to increase.

Segment Earnings for our Investments segment declined slightly in 2007 compared to 2006. In 2007 and 2006, the growth rates of our mortgage-related investments portfolio were 0.7% and (1.6)%, respectively. In 2007, wider mortgage-to-debt OAS resulted in favorable investment opportunities, particularly in the second half of the year. In response to these market conditions, we increased our purchases of CMBS and agency mortgage-related securities. In November 2007, additional widening in OAS levels negatively impacted our GAAP results and lowered our overall capital position. Capital constraints forced us to reduce our balance of interest earning assets, issue \$6 billion of non-cumulative, perpetual preferred stock and reduce our common stock dividend by 50% in the fourth quarter of 2007. As a result, the unpaid principal balance of our mortgage-related investments portfolio increased only slightly from \$659 billion at December 31, 2006 to \$663 billion at December 31, 2007. In addition, we began managing our mortgage-related investments portfolio under a voluntary, temporary growth limit during the second half of 2006.

Our net interest yield remained unchanged for 2007 compared to 2006; however, our Investments segment net interest income declined. This decline was due, in part, to a decrease in the average balance of our Investments segment's mortgage-related investments portfolio. We also experienced higher funding costs as our long-term debt interest expense increased, reflecting the replacement of maturing debt that we issued at lower interest rates during the past few years with more expensive debt. Increases in our funding costs were offset by a decline in our mortgage-related securities amortization expense as purchases in 2007 largely consisted of securities purchased at a discount.

Single-Family Guarantee

In this segment, we guarantee the payment of principal and interest on single-family mortgage-related securities, including those held in our mortgage-related investments portfolio, in exchange for monthly management and guarantee fees and other up-front compensation. Earnings for this segment consist primarily of management and guarantee fee revenues less the related credit costs (*i.e.*, provision for credit losses) and operating expenses. Earnings for this segment also include the interest earned on assets held in the Investments segment related to single-family guarantee activities, net of allocated funding costs and amounts related to expected net float benefits.

Expected net float benefit consists of estimates of float, net of our cost of funding advances, and compensating interest. Float is the income earned from the temporary investment of cash payments received from loan servicers for borrower payments and prepayments in advance of the date that payments are due to PC holders. The cost of funding advances arises in situations where we are required to pay PC holders prior to receiving cash from the loan servicers. When a borrower prepays the loan balance, interest is only due up to the date of the prepayment; however, the holder of the PC is entitled to interest for the entire month. We make payments to the PC holders for this shortfall, which we refer to as compensating interest. We record our estimate of expected net float benefit in the Single-family Guarantee segment and the difference between expectations and actual results is reflected in Segment Earnings for our Investments Segment.

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Table 21 presents the Segment Earnings of our Single-family Guarantee segment.

Table 21 Segment Earnings and Key Metrics Single-Family Guarantee

	Year Ended December 31,		
	2008	2007	2006
	(in millions)		
Segment Earnings:			
Net interest income ⁽¹⁾	\$ 209	\$ 703	\$ 556
Non-interest income:			
Management and guarantee income	3,729	2,889	2,541
Other non-interest income ⁽¹⁾	385	117	159
Total non-interest income	4,114	3,006	2,700
Non-interest expense:			
Administrative expenses	(812)	(806)	(815)
Provision for credit losses	(16,657)	(3,014)	(313)
REO operations expense	(1,097)	(205)	(61)
Other non-interest expense	(92)	(78)	(84)
Total non-interest expense	(18,658)	(4,103)	(1,273)
Segment Earnings (loss) before income tax (expense) benefit	(14,335)	(394)	1,983
Income tax (expense) benefit	5,017	138	(694)
Segment Earnings (loss), net of taxes	(9,318)	(256)	1,289
Reconciliation to GAAP net income (loss):			
Credit guarantee-related adjustments	(3,936)	(3,270)	(205)
Tax-related adjustments ⁽²⁾	(9,059)	1,144	72
Total reconciling items, net of taxes	(12,995)	(2,126)	(133)
GAAP net income (loss)	\$ (22,313)	\$ (2,382)	\$ 1,156
Key metrics Single-family Guarantee:			
<i>Balances and Growth (in billions, except rate):</i>			
Average securitized balance of single-family credit guarantee portfolio ⁽³⁾	\$ 1,771	\$ 1,584	\$ 1,393
Issuance Single-family credit guarantees ⁽³⁾	\$ 353	\$ 467	\$ 358
Fixed-rate products Percentage of purchases ⁽⁴⁾	89%	83%	76%
Liquidation rate Single-family credit guarantees (annualized rate) ⁽⁵⁾	16%	14%	16%
<i>Credit:</i>			
Delinquency rate ⁽⁶⁾	1.72%	0.65%	0.42%
Delinquency transition rate ⁽⁷⁾	25.5%	15.9%	9.7%
REO inventory increase, net (number of units)	14,948	5,645	678
Single-family credit losses, in basis points (annualized)	20.9	3.1	1.4

Market:

Single-family mortgage debt outstanding (total U.S. market, in billions) ⁽⁸⁾	\$ 10,571	\$ 10,540	\$ 9,866
30-year fixed mortgage rate ⁽⁹⁾	5.1%	6.2%	6.2%

- (1) In connection with the use of securitization trusts for the underlying assets of our PCs and Structured Securities in December 2007, we began recording trust management income in non-interest income. Trust management income represents the fees we earn as master servicer, issuer, administrator, and trustee. Previously, the benefit derived from interest earned on principal and interest cash flows between the time they were remitted to us by servicers and the date of distribution to our PCs and Structured Securities holders was recorded to net interest income.
- (2) 2008 includes an allocation of the non-cash charge related to the establishment of the partial valuation allowance against our net deferred tax assets that are not included in Segment Earnings.
- (3) Based on unpaid principal balance.
- (4) Excludes fixed-rate Structured Securities backed by non-Freddie Mac issued mortgage-related securities.
- (5) Includes termination of long-term standby commitments.
- (6) Represents the percentage of single-family loans in our single-family credit guarantee portfolio, based on loan count, which are 90 days or more past due at period end and excluding loans underlying Structured Transactions. See **CREDIT RISKS Mortgage Credit Risk** for a description of our Structured Transactions.
- (7) Represents the percentage of loans that have been reported as 90 days or more delinquent, which subsequently transitioned to REO within 12 months of the date of delinquency. The rate does not reflect other loss events, such as short-sales and deed-in-lieu transactions. The rates presented represent the percentage that relates to the fourth quarter for each respective year.
- (8) U.S. single-family mortgage debt outstanding as of September 30, 2008 for 2008. Source: Federal Reserve Flow of Funds Accounts of the United States of America dated December 11, 2008.
- (9) Based on Freddie Mac's Primary Mortgage Market Survey, or PMMS. Represents the national average mortgage commitment rate to a qualified borrower exclusive of the fees and points required by the lender. This commitment rate applies only to conventional financing on conforming mortgages with LTV ratios of 80% or less.

Segment Earnings (loss) for our Single-family Guarantee segment declined to a loss of \$(9.3) billion in 2008 compared to a loss of \$(256) million for 2007. The decline reflects an increase in credit-related expenses due to higher delinquency rates, higher volumes of non-performing loans and foreclosures, higher severity of losses on a per-property basis and a decline in home prices and other regional economic conditions. The decline in Segment Earnings during 2008 was partially offset by an increase in Segment Earnings management and guarantee income as compared to 2007, which is primarily due to higher average balances of the single-family credit guarantee portfolio during 2008, an increase in the average fee rates shown in the table below and higher upfront fee amortization. Amortization of upfront fees increased as a result of cumulative catch-up adjustments recognized during 2008, which result in a pattern of revenue recognition that is more

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consistent with our economic release from risk and the timing of the recognition of losses on pools of mortgage loans we guarantee.

Table 22 below provides summary information about management and guarantee earnings for the Single-family Guarantee segment. Management and guarantee earnings consist of contractual amounts due to us related to our management and guarantee fees as well as amortization of upfront fees.

Table 22 Segment Management and Guarantee Earnings Single-Family Guarantee

	Year Ended December 31,					
	2008		2007		2006	
	Amount	Rate	Amount	Rate	Amount	Rate
	(dollars in millions, rates in basis points)					
Contractual management and guarantee fees	\$ 2,868	15.9	\$ 2,514	15.7	\$ 2,186	15.5
Amortization of credit fees included in other liabilities	861	4.8	375	2.3	355	2.5
Total Segment Earnings management and guarantee income	3,729	20.7	2,889	18.0	2,541	18.0
Adjustments to reconcile to consolidated GAAP:						
Reclassification between net interest income and guarantee fee ⁽¹⁾	200		29		(37)	
Credit guarantee-related activity adjustments ⁽²⁾	(633)		(342)		(172)	
Multifamily management and guarantee earnings ⁽³⁾	74		59		61	
Management and guarantee income, GAAP	\$ 3,370		\$ 2,635		\$ 2,393	

(1) Management and guarantee fees earned on mortgage loans held in our mortgage-related investments portfolio are reclassified from net interest income within the Investments segment to management and guarantee fees within the Single-family Guarantee segment. Buy-up and buy-down fees are transferred from the Single-family Guarantee segment to the Investments segment.

(2) Primarily represents credit fee amortization adjustments.

(3) Represents management and guarantee earnings recognized related to our Multifamily segment that is not included in our Single-family Guarantee segment.

In 2008 and 2007, the average balance of our single-family credit guarantee portfolio increased approximately 12% and 14%, respectively. Our single-family mortgage purchase and guarantee volumes are impacted by several factors, including origination volumes, mortgage product and underwriting trends, competition, customer-specific behavior and contract terms. Mortgage purchase volumes from individual customers can fluctuate significantly. Mortgage originators significantly tightened their credit standards during 2008 in response to market conditions, causing conforming, fixed-rate mortgages to be the predominant product during 2008. We also made significant changes to our underwriting standards in 2008 which we expect will reduce our credit risk exposure for new business. As a result, there has been a shift in the composition of our new issuances during 2008 to a greater proportion of higher-quality, fixed-rate mortgages and a reduction in our guarantee of interest-only and Alt-A mortgage loans. For example, Alt-A loans made up approximately 22% and 18% of our mortgage purchase volume during 2007 and 2006, respectively;

however, Alt-A loans made up approximately \$26 billion or 7% of our single-family mortgage purchase volume during 2008. In October 2008, we announced that, on and after March 1, 2009, we will no longer purchase mortgages originated in reliance on reduced documentation of income and assets and mortgages to borrowers with credit scores below a specified minimum. See CREDIT RISKS Mortgage Credit Risk *Underwriting Requirements and Quality Control Standards* for further information.

During 2008, we implemented certain increases in delivery fees, which are paid at the time of securitization. Upfront fees are recognized in Segment Earnings management and guarantee fee income rather than as part of income on guarantee obligation under GAAP. For more information on our changes in underwriting requirements and delivery fees as well as their effect on the composition of our single-family credit guarantee portfolio, see CREDIT RISKS Mortgage Credit Risk. The appointment of FHFA as Conservator and the Conservator's directive that we provide increased support to the mortgage market has affected our guarantee pricing decisions and will likely continue to do so.

Net interest income in this segment decreased in 2008 compared to 2007, due to our December 2007 change to record trust management fees within Single-family Guarantee other non-interest income, whereas previously the expected net float benefits were recorded in Single-family Guarantee net interest income. In addition, Single-family Guarantee trust management fees, included in other non-interest income, were negatively impacted by declines in interest rates during 2008, which resulted in lower income on interest-earning assets of the trust.

Our Segment Earnings provision for credit losses for the Single-family Guarantee segment increased to \$16.7 billion in 2008, compared to \$3.0 billion in 2007, due to continued credit deterioration in our single-family credit guarantee portfolio, primarily related to 2007 and 2006 loan purchases. Mortgages in our portfolio originated in 2007 and 2006 have had higher delinquency rates as well as higher loss severities on a per-property basis. Our provision is based on our estimate of incurred credit losses inherent in both our mortgage loan and our single-family credit guarantee portfolio using recent historical performance, such as the trends in delinquency rates, recent charge-off experience, recoveries from credit enhancements and other loss mitigation activities. Our Segment Earnings provision for loan loss is generally higher than amounts recorded under GAAP due to the inclusion of foregone interest income on impaired loans and additional provision expense related to

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loans purchased under our financial guarantees, which are recognized in different line items in our GAAP statements of operations.

The delinquency rate on our single-family credit guarantee portfolio, representing those loans which are 90 days or more past due and excluding loans underlying Structured Transactions, increased to 172 basis points as of December 31, 2008 from 65 basis points as of December 31, 2007. Increases in delinquency rates occurred in all product types in 2008, but were most significant for interest-only and Alt-A mortgages. See **CREDIT RISKS Table 62 Single-Family Delinquency Rates By Product** for further information.

Charge-offs, gross, for this segment increased to \$3.4 billion in 2008 compared to \$0.5 billion in 2007, primarily due to a considerable increase in the volume of REO properties acquired at foreclosure. Declining home prices resulted in higher charge-offs, on a per property basis, during 2008, and we expect increases in charge-offs to continue in 2009.

Single-family Guarantee REO operations expense significantly increased for both 2008 and 2007 compared to the prior year. The impact of the weak housing market was first evident during 2007 in areas of the country where unemployment rates have been relatively high, such as the North Central region. However, during 2008, we experienced significant increases in delinquency rates and REO activity in all other regions of the U.S., particularly in the states of California, Florida, Nevada and Arizona. The West region represented approximately 30% of our REO property acquisitions during 2008, based on the number of units. The highest concentration in the West region is in the state of California. At December 31, 2008, our REO inventory in California represented approximately 29% of our total REO property inventory, based on loan amount prior to acquisition. California has accounted for an increasing amount of our credit losses and losses on our loans in this state comprised approximately 30% of our total credit losses in 2008. In November 2008, we announced a suspension of foreclosure sales on occupied homes, which remained in effect until January 31, 2009, and was renewed from February 14, 2009 through March 6, 2009, as well as a suspension of evictions on REO properties, which will remain in effect until April 1, 2009. In part, this was done to allow us to implement the Streamlined Modification Program, which we began to implement in December 2008. This program and the recently announced HASP are designed to assist delinquent borrowers meeting certain criteria by offering loan modifications and potentially avoiding foreclosure. As a result of our suspension of foreclosures, we experienced an increase in single-family delinquency rates and a decrease in credit losses and REO acquisitions and inventory during December 2008. See **CREDIT RISKS Mortgage Credit Risk Loss Mitigation Activities** for further information on this program and our more recent foreclosure suspensions, as well as potential impacts to our 2009 results.

Declines in home prices have contributed to the increase in the weighted average estimated current LTV ratio for loans underlying our single-family credit guarantee portfolio to 72% at December 31, 2008 from 63% at December 31, 2007. Approximately 23% of loans in our single-family credit guarantee portfolio had estimated current LTV ratios above 90%, excluding second liens by third parties, at December 31, 2008, compared to 10% at December 31, 2007. In general, higher total LTV ratios indicate that the borrower has less equity in the home and would thus be more susceptible to foreclosure in the event of a financial downturn. We expect that home prices will continue to decline during 2009, and will result in increased current estimated LTV ratios on loans in our single-family credit guarantee portfolio. We expect that declines in home prices combined with the deterioration in rates of unemployment and other factors will result in higher credit losses for our Single-family Guarantee segment during 2009.

Multifamily

Through our Multifamily segment, we purchase multifamily mortgages for investment and guarantee the payment of principal and interest on multifamily mortgage-related securities and mortgages underlying multifamily housing revenue bonds. The mortgage loans of the Multifamily segment consist of mortgages that are secured by properties

with five or more residential rental units. Multifamily loans are typically large, customized, non-homogenous loans that are not as conducive to securitization as single-family loans and the market for multifamily securitizations is currently relatively illiquid. Accordingly, we typically hold multifamily loans for investment purposes. In 2008, we began holding multifamily mortgages designated held-for-sale as part of our initiative to offer securitization capabilities to the market and our customers. We plan to increase our securitization activity of multifamily loans we hold in our portfolio during 2009, as market conditions permit.

Our Multifamily segment also includes certain equity investments in various limited partnerships that sponsor low- and moderate-income multifamily rental apartments, which benefit from LIHTC. These activities support our mission to supply financing for affordable rental housing. Also included is the interest earned on assets held in our Investments segment related to multifamily activities, net of allocated funding costs.

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Table 23 presents the Segment Earnings of our Multifamily segment.

Table 23 Segment Earnings and Key Metrics Multifamily

	Year Ended December 31,		
	2008	2007	2006
	(in millions)		
Segment Earnings:			
Net interest income	\$ 426	\$ 426	\$ 479
Non-interest income (loss):			
Management and guarantee income	76	59	61
LIHTC partnerships	(453)	(469)	(407)
Other non-interest income (loss)	39	24	28
Total non-interest income (loss)	(338)	(386)	(318)
Non-interest expense:			
Administrative expenses	(190)	(189)	(182)
Provision for credit losses	(229)	(38)	(4)
REO operations expense		(1)	1
Other non-interest expense	(15)	(21)	(17)
Total non-interest expense	(434)	(249)	(202)
Segment Earnings (loss) before income tax benefit	(346)	(209)	(41)
LIHTC partnerships tax benefit	589	534	461
Income tax benefit	121	73	14
Segment Earnings, net of taxes	364	398	434
Reconciliation to GAAP net income (loss):			
Derivative adjustments	(12)	(9)	3
Credit guarantee-related adjustments	8		3
Investment sales, debt retirements and fair value-related adjustments	(14)		
Tax-related adjustments ⁽¹⁾	(462)	2	(1)
Total reconciling items, net of taxes ⁽¹⁾	(480)	(7)	5
GAAP net income (loss)	\$ (116)	\$ 391	\$ 439
Key metrics Multifamily:			
<i>Balances and Growth:</i>			
Average balance of Multifamily loan portfolio ⁽²⁾	\$ 64,424	\$ 48,814	\$ 43,590
Average balance of Multifamily guarantee portfolio ⁽²⁾	13,262	7,846	11,273
Purchases Multifamily loan portfolio ⁽³⁾	18,887	18,211	12,101
Purchases Multifamily guarantee portfolio ⁽³⁾	5,085	3,435	931
Liquidation rate Multifamily loan portfolio (annualized rate)	6%	13%	17%
<i>Credit:</i>			
Delinquency rate ⁽³⁾	0.01%	0.02%	0.06%

Allowance for loan losses \$ 277 \$ 62 \$ 27

- (1) 2008 includes an allocation of the non-cash charge related to the establishment of the partial valuation allowance against our net deferred tax assets that are not included in Segment Earnings.
- (2) Based on unpaid principal balance.
- (3) Based on net carrying value of mortgages 90 days or more delinquent or in foreclosure, excluding Structured Transactions.

Segment Earnings for our Multifamily segment decreased 9%, to \$364 million for 2008 compared to \$398 million for 2007, primarily due to an increase in provision for credit losses, which was partially offset by higher LIHTC partnership tax benefits. We also recognized higher management and guarantee fee income during 2008 due to higher average balances of our multifamily guarantee portfolio during 2008. Segment Earnings for our Multifamily segment decreased \$36 million, or 8%, in 2007 compared to 2006 primarily due to lower net interest income and a higher provision for credit losses.

Net interest income for this segment primarily reflects interest on our multifamily loan portfolio balance; however it also includes interest earned on cash and other investment balances held in the Investments segment related to multifamily activities, net of allocated funding costs. The net interest income of this segment was unchanged in 2008, compared to 2007. However, we benefited from higher expected rates of return on new purchases, coupled with a higher average balance in the multifamily loan portfolio that was offset by lower yield maintenance fees in 2008. Loan purchases into the multifamily loan and guarantee portfolios on a combined basis were \$24 billion for 2008, an 11% increase compared to 2007 as we continued to provide stability and liquidity for the financing of rental housing nationwide. Non-interest loss declined to \$338 million in 2008 from \$386 million in 2007, due to an increase in management and guarantee income and, to a lesser extent, an increase in bond application fees during 2008 compared to 2007.

The multifamily mortgage market differs from the residential single-family market in several respects. The likelihood that a multifamily borrower will make scheduled payments on its mortgage is a function of a property's cash flow, which is determined by the ability of the property to generate income sufficient to make those payments, and is affected by rent levels, vacancy rates and operating expenses of the borrower. Strength in the multifamily market therefore is affected by the balance between the supply of, and demand for, rental housing (both multifamily and single-family), which in turn is affected by unemployment rates, the number of new units added to the rental housing supply, rates of household formation

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and the relative cost of owner-occupied housing alternatives. Apartment market fundamentals began to deteriorate in the second half of 2008, due to increased vacancy rates, declining rent levels and a weakening employment market in the U.S. Given the significant weakness currently being experienced in the U.S. economy, it is likely that apartment fundamentals in the U.S. will continue to deteriorate during 2009 which could cause us to provide for additional credit losses. Multifamily capital market conditions also deteriorated significantly in the second half of 2008, with a dramatic decline in available credit and more strict underwriting requirements by investors. As a result, the multifamily market slowed during 2008, which reduced institutional investor activity and resulted in significantly lower lending activity for both construction and refinancing. As a result of the continuing weakness in the apartment and capital markets, we expect industry-wide loan demand in 2009 to decline by an additional 10% to 20% from 2008 levels.

We continued to be very active in the multifamily market in 2008 and 2007, by our purchase or guarantee of new loans totaling approximately \$24 billion and \$22 billion, respectively. Our continued high level of purchase and guarantee activity during 2008, despite declining industry fundamentals, reflects our acknowledged priority to continue providing support for the U.S. mortgage market during this period of uncertainty, and our ability to adjust our underwriting standards and pricing to reflect the heightened level of risk.

Our Multifamily segment provision for credit losses increased to \$229 million in 2008 from \$38 million in 2007. To determine our estimate for incurred losses on our multifamily loan and guarantee portfolios, we evaluate each property based on available financial or operational results and also incorporate available economic data to update these results and evaluate the severity of expected losses. Although we use the most recently available results of our multifamily borrowers to assess our estimate of reserves, there is a lag in reporting as they prepare their results in the normal course of business. Consequently, our reserve estimate for 2008 reflects our best judgment of the severity associated with our probable incurred losses and reflects deterioration in recent market conditions, particularly increases in unemployment rates, higher vacancy rates and declines in average monthly rental rates during the second half of 2008. We acquired three REO properties during the fourth quarter of 2008, bringing our total Multifamily REO inventory to six properties at December 31, 2008. We increased our reserve estimates in 2008 to reflect the recent deterioration in market conditions, particularly in the fourth quarter, which resulted in increased estimates of severities of incurred loss.

There were no purchases or sales of LIHTC investments in 2008. Tax benefits for LIHTC partnerships increased to \$589 million in 2008 from \$534 million in 2007. Tax benefits from LIHTC partnerships are recognized in our Multifamily Segment Earnings regardless of the ability to claim or use them at the corporate level. Our LIHTC benefits related to 2006 and 2007 were used at the corporate level; however, most of our 2008 credits were deferred and can be carried forward for up to 20 years in the future.

CONSOLIDATED BALANCE SHEETS ANALYSIS

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

Mortgage-Related Investments Portfolio

We are primarily a buy-and-hold investor in mortgage assets. We invest principally in mortgage loans and mortgage-related securities, which consist of securities issued by us, Fannie Mae, Ginnie Mae and other financial institutions. We refer to these investments that are recorded on our consolidated balance sheet as our mortgage-related investments portfolio.

Our mortgage-related securities are classified as either available-for-sale or trading. Upon the adoption of SFAS 159 on January 1, 2008, we increased the number of securities categorized as trading in our mortgage-related investments portfolio. See NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Recently Adopted Accounting Standards - *The Fair Value Option for Financial Assets and Financial Liabilities* to our consolidated financial statements for more information.

Under the Purchase Agreement with Treasury and FHFA regulation, our mortgage-related investments portfolio may not exceed \$900 billion as of December 31, 2009 and then must decline by 10% per year thereafter until it reaches \$250 billion.

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Table 24 provides unpaid principal balances of the mortgage loans and mortgage-related securities in our mortgage-related investments portfolio. Table 24 includes securities classified as either available-for-sale or trading on our consolidated balance sheets.

Table 24 Characteristics of Mortgage Loans and Mortgage-Related Securities in our Mortgage-Related Investments Portfolio

			December 31,			
	Fixed Rate	2008 Variable Rate	Total (in millions)	Fixed Rate	2007 Variable Rate	Total
Mortgage loans:						
Single-family: ⁽¹⁾						
Conventional: ⁽²⁾						
Amortizing	\$ 34,630	\$ 1,295	\$ 35,925	\$ 20,461	\$ 1,266	\$ 21,727
Interest-only	440	841	1,281	246	1,434	1,680
Total conventional	35,070	2,136	37,206	20,707	2,700	23,407
USDA Rural Development/FHA/VA	1,549		1,549	1,182		1,182
Total Single-family	36,619	2,136	38,755	21,889	2,700	24,589
Multifamily ⁽³⁾	65,322	7,399	72,721	53,114	4,455	57,569
Total unpaid principal balance of mortgage loans	101,941	9,535	111,476	75,003	7,155	82,158
PCs and Structured Securities: ⁽⁴⁾						
Single-family ⁽¹⁾	328,965	93,498	422,463	269,896	84,415	354,311
Multifamily	332	1,729	2,061	2,522	137	2,659
Total PCs and Structured Securities	329,297	95,227	424,524	272,418	84,552	356,970
Non-Freddie Mac mortgage-related securities:						
Agency mortgage-related securities: ⁽⁵⁾						
Fannie Mae:						
Single-family ⁽¹⁾	35,142	34,460	69,602	23,140	23,043	46,183
Multifamily	582	92	674	759	163	922
Ginnie Mae:						
Single-family ⁽¹⁾	398	152	550	468	181	649
Multifamily	26		26	82		82
	36,148	34,704	70,852	24,449	23,387	47,836

Total agency mortgage-related securities

Non-agency mortgage-related securities:

Single-family:⁽¹⁾

Subprime ⁽⁶⁾	438	74,413	74,851	498	100,827	101,325
Alt-A and other ⁽⁷⁾	3,266	21,801	25,067	3,720	26,343	30,063
MTA ⁽⁷⁾		19,606	19,606		21,250	21,250
Commercial mortgage-backed securities	25,060	39,131	64,191	25,709	39,095	64,804
Obligations of states and political subdivisions ⁽⁸⁾	12,825	44	12,869	14,870	65	14,935
Manufactured housing ⁽⁹⁾	1,141	185	1,326	1,250	222	1,472

Total non-agency mortgage-related securities ⁽¹⁰⁾	42,730	155,180	197,910	46,047	187,802	233,849
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Total unpaid principal balance of mortgage-related investments portfolio	\$ 510,116	\$ 294,646	804,762	\$ 417,917	\$ 302,896	720,813
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Premiums, discounts, deferred fees, impairments of unpaid principal balances and other basis adjustments			(17,788)			(655)
Net unrealized (losses) on mortgage-related securities, pre-tax			(38,228)			(10,116)
Allowance for loan losses on mortgage loans held-for-investment ⁽¹¹⁾			(690)			(256)

Total carrying value of mortgage-related investments portfolio			\$ 748,056			\$ 709,786
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(1) Variable-rate single-family mortgage loans and mortgage-related securities include those with a contractual coupon rate that, prior to contractual maturity, is either scheduled to change or is subject to change based on changes in the composition of the underlying collateral. Single-family mortgage loans also include mortgages with balloon/reset provisions.

(2) See CREDIT RISKS Mortgage Credit Risk for information on Alt-A and subprime loans, which are a component of our single-family conventional mortgage loans.

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

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

(5) Agency mortgage-related securities are generally not separately rated by nationally recognized statistical rating organizations, but are viewed as having a level of credit quality at least equivalent to non-agency mortgage-related securities AAA-rated or equivalent.

(6)

Single-family non-agency mortgage-related securities backed by subprime residential loans include significant credit enhancements, particularly through subordination. For information about how these securities are rated, see Table 25 Investments in Available-For-Sale Non-Agency Mortgage-Related Securities backed by Subprime Loans, Alt-A and Other Loans and MTA Loans in our Mortgage-Related Investments Portfolio, Table 32 Ratings of Available-For-Sale Non-Agency Mortgage-Related Securities backed by Subprime Loans at December 31, 2008 and Table 33 Ratings of Available-For-Sale Non-Agency Mortgage-Related Securities backed by Subprime Loans at December 31, 2008 and March 2, 2009.

- (7) Single-family non-agency mortgage-related securities backed by MTA and Alt-A and other mortgage loans include significant credit enhancements, particularly through subordination. For information about how these securities are rated, see Table 25 Investments in Available-For-Sale Non-Agency Mortgage-Related Securities backed by Subprime Loans, Alt-A and Other Loans and MTA Loans in our Mortgage-Related Investments Portfolio, Table 34 Ratings of Available-For-Sale Non-Agency Mortgage-Related Securities backed by Alt-A and Other Loans and MTA Loans at December 31, 2008 and Table 35 Ratings of Available-For-Sale Non-Agency Mortgage-Related Securities backed by Alt-A and Other Loans and MTA Loans at December 31, 2008 and March 2, 2009. Certain prior period amounts have been revised to conform to the current year presentation.
- (8) Consists of mortgage revenue bonds. Approximately 58% and 67% of these securities held at December 31, 2008 and 2007, respectively, were AAA-rated as of those dates, based on the lowest rating available.
- (9) At December 31, 2008 and 2007, 32% and 34%, respectively, of mortgage-related securities backed by manufactured housing bonds were rated BBB– or above, based on the lowest rating available. For the same dates, 91% and 93% of manufactured housing bonds had credit enhancements, respectively, including primary monoline insurance that covered 23% and 24%, respectively, of the manufactured housing bonds based on the unpaid principal balance. At December 31, 2008 and 2007, we had secondary insurance on 60% and 72% of these bonds that were not covered by the primary monoline insurance, respectively, based on the unpaid principal balance. Approximately 3% and 28% of the mortgage-related securities backed by manufactured housing bonds were AAA-rated at December 31, 2008 and 2007, respectively, based on the unpaid principal balance and the lowest rating available.
- (10) Credit ratings for most non-agency mortgage-related securities are designated by no fewer than two nationally recognized statistical rating organizations. Approximately 55% and 96% of total non-agency mortgage-related securities held at December 31, 2008 and 2007, respectively, were AAA-rated as of those dates, based on the unpaid principal balance and the lowest rating available.
- (11) See CREDIT RISKS Mortgage Credit Risk *Loan Loss Reserves* for information about our allowance for loan losses on mortgage loans held-for-investment.

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The unpaid principal balance of our mortgage-related investments portfolio increased by \$83.9 billion to \$804.8 billion at December 31, 2008 compared to December 31, 2007. The unpaid principal balance of the mortgage-related securities held in our mortgage-related investments portfolio increased by \$54.6 billion during 2008. The overall increase in the unpaid principal balance of our mortgage-related investments portfolio was primarily due to more favorable investment opportunities for agency securities given a broad market decline driven by a lack of liquidity in the market during 2008. In response, our net purchase activity increased considerably as we deployed capital at favorable OAS levels. The portfolio also grew in the second half of 2008 due to FHFA's directive that we acquire and hold increased amounts of mortgage loans and mortgage-related securities in our mortgage-related investments portfolio to provide additional liquidity to the mortgage market. Although our PCs and Structured Securities and agency mortgage-related securities balances increased \$90.6 billion during the year, this was partially offset by decreases in non-agency mortgage-related securities balances. Non-agency mortgage-related securities decreased \$35.9 billion primarily due to principal repayments on securities backed by subprime loans, Alt-A and other loans and MTA loans.

As of March 1, 2008, the voluntary growth limit on our mortgage-related investments portfolio expired. Additionally, our mandatory target capital surplus was reduced by FHFA to 20% from 30% above our statutory minimum capital requirement on March 19, 2008. This surplus requirement has not been in effect since the suspension of our regulatory capital requirements by the Conservator on October 9, 2008.

The balance of mortgage loans increased by \$29.3 billion during 2008. We invest primarily in multifamily loans on fully developed apartment complexes with institutional customers. These loans include both adjustable and fixed rates. Fixed-rate loans generally include prepayment fees if the borrowers prepay within the yield maintenance period, which is normally the initial five to ten years. We have grown both the adjustable and fixed-rate portfolios considerably during 2008 due to attractive purchase opportunities. While industry-wide loan demand is expected to decline in 2009, we expect continued growth in our multifamily loan portfolio during 2009, but not as robust as 2008.

As mortgage interest rates declined late in the second half of 2008, single-family refinance mortgage originations increased and the volume of deliveries of single-family mortgage loans to us for cash purchase rather than for guarantor swap transactions also increased. We provide liquidity to our seller/servicers through our cash purchase program. Loans purchased through the cash purchase program are typically sold to investors through a cash auction of PCs, and, in the interim, are carried as mortgage loans on our consolidated balance sheets. However, because of continuing market disruptions in the second half of 2008, demand for our cash auctions of PCs has decreased and we sold fewer PCs in cash auctions. Our increased cash purchase activity coupled with fewer PCs sold at cash auctions, as well as our increased purchases of nonperforming loans from the mortgage pools underlying our PCs and Structured Securities, resulted in a higher balance of single-family mortgage loans at December 31, 2008 than at December 31, 2007.

Higher Risk Components of Our Mortgage-Related Investments Portfolio

Our mortgage-related investments portfolio includes mortgage loans with higher risk characteristics and mortgage-related securities backed by subprime loans, Alt-A and other loans and MTA loans.

Higher Risk Single-Family Mortgage Loans

We generally do not classify our investments in single-family mortgage loans within our mortgage-related investments portfolio as either prime or subprime; however, we recognize that there are mortgage loans within our mortgage-related investments portfolio with higher risk characteristics. For example, we estimate that there were \$1.7 billion and \$1.3 billion at December 31, 2008 and December 31, 2007, respectively, of loans with original LTV

ratios greater than 90% and credit scores, based on the rating system developed by Fair, Isaac and Co., Inc., or FICO, less than 620 at the time of loan origination. In addition, we estimate that approximately \$5 billion and \$6 billion of security collateral underlying our Structured Transactions at December 31, 2008 and 2007, respectively, were classified as subprime, based on our classification that they are also higher-risk loan types.

Many mortgage market participants classify single-family loans with credit characteristics that range between their prime and subprime categories as Alt-A. Although there is no universally accepted definition of Alt-A, industry participants have used this classification principally to describe loans for which the underwriting process has been streamlined in order to reduce the documentation requirements of the borrower or allow alternative documentation. In determining our Alt-A exposure in loans underlying our single-family mortgage portfolio, we have classified mortgage loans as Alt-A if the lender that delivers them to us has classified the loans as Alt-A, or if the loans had reduced documentation requirements, which indicate that the loan should be classified as Alt-A. We estimate that approximately \$183 billion, or 10%, of loans underlying our single-family PCs and Structured Securities at December 31, 2008 were classified as Alt-A mortgage loans. In addition, we estimate that approximately \$2 billion, or approximately 6%, of our investments in single-family mortgage loans in our mortgage-related investments portfolio were classified as Alt-A loans at December 31, 2008.

See CREDIT RISKS Mortgage Credit Risk for further information.

Table of Contents**Non-Agency Mortgage-Related Securities Backed by Subprime Loans**

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

At December 31, 2008 and 2007, we held investments of \$74.9 billion and \$101.3 billion, respectively, of non-agency mortgage-related securities backed by subprime loans in our mortgage-related investments portfolio. During 2008, we did not buy or sell any of these securities. In addition to the contractual interest payments, we received monthly remittances of principal repayments on these securities, which totaled \$26.5 billion during 2008, representing a partial return of our investment in these securities. We have seen a decrease in the annualized rate of principal repayments during 2008, from 33% in the first quarter of 2008 to 25% in the fourth quarter of 2008. These securities include significant credit enhancement, particularly through subordination. Of these securities, 58% and 100% were investment grade at December 31, 2008 and 2007, respectively. We recognized impairment losses on these securities of \$3.6 billion during 2008. The unrealized losses, net of tax, on these securities are included in AOCI and totaled \$12.4 billion and \$5.6 billion at December 31, 2008 and 2007, respectively. We believe that the declines in fair values for these securities are mainly attributable to poor underlying collateral performance, decreased liquidity and larger risk premiums in the mortgage market.

Non-Agency Mortgage-Related Securities Backed by Alt-A and Other Loans

As noted above, we have classified securities as Alt-A if the securities were labeled as Alt-A when sold to us or if we believe the underlying collateral includes a significant amount of Alt-A loans. We classified \$25.1 billion and \$30.1 billion of our single-family non-agency mortgage-related securities as Alt-A and other loans at December 31, 2008 and 2007, respectively. During 2008, we did not buy or sell any of these securities. In addition to the contractual interest payments, we received monthly remittances of principal repayments on these Alt-A and other securities, which totaled \$5.0 billion during 2008, representing a partial return of our investment in these securities. We have seen a decrease in the annualized rate of principal repayments during 2008, from 19% in the first quarter of 2008 to 14% in the fourth quarter of 2008. These securities include significant credit enhancements, particularly through subordination. Of these securities, 79% and 100% were investment grade at December 31, 2008 and 2007, respectively. We recognized impairment losses on these securities of \$5.3 billion during 2008. The unrealized losses, net of tax, on these securities are included in AOCI and totaled \$4.4 billion and \$0.8 billion at December 31, 2008 and 2007, respectively. We believe the declines in fair values for these securities are mainly attributable to poor underlying collateral performance, decreased liquidity and larger risk premiums in the mortgage market.

Non-Agency Mortgage-Related Securities Backed by MTA Loans

MTA adjustable-rate mortgages (which are a type of option ARM) are indexed to the Moving Treasury Average, have adjustable interest rates and optional payment terms, including options that allow for deferral of principal payments and result in negative amortization for an initial period of years. MTA loans generally have a specified date when the mortgage is recast to require principal payments under new terms, which can result in substantial increases in monthly payments by the borrower.

We classified these securities as MTA if the securities were labeled as MTA when sold to us or if we believe the underlying collateral includes a significant amount of MTA loans. We had \$19.6 billion and \$21.2 billion of

non-agency mortgage-related securities classified as MTA at December 31, 2008 and 2007, respectively. With the exception of \$618 million of unpaid principal balance purchased in January 2008, we did not buy or sell any of these securities during 2008. In addition to the contractual interest payments, we received monthly remittances of principal repayments on these securities, which totaled \$2.2 billion during 2008, representing a partial return of our investment in these securities. We have seen a decrease in the annualized rate of principal repayments during 2008, from 14% in the first quarter of 2008 to 8% in the fourth quarter of 2008. These securities include significant credit enhancements, particularly through subordination. Of these securities, 72% and 100% were investment grade at December 31, 2008 and 2007, respectively. We recognized impairment losses on these securities of \$7.6 billion during 2008. The unrealized losses, net of tax, on these securities are included in AOCI and totaled \$3.1 billion and \$0.9 billion at December 31, 2008 and 2007, respectively. We believe the declines in fair values for these securities are mainly attributable to poor underlying collateral performance, decreased liquidity and larger risk premiums in the mortgage market.

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Table 25 provides an analysis of investments in available-for-sale non-agency mortgage-related securities backed by subprime loans, Alt-A and other loans and MTA loans in our mortgage-related investments portfolio at December 31, 2008.

Table 25 Investments in Available-For-Sale Non-Agency Mortgage-Related Securities backed by Subprime Loans, Alt-A and Other Loans and MTA Loans in our Mortgage-Related Investments Portfolio

	As of December 31, 2008				December 31,			Current Investment Grade
	Unpaid		Gross		2008	Current	Investment Grade	
	Principal Balance	Amortized Cost	Unrealized Losses	Collateral Delinquency	Original % AAA ⁽²⁾	2008 % AAA		
Non-agency mortgage-related securities backed by:								
Subprime loans:								
First lien	\$ 74,070	\$ 70,957	\$ (18,934)	38%	100%	29%	28%	5
Second lien	769	442	(211)	13%	100%	%	%	1
Total non-agency mortgage-related securities, backed by subprime loans	\$ 74,839	\$ 71,399	\$ (19,145)	38%	100%	28%	28%	5
Alt-A and other loans and MTA loans:								
Alt-A	\$ 21,015	\$ 17,241	\$ (5,448)	17%	100%	51%	31%	4
Other	19,606	12,117	(4,739)	30%	100%	45%	%	.
MTA ⁽⁵⁾	4,052	2,791	(1,339)		100%	12%	12%	8
Total non-agency mortgage-related securities, backed by Alt-A and other loans and MTA loans	\$ 44,673	\$ 32,149	\$ (11,526)		100%	45%	16%	3

- (1) Determined based on loans that are 60 days or more past due that underlie the securities and based on the unpaid principal balance and servicing data reported for December 31, 2008.
- (2) Reflects the composition of the portfolio that was AAA-rated as of the date of acquisition of the security based on the unpaid principal balance and the lowest rating available.
- (3) Reflects the AAA-rated composition of the securities as of March 2, 2009, based on the unpaid principal balance and the lowest rating available.
- (4) Reflects the composition of these securities with credit ratings BBB or above as of March 2, 2009, based on the unpaid principal balance and the lowest rating available.
- (5) Includes securities backed by FHA/VA mortgages, home equity lines of credit and other residential loans.

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Table 26 summarizes amortized cost, estimated fair values and corresponding gross unrealized gains and gross unrealized losses for available-for-sale securities and estimated fair values for trading securities by major security type held in our mortgage-related investments portfolio.

Table 26 Available-For-Sale Securities and Trading Securities in our Mortgage-Related Investments Portfolio

December 31, 2008	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(in millions)		
<i>Mortgage-related investments portfolio:</i>				
Available-for-sale mortgage-related securities:				
Freddie Mac	\$ 271,796	\$ 6,333	\$ (2,921)	\$ 275,208
Subprime	71,399	13	(19,145)	52,267
Commercial mortgage-backed securities	64,214	2	(14,716)	49,500
Alt-A and other	20,032	11	(6,787)	13,256
MTA	12,117		(4,739)	7,378
Fannie Mae	40,255	674	(88)	40,841
Obligations of states and political subdivisions	12,874	3	(2,349)	10,528
Manufactured housing	917	9	(183)	743
Ginnie Mae	367	16		383
Total available-for-sale mortgage-related securities	\$ 493,971	\$ 7,061	\$ (50,928)	\$ 450,104
Trading mortgage-related securities:				
Freddie Mac				\$ 158,822
Fannie Mae				31,309
Ginnie Mae				198
Other				32
Total trading mortgage-related securities				\$ 190,361

December 31, 2007	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(in millions)		
<i>Mortgage-related investments portfolio:</i>				
Available-for-sale mortgage-related securities:				
Freddie Mac	\$ 346,569	\$ 2,981	\$ (2,583)	\$ 346,967
Subprime	101,278	12	(8,584)	92,706
Commercial mortgage-backed securities	64,965	515	(681)	64,799

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Alt-A and other	30,187	15	(1,267)	28,935
MTA	21,269		(1,276)	19,993
Fannie Mae	45,688	513	(344)	45,857
Obligations of states and political subdivisions	14,783	146	(351)	14,578
Manufactured housing	1,149	131	(12)	1,268
Ginnie Mae	545	19	(2)	562
Total available-for-sale mortgage-related securities	\$ 626,433	\$ 4,332	\$ (15,100)	\$ 615,665
Trading mortgage-related securities:				
Freddie Mac				\$ 12,216
Fannie Mae				1,697
Ginnie Mae				175
Other				1
Total trading mortgage-related securities				\$ 14,089

December 31, 2006	Amortized Cost	Gross Unrealized		Fair Value
		Gains	Losses	
<i>Mortgage-related investments portfolio:</i>				
Available-for-sale mortgage-related securities:				
Freddie Mac	\$ 348,591	\$ 1,438	\$ (5,941)	\$ 344,088
Subprime	122,102	98	(14)	122,186
Commercial mortgage-backed securities	44,927	239	(763)	44,403
Alt-A and other	35,519	37	(316)	35,240
MTA	20,914	28	(2)	20,940
Fannie Mae	44,223	323	(660)	43,886
Obligations of states and political subdivisions	13,622	334	(31)	13,925
Manufactured housing	1,180	151	(1)	1,330
Ginnie Mae	720	17	(4)	733
Total available-for-sale mortgage-related securities	\$ 631,798	\$ 2,665	\$ (7,732)	\$ 626,731
Trading mortgage-related securities:				
Freddie Mac				\$ 6,573
Fannie Mae				802
Ginnie Mae				222
Total trading mortgage-related securities				\$ 7,597

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At December 31, 2008, our gross unrealized losses on available-for-sale mortgage-related securities were \$50.9 billion. The main components of these losses are gross unrealized losses of \$45.4 billion related to non-agency mortgage-related securities backed by subprime loans, Alt-A and other loans and MTA loans and commercial mortgage-backed securities. We believe that these unrealized losses on non-agency mortgage-related securities at December 31, 2008 were principally a result of decreased liquidity and larger risk premiums in the non-agency mortgage market. All securities in an unrealized loss position are evaluated to determine if the impairment is other-than-temporary. The evaluation of these securities considers available information, including analyses based on loss severity, default, prepayment and other borrower behavior assumptions.

Other-Than-Temporary Impairments

Table 27 summarizes our impairments on our mortgage-related securities recorded by security type and the duration of the unrealized loss prior to impairment of less than 12 months and 12 months or greater.

Table 27 Other-than-Temporary Impairments on Mortgage-Related Securities Recorded by Gross Unrealized Loss Position

	Gross Unrealized Loss Position		
	Less than 12 months	12 months or greater (in millions)	Total
Year Ended December 31, 2008			
Mortgage-related securities: ⁽¹⁾			
Subprime	\$ (168)	\$ (3,453)	\$ (3,621)
Alt-A and other	(914)	(4,339)	(5,253)
MTA		(7,602)	(7,602)
Obligations of states and political subdivisions	(58)	(10)	(68)
Manufactured housing	(74)	(16)	(90)
Total other-than-temporary impairments	\$ (1,214)	\$ (15,420)	\$ (16,634)
Year Ended December 31, 2007			
Mortgage-related securities:			
Freddie Mac	\$ (17)	\$ (320)	\$ (337)
Fannie Mae	(1)	(12)	(13)
Subprime ⁽¹⁾	(11)		(11)
Manufactured housing ⁽¹⁾	(4)		(4)
Total other-than-temporary impairments	\$ (33)	\$ (332)	\$ (365)
Year Ended December 31, 2006			
Mortgage-related securities:			
Freddie Mac	\$ (168)	\$ (13)	\$ (181)
Fannie Mae	(31)	(17)	(48)

Commercial mortgage-backed securities ⁽¹⁾	(62)	(4)	(66)
Manufactured housing ⁽¹⁾	(2)		(2)
Total other-than-temporary impairments	\$ (263)	\$ (34)	\$ (297)

(1) Represents securities of private-label or non-agency issuers.

During the fourth quarter of 2008, of the \$197.9 billion in non-agency mortgage-related securities in our available-for-sale portfolio at December 31, 2008, we have identified securities primarily backed by subprime loans, Alt-A and other loans and MTA loans with \$13.6 billion of unpaid principal balance that are probable of incurring a contractual principal or interest loss. This probable loss is due to significant recent sustained deterioration in the performance of the underlying collateral of these securities and lack of confidence in the credit enhancements provided by three monoline insurers. We have determined that it is both probable a principal and interest shortfall will occur on the insured securities and that in such a case, there is substantial uncertainty surrounding the insurer's ability to pay all future claims. As such, we recognized impairment losses on non-agency mortgage-related securities of \$6.9 billion during the fourth quarter of 2008, which were determined to be other-than-temporary. The recent deterioration has not impacted our ability and intent to hold these securities.

We estimate that the future expected principal and interest shortfall on these securities will be significantly less than the impairment loss recognized under GAAP, as we expect these shortfalls to be less than the recent fair value declines. Our estimates of expected losses increased during the fourth quarter as compared to the third quarter. The portion of the impairment charges associated with expected recoveries that we estimate may be recognized as net interest income in future periods was \$11.8 billion as of December 31, 2008.

The deterioration in the mortgage market and resulting illiquidity has caused the government to take unprecedented action during the second half of 2008. The decline in mortgage credit performance has been most severe for subprime loans, Alt-A and other loans and MTA loans. Many of the same global economic factors impacting the performance of our guarantee portfolio led to a considerably more pessimistic outlook for the performance of our mortgage-related securities in our mortgage-related investments portfolio. Rising unemployment, accelerating home price declines, tight credit conditions,

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volatility in mortgage rates and LIBOR, and weakening consumer confidence not only contributed to poor performance during the year but significantly impacted our expectations regarding future performance, both of which are critical in assessing other-than-temporary impairments. Furthermore, the subprime loans, Alt-A and other loans and MTA loans backing our securities have significantly greater concentrations in the states that are undergoing the greatest economic stress, such as California, Florida, Arizona and Nevada.

Our securities backed by 2006 and 2007 first lien subprime loans accounted for \$3.6 billion of the impaired unpaid principal balance and \$1.4 billion of other-than-temporary impairment expense during the fourth quarter of 2008. As with the other asset classes, a key determinant in our conclusion that impairments were other-than-temporary was the considerable deterioration of economic conditions and the housing market during the fourth quarter of 2008 which adversely impacted our view of future performance. Delinquencies on the 2006 and 2007 subprime loans backing these securities increased by 8% and 17%, respectively.

Our securities backed by Alt-A loans and other loans accounted for \$5.3 billion of the impaired unpaid principal balance and \$2.7 billion of other-than-temporary impairment expense during the fourth quarter of 2008, with approximately 44% of such amounts coming from loans originated in 2006 and 2007. The loans backing these securities experienced increases in delinquencies, material price declines, ratings actions, and deteriorating expectations concerning future performance.

Our securities backed by MTA loans accounted for \$4.6 billion of the impaired unpaid principal balance and \$2.7 billion of other-than-temporary impairment expense during the fourth quarter 2008. Delinquencies on 2006 and 2007 vintage MTA loans increased 27% and 25%, respectively, during the fourth quarter of 2008. Securities backed by MTA loans experienced sustained price declines, with prices for this category, on average, falling by approximately 36% in the fourth quarter of 2008. The MTA sector also experienced continued downgrades during the quarter, with only 45% of our securities rated AAA as of December 31, 2008, versus 59% at the end of the third quarter.

During 2008 and 2007, we recorded other-than-temporary impairments related to investments in mortgage-related securities of \$16.6 billion and \$365 million, respectively. The other-than-temporary impairments recognized during 2008 related primarily to non-agency securities backed by subprime loans, Alt-A and other loans and MTA loans, due to the combination of a more pessimistic view of future performance due to the economic environment and poor performance of the collateral underlying these securities. The impairments also relate to credit enhancements provided by primary monoline bond insurance from three monoline insurers on individual securities in an unrealized loss position, as we have determined that it is both probable a principal and interest shortfall will occur on the insured securities and that in such a case, there is substantial uncertainty surrounding the insurer's ability to pay all future claims. In the case of monoline insurers, we considered our own analysis as well as additional qualitative factors, such as the ability of each monoline to access capital and to generate new business, pending regulatory actions, ratings, security prices and credit default swap levels traded on the insurers.

While it is possible that under certain conditions, defaults and severity of losses on our remaining available-for-sale securities for which we have not recorded an impairment charge could exceed our subordination and credit enhancement levels and a principal or interest loss could occur, we do not believe that those conditions were probable at December 31, 2008. Based on our ability and intent to hold our remaining available-for-sale securities for a sufficient time to recover all unrealized losses and our consideration of available information, we have concluded that the reduction in fair value of these securities was temporary at December 31, 2008.

See NOTE 5: INVESTMENTS IN SECURITIES to our consolidated financial statements for a discussion on how we evaluate our available-for-sale portfolio for other-than-temporary impairment.

For the securities where we determined that the impairment was other-than-temporary, we estimate that the future expected principal and interest shortfall will be significantly less than the probable impairment loss required to be recorded under GAAP, as we expect these shortfalls to be less than the recent fair value declines. We recognized impairment losses during 2008 on securities primarily backed by subprime, Alt-A and other loans and MTA loans of \$16.6 billion. The portion of these impairment charges associated with expected recoveries that we estimate may be recognized as net interest income in future periods was \$11.8 billion on securities backed primarily by subprime, Alt-A and other and MTA loans as of December 31, 2008. This reflects a reduction in the estimate of future recoveries of prior quarter impairment charges of \$1.3 billion as of December 31, 2008.

Our assessments concerning other-than-temporary impairment and accretion of impairment charges require significant judgment and are subject to change as the performance of the individual securities changes, mortgage conditions evolve and our assessments of future performance are updated. Bankruptcy reform, loan modification programs and other government intervention can significantly change the performance of the underlying loans and thus our securities. Current market conditions are unprecedented, in our experience, and actual results could differ materially from our expectations.

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Furthermore, different market participants could arrive at materially different conclusions regarding the likelihood of various default and severity outcomes, and these differences tend to be magnified for nontraditional products such as MTA loans.

Hypothetical Scenarios on our Investments in Non-Agency Mortgage-Related Securities

We present hypothetical scenarios based on the key assumptions in our analyses designed to simulate the distribution of cash flows from the underlying loans to the securities that we hold considering different default rate and severity assumptions. In preparing each scenario, we use numerous assumptions (in addition to the default rate and severity assumptions), including, but not limited to, the timing of losses, prepayment rates, the collectability of excess interest and interest rates that could materially impact the results. Since we do not use this analysis for determination of our reported results under GAAP, this analysis is hypothetical and may not be indicative of our actual results.

Tables 28 – 30 provide the summary results of the default rate and severity hypothetical scenarios for our investments in available-for-sale non-agency mortgage-related securities backed by first lien subprime, Alt-A and MTA loans at December 31, 2008. In previous quarters we divided the portfolios into delinquency quartiles and ran more stressful default rates on the quartiles with the highest levels of current delinquencies. In light of increasing uncertainty concerning default rates and severity due to the overall deterioration in the economy and the impact of loan modifications, pending bankruptcy reform legislation and other government intervention on the loans underlying our securities, we increased the number of default and severity scenarios to reflect a broader range of possible outcomes. While the more stressful scenarios are beyond what we currently believe are probable, these tables give insight into the potential economic losses under hypothetical scenarios.

In addition to the hypothetical scenarios, these tables also display underlying collateral performance and credit enhancement statistics, by vintage and quartile of delinquency. Within each of these quartiles, there is a distribution of both credit enhancement levels and delinquency performance, and individual security performance will differ from the quartile as a whole. Furthermore, some individual securities with lower subordination could have higher delinquencies. The projected economic losses presented for each hypothetical scenario represent the present value of possible cash shortfalls given the related assumptions. In past quarters we have included the present value of both the principal and interest shortfalls. However, we do not believe that the interest shortfalls are representative of our risk of economic loss as these amounts represent returns on our investment versus returns of our investment. As such, the projected economic losses include the present value of potential principal shortfalls only. Additionally, some of these securities are not subject to principal write-downs until their legal final maturity, which leads to a smaller present value loss than on a security that could take principal write-downs earlier. However, these amounts do not represent the other-than-temporary impairment charge that would result under the given scenario. Any other-than-temporary impairment charges would vary depending on the fair value of the security at that point in time, and could be higher than the amount of losses indicated by these scenarios.

Investments in Non-Agency Mortgage-Related Securities backed by First Lien Subprime Loans

The hypothetical scenarios for our non-agency mortgage-related securities backed by first lien subprime loans use cumulative default rates and severities of 60% to 80%. Since different market participants could arrive at materially different conclusions regarding the likelihood of various default and severity outcomes, we have provided a range of possible outcomes. Current collateral delinquency rates presented in Table 28 averaged 38% for first lien subprime loans.

Table of Contents**Table 28 Investments in Available-For-Sale Non-agency Mortgage-Related Securities Backed by First Lien Subprime Loans**

Acquisition Date	December 31, 2008									
	Underlying Collateral Performance			Credit Enhancement Statistics			Hypothetical Scenarios ⁽⁴⁾			
	Unpaid Delinquent	Principal Balance	Collateral Delinquency	Average Credit Enhancement	Minimum Subordination	Current Default Rate	Severity			
	Quartile						60%	70%	80%	
2004 & Prior	1	\$ 314	12%	52%	33%	60%	\$ 12	\$ 12	\$ 15	
						70	12	20	30	
						80	21	32	56	
2004 & Prior	2	329	17%	47%	23%	60%	\$	\$	\$ 9	
						70		13	28	
						80	13	30	49	
2004 & Prior	3	278	22%	64%	29%	60%	\$	\$ 1	\$ 2	
						70	1	3	5	
						80	3	5	20	
2004 & Prior	4	319	29%	63%	19%	60%	\$ 1	\$ 4	\$ 8	
						70	4	10	17	
						80	10	18	33	
2004 & Prior subtotal		\$ 1,240	20%	56%	19%					
2005	1	\$ 3,190	26%	55%	34%	60%	\$	\$	\$ 9	
						70		17	87	
						80	19	121	283	
2005	2	3,106	34%	59%	41%	60%	\$	\$	\$	
						70			9	
						80		29	159	
2005	3	3,190	40%	55%	23%	60%	\$	\$ 2	\$ 8	
						70	3	14	60	
						80	17	85	223	
2005	4	3,096	47%	53%	30%	60%	\$	\$ 1	\$ 8	
						70	2	23	57	
						80	26	73	169	
2005 subtotal		\$ 12,582	37%	56%	23%					
2006	1	\$ 7,222	34%	32%	17%	60%	\$ 22	\$ 129	\$ 317	
						70	188	460	805	
						80	506	900	1,368	

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2006	2	7,296	42%	30%	15%	60%	\$ 18	\$ 132	\$ 329
						70	205	496	887
						80	571	1,018	1,491
2006	3	7,434	47%	29%	16%	60%	\$ 7	\$ 88	\$ 308
						70	159	500	901
						80	564	1,011	1,469
2006	4	6,955	54%	29%	10%	60%	\$ 10	\$ 70	\$ 239
						70	124	390	753
						80	451	863	1,302
2006 subtotal		\$ 28,907	44%	30%	10%				
2007	1	\$ 7,282	24%	31%	21%	60%	\$ 16	\$ 119	\$ 451
						70	206	611	996
						80	635	1,061	1,482
2007	2	6,803	31%	28%	19%	60%	\$ 31	\$ 200	\$ 485
						70	299	642	983
						80	678	1,060	1,441
2007	3	7,259	38%	28%	15%	60%	\$ 43	\$ 195	\$ 461
						70	295	637	1,019
						80	707	1,134	1,582
2007	4	7,114	46%	26%	14%	60%	\$ 6	\$ 109	\$ 412
						70	233	603	971
						80	665	1,075	1,483
2007 subtotal		\$ 28,458	35%	28%	14%				
Subtotal uninsured non-agency mortgage-related securities backed by first lien subprime loans		\$ 71,187	39%	34%	10%				
Non-agency mortgage-related securities, backed by first lien subprime loans with monoline bond insurance: Non-investment grade monoline no other-than-temporary impairments to date		\$ 1,762							
Non-investment grade monoline other-than-temporary impairments taken		1,121							
		\$ 2,883							

Subtotal non-agency
mortgage-related
securities, backed by first
lien subprime loans with
monoline bond
insurance⁽⁵⁾

Total non-agency
mortgage-related
securities, backed by first
lien subprime loans \$ 74,070 38%

- (1) Determined based on loans that are 60 days or more past due that underlie the securities. Collateral delinquency percentages are calculated based on the unpaid principal balance and information provided primarily by Intex.
- (2) Consists of subordination, financial guarantees and other credit enhancements. Does not include the benefit of excess interest.
- (3) Reflects the current subordination credit enhancement of the lowest security in each quartile.
- (4) Reflects the present value of projected principal losses based on the disclosed hypothetical cumulative default and loss severity rates against the outstanding collateral balance.
- (5) Represents the amount of unpaid principal balance covered by monoline insurance coverage. This amount does not represent the maximum amount of losses we could recover, as the monoline insurance also covers interest.

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Investments in Non-Agency Mortgage-Related Securities Backed by Alt-A Loans

The hypothetical scenarios for our non-agency mortgage-related securities backed by Alt-A loans use cumulative default rates of 20% to 65% and severities of 45% to 65%. Since different market participants could arrive at materially different conclusions regarding the likelihood of various default and severity outcomes, we have provided a range of possible outcomes. Current collateral delinquency rates presented in Table 29 averaged 17%.

Table of Contents**Table 29 Investments in Non-Agency Mortgage-Related Securities Backed by Alt-A Loans**

Acquisition Date	Unpaid Delinquency Quartile	Underlying Collateral Performance Principal Balance	Collateral Delinquency (%)	December 31, 2008 Credit Enhancement Statistics			Hypothetical Scenarios ⁽⁴⁾ Severity			
				Average	Minimum	Current	45%	55%	65%	
				Financing (%)	Subordination (%)	Rate (%)				
				(dollars in millions)						
2004 & Prior	1	\$ 1,230	3%	10%	6%	20%	\$ 11	\$ 23	\$ 41	
						35	73	114	158	
						50	156	218	281	
						65	243	326	409	
2004 & Prior	2	1,214	5%	14%	8%	20%	\$ 1	\$ 3	\$ 14	
						35	38	77	121	
						50	119	187	257	
						65	214	306	398	
2004 & Prior	3	1,253	9%	16%	10%	20%	\$	\$ 1	\$ 5	
						35	19	43	87	
						50	83	150	223	
						65	178	273	369	
2004 & Prior	4	1,196	15%	25%	12%	20%	\$	\$	\$ 2	
						35	10	30	58	
						50	56	100	147	
						65	118	182	252	
2004 & Prior subtotal		\$ 4,893	8%	16%	6%					
2005	1	\$ 2,307	4%	8%	5%	20%	\$ 52	\$ 92	\$ 133	
						35	197	275	355	
						50	354	469	585	
						65	516	669	822	
2005	2	2,049	10%	12%	6%	20%	\$ 13	\$ 31	\$ 55	
						35	105	176	249	
						50	246	352	459	
						65	394	535	676	
2005	3	1,890	15%	13%	8%	20%	\$ 3	\$ 16	\$ 40	
						35	77	132	188	
						50	186	274	379	
						65	321	455	589	
2005	4	2,406	25%	22%	11%	20%	\$	\$	\$ 2	
						35	11	24	43	
						50	46	104	163	
						65	135	226	337	
2005 subtotal		\$ 8,652	14%	14%	5%					

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2006	1	\$ 1,058	5%	11%	5%	20%	\$ 20	\$ 37	\$ 56
						35	86	122	158
						50	159	211	265
						65	234	303	373
2006	2	1,063	15%	15%	5%	20%	\$ 13	\$ 24	\$ 38
						35	69	110	151
						50	154	215	277
						65	243	324	406
2006	3	1,062	29%	14%	5%	20%	\$ 4	\$ 7	\$ 11
						35	22	37	56
						50	62	97	137
						65	120	176	232
2006	4	1,087	46%	11%	5%	20%	\$	\$	\$
						35			1
						50	5	35	88
						65	91	173	257
2006 subtotal		\$ 4,270	24%	13%	5%				
2007	1	\$ 796	23%	6%	5%	20%	\$ 11	\$ 19	\$ 27
						35	39	58	85
						50	92	132	172
						65	156	209	262
2007	2	541	28%	10%	8%	20%	\$	\$	\$ 1
						35	10	21	32
						50	40	58	79
						65	77	107	138
2007	3	702	33%	12%	5%	20%	\$	\$	\$ 1
						35	4	7	18
						50	24	43	69
						65	56	92	129
2007	4	620	40%	14%	3%	20%	\$	\$	\$
						35		1	7
						50	11	19	39
						65	36	65	96
2007 subtotal		\$ 2,659	31%	10%	3%				
Subtotal uninsured non-agency mortgage-related securities backed by Alt-A loans		\$ 20,474	17%	14%	3%				
Non-agency mortgage-related securities, backed by Alt-A loans with monoline bond insurance: Non-investment grade monoline no other-than-temporary		\$ 197							

impairments to date Non-investment grade monoline other-than-temporary impairments taken	344	
Subtotal non-agency mortgage-related securities, backed by Alt-A loans with monoline bond insurance ⁽⁵⁾	\$ 541	
Total non-agency mortgage-related securities, backed by Alt-A loans	\$ 21,015	17%

- (1) Determined based on loans that are 60 days or more past due that underlie the securities. Collateral delinquency percentages are calculated based on the unpaid principal balance and information provided primarily by Intex.
- (2) Consists of subordination, financial guarantees and other credit enhancements. Does not include the benefit of excess interest.
- (3) Reflects the current subordination credit enhancement of the lowest security in each quartile.
- (4) Reflects the present value of projected principal losses based on the disclosed hypothetical cumulative default and loss severity rates against the outstanding collateral balance.
- (5) Represents the amount of unpaid principal balance covered by monoline insurance coverage. This amount does not represent the maximum amount of losses we could recover, as the monoline insurance also covers interest.

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Investments in Non-Agency Mortgage-Related Securities Backed by MTA Loans

The hypothetical scenarios for our non-agency mortgage-related securities backed by MTA loans use cumulative default rates and severities of 50% to 70%. Since different market participants could arrive at materially different conclusions regarding the likelihood of various default and severity outcomes and these differences tend to be magnified for nontraditional products such as MTA loans, we have provided a range of possible outcomes. Current collateral delinquency rates presented in Table 30 averaged 30%.

Table of Contents**Table 30 Investments in Non-Agency Mortgage-Related Securities Backed by MTA Loans**

Acquisition Date	Delinquency Quartile	Underlying Collateral Performance		December 31, 2008 Credit Enhancement Statistics			Hypothetical Scenarios ⁽⁴⁾			
		Unpaid Principal Balance	Collateral Delinquency	Average Credit Enhancement	Minimum Current Subordination	Default Rate	Severity			
		(dollars in millions)	(%)	(%)	(%)	(%)	50%	60%	70%	
2005 & Prior	1	\$ 964	23%	27%	18%	50%	\$ 28	\$ 79	\$ 144	
						60	87	166	252	
						70	161	261	367	
2005 & Prior	2	970	29%	26%	19%	50%	\$ 27	\$ 70	\$ 119	
						60	78	139	206	
						70	138	216	298	
2005 & Prior	3	1,011	31%	27%	19%	50%	\$ 38	\$ 80	\$ 126	
						60	81	148	224	
						70	146	236	333	
2005 & Prior	4	963	36%	30%	24%	50%	\$ 11	\$ 43	\$ 87	
						60	51	108	172	
						70	108	183	263	
2005 & Prior subtotal		\$ 3,908	30%	27%	18%					
2006	1	\$ 2,106	28%	16%	8%	50%	\$ 85	\$ 183	\$ 290	
						60	205	336	471	
						70	340	499	661	
2006	2	2,298	31%	14%	10%	50%	\$ 76	\$ 184	\$ 303	
						60	212	357	505	
						70	366	540	716	
2006	3	2,414	34%	20%	10%	50%	\$ 78	\$ 169	\$ 272	
						60	197	327	458	
						70	335	496	665	
2006	4	2,310	39%	24%	13%	50%	\$ 43	\$ 122	\$ 207	
						60	142	249	368	
						70	254	392	539	
2006 subtotal		\$ 9,128	33%	19%	8%					
2007	1	\$ 1,482	15%	24%	14%	50%	\$ 11	\$ 46	\$ 112	
						60	60	143	242	
						70	149	267	387	
2007	2	1,466	21%	18%	7%	50%	\$ 57	\$ 107	\$ 169	
						60	121	202	291	
						70	209	315	425	
2007	3	1,502	27%	12%	8%	50%	\$ 47	\$ 129	\$ 208	

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						60	148	244	340
						70	250	363	477
2007	4	1,387	32%	34%	9%	50%	\$ 17	\$ 50	\$ 90
						60	60	109	165
						70	113	195	292
2007 subtotal		\$ 5,837	24%	22%	7%				
Subtotal uninsured non-agency mortgage-related securities backed by MTA loans		\$ 18,873	29%	22%	7%				
Non-agency mortgage-related securities, backed by MTA loans with monoline bond insurance: Non-investment grade monoline no other-than-temporary impairments to date		\$ 366							
Non-investment grade monoline other-than-temporary impairments taken		367							
Subtotal non-agency mortgage-related securities, backed by MTA loans with monoline bond insurance ⁽⁵⁾		\$ 733							
Total non-agency mortgage-related securities, backed by MTA loans		\$ 19,606	30%						

- (1) Determined based on loans that are 60 days or more past due that underlie the securities. Collateral delinquency percentages are calculated based on the unpaid principal balances and information provided primarily by Intex.
- (2) Consists of subordination, financial guarantees and other credit enhancements. Does not include the benefit of excess interest.
- (3) Reflects the current subordination credit enhancement of the lowest security in each quartile.
- (4) Reflects the present value of projected principal losses based on the disclosed hypothetical cumulative default and loss severity rates against the outstanding collateral balance.
- (5) Represents the amount of unpaid principal balance covered by monoline insurance coverage. This amount does not represent the maximum amount of losses we could recover, as the monoline insurance also covers interest.

Monoline Bond Insurance

We rely on monoline bond insurance, including secondary coverage, to provide credit protection on some of our securities held in our mortgage-related investments portfolio as well as our non-mortgage-related investments portfolio. Monolines are companies that provide credit insurance principally covering securitized assets in both the primary issuance and secondary markets. See CREDIT RISKS Institutional Credit Risk *Mortgage Insurers* and

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NOTE 18: CONCENTRATION OF CREDIT AND OTHER RISKS to our consolidated financial statements for additional information regarding our credit risks to our counterparties and how we seek to manage them.

Table 31 shows our non-agency mortgage-related securities covered by monoline bond insurance at December 31, 2008.

Table 31 Non-Agency Mortgage-Related Securities Covered by Monoline Bond Insurance at December 31, 2008

Financial Guaranty Insurance Company		Synhora Guarantee Inc.		AMBAC Assurance Corporation		Financial Security Assurance Inc.		MBIA Insurance Corp.		Other ⁽¹⁾	
Unpaid Principal Balance ⁽²⁾	Gross Unrealized Losses ⁽³⁾	Unpaid Principal Balance ⁽²⁾	Gross Unrealized Losses ⁽³⁾	Unpaid Principal Balance ⁽²⁾	Gross Unrealized Losses ⁽³⁾	Unpaid Principal Balance ⁽²⁾	Gross Unrealized Losses ⁽³⁾	Unpaid Principal Balance ⁽²⁾	Gross Unrealized Losses ⁽³⁾	Unpaid Principal Balance ⁽²⁾	Gross Unrealized Losses ⁽³⁾
\$ 1,290	\$ (340)	\$ 220	\$ (2)	\$ 837	\$ (280)	\$ 510	\$ (66)	\$ 26	\$ (2)	\$	\$
362	(113)	72		52	(35)			15			
1,096	(123)	450	(30)	1,573	(980)	522	(272)	632			
		367	(48)	179	(123)	187	(127)				
				114	(63)			188			
				2,219	(399)			1,167	(368)	30	(7)
38	(7)			467	(94)	397	(74)	354	(44)	17	(2)
\$ 2,786	\$ (583)	\$ 1,109	\$ (80)	\$ 5,441	\$ (1,974)	\$ 1,616	\$ (539)	\$ 2,382	\$ (414)	\$ 47	\$ (9)

(1) Other represents monoline insurance provided by Radian Group Inc. and CIFG Holdings Ltd.

(2) Represents the amount of unpaid principal balance covered by monoline insurance coverage. This amount does not represent the maximum amount of losses we could recover, as the monoline insurance also covers interest.

(3) Represents the amount of gross unrealized losses at December 31, 2008 on the securities with monoline insurance.

(4) The majority of the Alt-A and other loans covered by monoline bond insurance are securities backed by home equity lines of credit.

Included in Table 31 is \$4.3 billion of unpaid principal balance that was impaired due to our determination that it was both probable that a principal and interest shortfall would occur on the insured securities and that in such a case there is substantial uncertainty surrounding the primary monoline insurers' ability to pay all future claims, as previously discussed. For the remaining securities covered by these insurers, we do not currently believe that it is probable that a contractual cash shortfall will occur on these securities. This assessment requires significant judgment and is subject to change as our assessments of future performance are updated.

See CREDIT RISKS Institutional Credit Risk *Mortgage Insurers* for a discussion of our expectations regarding the claims paying abilities of these insurers and CREDIT RISKS Institutional Credit Risk *Non-Freddie Mac Securities* Table 73 Monoline Bond Insurance by Counterparty for the ratings of these insurers as of March 2, 2009.

Ratings of Available-For-Sale Non-Agency Mortgage-Related Securities

Table 32 shows the ratings of available-for-sale non-agency mortgage-related securities backed by subprime loans held at December 31, 2008 based on their ratings as of December 31, 2008. Tables 32 through 35 use the lowest rating available for each security.

Table 32 Ratings of Available-For-Sale Non-Agency Mortgage-Related Securities backed by Subprime Loans at December 31, 2008

Credit Rating as of December 31, 2008	Unpaid Principal Balance	Amortized Cost	Gross Unrealized Losses	Monoline Insurance Coverage ⁽¹⁾
	(in millions)			
AAA-rated	\$ 21,267	\$ 21,224	\$ (4,821)	\$ 40
Other investment grade	22,502	22,418	(6,302)	1,493
Below investment grade	31,070	27,757	(8,022)	1,851
Total	\$ 74,839	\$ 71,399	\$ (19,145)	\$ 3,384

(1) Represents the amount of unpaid principal balance covered by monoline insurance coverage. This amount does not represent the maximum amount of losses we could recover, as the monoline insurance also covers interest.

Table 33 shows the percentage of unpaid principal balance at December 31, 2008 based on the rating of available-for-sale non-agency mortgage-related securities backed by subprime loans as of December 31, 2008 and March 2, 2009.

Table 33 Ratings of Available-For-Sale Non-Agency Mortgage-Related Securities backed by Subprime Loans at December 31, 2008 and March 2, 2009

Percentage of Unpaid Principal Balance at December 31, 2008	Credit Rating as of	
	December 31, 2008	March 2, 2009
AAA-rated	28%	28%
Other investment grade	30	27
Below investment grade	42	45
Total	100%	100%

Table 34 shows the ratings of available-for-sale non-agency mortgage-related securities backed by Alt-A and other loans and MTA loans held at December 31, 2008 based on their ratings as of December 31, 2008.

Table of Contents**Table 34 Ratings of Available-For-Sale Non-Agency Mortgage-Related Securities backed by Alt-A and Other Loans and MTA Loans at December 31, 2008**

Credit Ratings as of December 31, 2008	Unpaid Principal Balance	Amortized Cost (in millions)	Gross Unrealized Losses	Monoline Insurance Coverage ⁽¹⁾
Alt-A and other loans:				
AAA-rated	\$ 11,293	\$ 10,512	\$ (3,567)	\$ 185
Other investment grade	8,521	6,488	(2,405)	2,950
Below investment grade	5,253	3,032	(815)	1,138
Total	\$ 25,067	\$ 20,032	\$ (6,787)	\$ 4,273
MTA loans:				
AAA-rated	\$ 8,818	\$ 5,803	\$ (2,086)	\$ 57
Other investment grade	5,375	3,290	(1,423)	377
Below investment grade	5,413	3,024	(1,230)	299
Total	\$ 19,606	\$ 12,117	\$ (4,739)	\$ 733

(1) Represents the amount of unpaid principal balance covered by monoline insurance coverage. This amount does not represent the maximum amount of losses we could recover, as the monoline insurance also covers interest.

Table 35 shows the percentage of unpaid principal balance at December 31, 2008 based on the rating of available-for-sale non-agency mortgage-related securities backed by Alt-A and other loans and MTA loans as of December 31, 2008 and March 2, 2009.

Table 35 Ratings of Available-For-Sale Non-Agency Mortgage-Related Securities backed by Alt-A and Other Loans and MTA Loans at December 31, 2008 and March 2, 2009

Percentage of Unpaid Principal Balance at December 31, 2008	Credit Rating as of December 31, 2008	March 2, 2009
Alt-A and other loans:		
AAA-rated	45%	28%
Other investment grade	34	25
Below investment grade	21	47
Total	100%	100%
MTA loans:		
AAA-rated	45%	%
Other investment grade	27	4

Below investment grade	28	96
Total	100%	100%

Cash and Other Investments Portfolio

Table 36 provides detail regarding our cash and other investments portfolio.

Table 36 Cash and Other Investments Portfolio

	2008		December 31, 2007		2006	
	Fair Value	Average Maturity (Months)	Fair Value	Average Maturity (Months)	Fair Value	Average Maturity (Months)
	(dollars in millions)					
Cash and cash equivalents	\$ 45,326	< 3	\$ 8,574	< 3	\$ 11,359	< 3
Investments:						
Available-for-sale securities:						
Non-mortgage-related securities:						
Commercial paper ⁽¹⁾		N/A	18,513	< 3	11,191	< 3
Asset-backed securities ⁽²⁾	8,794	N/A	16,588	N/A	32,122	N/A
Obligations of states and political subdivisions ⁽²⁾		N/A		N/A	2,273	363
Total available-for-sale non-mortgage-related securities ⁽³⁾	8,794		35,101		45,586	
Federal funds sold and securities purchased under agreements to resell:						
Federal funds sold and Eurodollars		N/A	162	< 3	19,778	< 3
Securities purchased under agreements to resell	10,150	< 3	6,400	< 3	3,250	< 3
Subtotal	10,150		6,562		23,028	
Total cash and other investments portfolio	\$ 64,270		\$ 50,237		\$ 79,973	

(1) Beginning in the second quarter 2008, all investments in commercial paper with maturities of less than 3 months were entered into for working capital purposes and were classified as cash and cash equivalents.

(2) Consists primarily of securities that can be prepaid prior to their contractual maturity without penalty.

(3) Credit ratings for most securities are designated by no fewer than two nationally recognized statistical rating organizations. At December 31, 2008, 99% of these securities were rated A or better. At December 31, 2007 and 2006, all of our available-for-sale non-mortgage-related securities were rated A or better.

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We maintain a cash and other investments portfolio that is important to our financial management and our ability to provide liquidity and stability to the mortgage market. Of the \$64.3 billion in this portfolio as of December 31, 2008, \$45.3 billion represented investments in cash and cash equivalents. At December 31, 2008, the investments in this portfolio also included \$8.8 billion of non-mortgage-related securities that we could sell to provide us with an additional source of liquidity to fund our business operations. We also use this portfolio to help manage recurring cash flows and meet our other cash management needs. In addition, we use the portfolio to hold capital on a temporary basis until we can deploy it into mortgage-related investments or credit guarantee opportunities. We may also sell the securities in this portfolio to meet mortgage-funding needs, provide diverse sources of liquidity or help manage the interest rate risk inherent in mortgage-related assets.

During 2008, we increased the balance of our cash and other investments portfolio by \$14.0 billion, primarily due to a \$36.8 billion increase in highly liquid shorter-term cash and cash equivalent assets, including deposits in financial institutions and commercial paper, partially offset by a \$26.3 billion decrease in longer-term non-mortgage-related investments, including asset-backed securities. As a result of counterparty credit concerns during the latter half of 2008, these deposits in financial institutions included substantial cash balances in accounts that did not earn interest.

We recognized other-than-temporary impairment charges in our cash and other investments portfolio of \$590 million during the fourth quarter of 2008, related to our non-mortgage-related investments with \$9.8 billion of unpaid principal balance, as management could not assert the positive intent to hold these securities to recovery. Other-than-temporary impairments taken on our non-mortgage-related securities during 2008 were \$1.1 billion. The decision to impair these securities is consistent with our consideration of securities from the cash and other investments portfolio as a contingent source of liquidity. As we do not expect any contractual cash shortfalls, these impairment charges will be recognized as net interest income in future periods. As a result of these other-than-temporary impairment charges, there are no remaining net unrealized losses in our non-mortgage-related investments portfolio at December 31, 2008.

During 2007, we reduced the balance of our cash and other investments portfolio in order to take advantage of investment opportunities in mortgage-related securities as OAS widened. In addition, effective in December 2007, we established securitization trusts for the underlying assets of our PCs and Structured Securities. Consequently, we hold remittances in a segregated account and do not commingle those funds with our general operating funds. The cash owned by the trusts is not reflected in our cash and cash equivalents balances on our consolidated balance sheets.

During 2006, we decided to maintain higher levels of liquid investments to ensure that we could appropriately service our outstanding debt and PCs and Structured Securities while operating under the Federal Reserve's intraday overdraft policy, which was revised effective July 2006. The revised policy restricts the GSEs, among others, from maintaining intraday overdraft positions at the Federal Reserve.

Table 37 provides credit enhancement data and credit ratings of the non-mortgage-related securities in our cash and other investments portfolio at December 31, 2008.

Table 37 Investments in Non-Mortgage-Related Securities

December 31, 2008		
Credit		
Enhancement		
Statistics		
Collateral	Minimum	Current

Collateral Type	Amortized Cost (dollars in millions)	Fair Value	Delinquency % ⁽¹⁾	Average	Current	Original	Current	Investment Grade ⁽⁶⁾
				Credit Enhancement ⁽²⁾	Subordination ⁽³⁾	AAA-rated ⁽⁴⁾	AAA-rated ⁽⁵⁾	
Non-mortgage-related securities:								
Asset-backed securities:								
Credit cards	\$ 3,668	\$ 3,671	4%	15%	%	100%	77%	100%
Auto credit	2,837	2,837	3	47		100	65	100
Equipment lease	841	841	2	14	4	100	92	100
Student loans	579	581	1	56		100	95	100
Dealer floor plans ⁽⁷⁾	414	414		43	5	100	6	6
Stranded assets ⁽⁸⁾	321	322		1		100	100	100
Insurance premiums	128	128	1	7	5	100	100	100
Total non-mortgage-related securities	\$ 8,788	\$ 8,794	3	28		100	73	95

(1) Determined based on loans that are 60 days or more past due that underlie the securities and based on the unpaid principal balance and servicing data reported for December 31, 2008.

(2) Consists of subordination, financial guarantees and other credit enhancements. Does not include the benefit of excess interest.

(3) Reflects the current subordination credit enhancement of the lowest security in each category type.

(4) Reflects the composition of the portfolio that was AAA-rated as of the date of our acquisition of the security, based on the lowest rating available.

(5) Reflects the AAA-rated composition of the securities as of March 2, 2009, based on the lowest rating available.

(6) Reflects the composition of these securities with credit ratings BBB- or above as of March 2, 2009, based on unpaid principal balance and the lowest rating available.

(7) Includes securities backed by liens secured by automobile dealer inventories.

(8) Includes securities backed by liens secured by fixed assets owned by regulated public utilities.

Table of Contents**Issuers Greater than 10% of Stockholders Equity (Deficit)**

We held Fannie Mae securities in our mortgage-related investments portfolio with a fair value of \$72.2 billion at December 31, 2008. No other individual issuer at the individual trust level exceeded 10% of total stockholders' equity (deficit) at December 31, 2008.

Derivative Assets and Liabilities, Net

See CONSOLIDATED RESULTS OF OPERATIONS Non-Interest Income (Loss) *Derivative Gains (Losses)* for a description of gains (losses) on our derivative positions. Table 38 summarizes the notional or contractual amounts and related fair value of our total derivative portfolio by product type.

Table 38 Total Derivative Portfolio

	2008		December 31, 2007	
	Notional or Contractual Amount ⁽¹⁾	Fair Value ⁽²⁾ (in millions)	Notional or Contractual Amount ⁽¹⁾	Fair Value ⁽²⁾
Interest-rate swaps:				
Receive-fixed	\$ 279,609	\$ 22,266	\$ 301,649	\$ 3,648
Pay-fixed	404,359	(51,790)	409,682	(11,492)
Basis (floating to floating)	82,190	108	498	
Total interest-rate swaps	766,158	(29,416)	711,829	(7,844)
Option-based:				
Purchased call swaptions	177,922	21,089	259,272	7,134
Written call swaptions			1,900	(27)
Purchased put swaptions	41,550	539	18,725	631
Written put swaptions	6,000	(46)	2,650	(74)
Other option-based derivatives ⁽³⁾	68,583	1,864	30,486	(23)
Total option-based	294,055	23,446	313,033	7,641
Futures	128,698	(871)	196,270	92
Foreign-currency swaps	12,924	2,982	20,118	4,568
Subtotal	1,201,835	(3,859)	1,241,250	4,457
Forward purchase and sale commitments	108,273	5	72,662	327
Credit derivatives	13,631	38	7,667	10
Swap guarantee derivatives	3,281	(11)	1,302	(4)
Total derivative portfolio	\$ 1,327,020	\$ (3,827)	\$ 1,322,881	\$ 4,790

- (1) Notional or contractual amounts are used to calculate the periodic settlement amounts to be received and paid and generally do not represent actual amounts to be exchanged or directly reflect our exposure to institutional credit risk. Notional or contractual amounts are not recorded as assets or liabilities on our consolidated balance sheets.
- (2) The value of derivatives on our consolidated balance sheets is reported as derivative assets, net and derivative liability, net, and includes derivative interest receivable or (payable), net, trade/settle receivable or (payable), net and derivative cash collateral (held) or posted, net. Refer to CONSOLIDATED RESULTS OF OPERATIONS Table 15 Summary of the Effect of Derivatives on Selected Consolidated Financial Statement Captions for reconciliation of fair value to the amounts presented on our consolidated balance sheets as of December 31, 2008 and 2007. The fair values for futures are directly derived from quoted market prices. Fair values of other derivatives are derived primarily from valuation models using market data inputs.
- (3) Primarily represents purchased interest rate caps and floors, as well as written options, including guarantees of stated final maturity of issued Structured Securities and written call options on PCs we issued.

The composition of our derivative portfolio changes from period to period as a result of derivative purchases, terminations or assignments prior to contractual maturity and expiration of the derivatives at their contractual maturity. In addition, we classify net derivative interest receivable or payable, trade/settle receivable or payable and cash collateral held or posted on our consolidated balance sheets to derivative assets, net and derivative liability, net. We record changes in fair values of our derivatives in current income or, where applicable, to the extent our cash-flow hedge accounting relationships are effective, we defer those changes in AOCI.

As interest rates fluctuate, we use derivatives to adjust the contractual funding of our debt in response to changes in the expected lives of our mortgage-related assets. Our mix of notional or contractual amounts changed year-over-year as we responded to the declining interest rate environment. In 2008, we responded to the declining availability of longer-term debt by maintaining our pay-fixed swap position even as rates decreased. We used a combination of a series of short-term debt issuances and a pay-fixed swap with the same maturity as the last debt issuance to obtain the substantive economic equivalent of a long-term fixed-rate debt instrument.

The fair value of the total derivative portfolio decreased in 2008 due to the continued net interest rate decreases across the yield curve, which negatively impacted our interest rate swap portfolio, since we are in a net pay-fixed swap position. This decrease in fair value has been partially offset by the increase in implied volatility during 2008 resulting in increases to the value of our purchased options.

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As interest rates decreased, the fair value of our pay-fixed swap portfolio decreased by \$40.3 billion in 2008. This was partially offset by increases in the fair value of our receive-fixed swap portfolio of approximately \$18.6 billion and our purchased call swaption portfolio of \$14.0 billion.

The fair value of the total derivative portfolio decreased in 2007 due to net interest rate decreases across the yield curve that negatively impacted the fair value of our interest-rate swap portfolio. These fair value losses were partially offset by fair value increases on our purchased call swaption derivative portfolio that resulted from a net increase in implied volatility and net interest rate decreases.

As interest rates decreased, the fair value of our pay-fixed swap portfolio decreased by \$10.1 billion in 2007. This was partially offset by increases in the fair value of our receive-fixed swap portfolio of approximately \$4.0 billion and our purchased call swaption portfolio of \$3.1 billion. In 2007, we added to our portfolio of purchased call swaptions to manage convexity risk associated with the prepayment option in a decreasing interest rate environment. The notional amount of our pay-fixed swap portfolio increased because we enter into forward-starting pay-fixed swaps to mitigate the duration risk created when we enter into purchased call swaptions and to manage steepening yield curve effects on mortgage duration.

Table 39 summarizes the changes in derivative fair values.

Table 39 Changes in Derivative Fair Values

	2008⁽¹⁾	2007⁽¹⁾
	(in millions)	
Beginning balance, at January 1 Net asset (liability)	\$ 4,790	\$ 7,720
Net change in:		
Forward purchase and sale commitments	(322)	321
Credit derivatives	28	11
Swap guarantee derivatives	(7)	(1)
Other derivatives: ⁽²⁾		
Changes in fair value	(13,806)	(2,688)
Fair value of new contracts entered into during the period ⁽³⁾	3,587	1,146
Contracts realized or otherwise settled during the period	1,903	(1,719)
Ending balance, at December 31 Net asset (liability)	\$ (3,827)	\$ 4,790

- (1) The value of derivatives on our consolidated balance sheets is reported as derivative assets, net and derivative liability, net, and includes derivative interest receivable (payable), net, trade/settle receivable (payable), net and derivative cash collateral (held) posted, net. Refer to CONSOLIDATED RESULTS OF OPERATIONS Table 15 Summary of the Effect of Derivatives on Selected Consolidated Financial Statement Captions for reconciliation of fair value to the amounts presented on our consolidated balance sheets as of December 31, 2008 and December 31, 2007. Fair value excludes derivative interest receivable, net of \$2.3 billion, trade/settle receivable or (payable), net of \$ billion and derivative cash collateral held, net of \$9.5 billion at January 1, 2007.
- (2) Includes fair value changes for interest-rate swaps, option-based derivatives, futures, foreign-currency swaps and interest-rate caps.
- (3) Consists primarily of cash premiums paid or received on options.

Table 40 provides information on our outstanding written and purchased swaption and option premiums at December 31, 2008 and 2007, based on the original premium receipts or payments. We use written options primarily to mitigate convexity risk and reduce our overall hedging costs. See **QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK** Interest-Rate Risk and Other Market Risks *Sources of Interest-Rate Risk and Other Market Risks* *Duration Risk and Convexity Risk* for further discussion related to convexity risk.

Table 40 Outstanding Written and Purchased Swaption and Option Premiums

	Original Premium Amount (Paid) Received	Original Weighted Average Life to Expiration (dollars in millions)	Remaining Weighted Average Life
Purchased: ⁽¹⁾			
At December 31, 2008	\$ (6,775)	7.6 years	6.2 years
At December 31, 2007	\$ (5,478)	7.8 years	6.0 years
Written: ⁽²⁾			
At December 31, 2008	\$ 186	2.9 years	2.2 years
At December 31, 2007	\$ 87	3.0 years	2.6 years

(1) Purchased options exclude callable swaps.

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

Table 41 shows the fair value for each derivative type and the maturity profile of our derivative positions. A positive fair value in Table 41 for each derivative type is the estimated amount, prior to netting by counterparty, that we would be entitled to receive if we terminated the derivatives of that type. A negative fair value for a derivative type is the estimated amount, prior to netting by counterparty, that we would owe if we terminated the derivatives of that type. See **CREDIT RISKS** Institutional Credit Risk Table 75 Derivative Counterparty Credit Exposure for additional information regarding derivative counterparty credit exposure. Table 41 also provides the weighted average fixed rate of our pay-fixed and receive-fixed swaps.

Table of Contents**Table 41 Derivative Fair Values and Maturities**

	Notional or Contractual Amount	Total Fair Value ⁽²⁾	December 31, 2008				
			Less than 1 Year (dollars in millions)	1 to 3 Years	Fair Value ⁽¹⁾ Greater than 3 and up to 5 Years	In Excess of 5 Years	
Interest-rate swaps:							
Receive-fixed:							
Swaps	\$ 253,898	\$ 19,574	\$ 155	\$ 3,787	\$ 4,457	\$ 11,175	
Weighted-average fixed rate ⁽³⁾			3.99%	3.42%	3.66%	4.67%	
Forward-starting swaps ⁽⁴⁾	25,711	2,692			411	2,281	
Weighted-average fixed rate ⁽³⁾					4.47%	5.09%	
Total receive-fixed	279,609	22,266	155	3,787	4,868	13,456	
Basis (floating to floating)	82,190	108	(101)	209			
Pay-fixed:							
Swaps	309,324	(35,516)	(261)	(4,721)	(3,793)	(26,741)	
Weighted-average fixed rate ⁽³⁾			4.38%	3.72%	4.54%	4.58%	
Forward-starting swaps ⁽⁴⁾	95,035	(16,274)			(66)	(16,208)	
Weighted-average fixed rate ⁽³⁾					5.24%	5.23%	
Total pay-fixed	404,359	(51,790)	(261)	(4,721)	(3,859)	(42,949)	
Total interest-rate swaps	766,158	(29,416)	(207)	(725)	1,009	(29,493)	
Option-based:							
Call swaptions							
Purchased	177,922	21,089	2,959	6,798	3,440	7,892	
Put swaptions							
Purchased	41,550	539	17	182	143	197	
Written	6,000	(46)	(3)	(16)	(27)		
Other option-based derivatives ⁽⁵⁾	68,583	1,864	(44)		(1)	1,909	
Total option-based	294,055	23,446	2,929	6,964	3,555	9,998	
Futures	128,698	(871)	(858)	(13)			
Foreign-currency swaps	12,924	2,982	239	1,550	920	273	
Forward purchase and sale commitments	108,273	5	5				
Swap guarantee derivatives	3,281	(11)				(11)	
Subtotal	1,313,389	(3,865)	\$ 2,108	\$ 7,776	\$ 5,484	\$ (19,233)	

Credit derivatives	13,631	38
Total	\$ 1,327,020	\$ (3,827)

- (1) Fair value is categorized based on the period from December 31, 2008 until the contractual maturity of the derivative.
- (2) The value of derivatives on our consolidated balance sheets is reported as derivative assets, net and derivative liability, net, and includes derivative interest receivable (payable), net, trade/settle receivable (payable), net and derivative cash collateral (held) posted, net. Refer to CONSOLIDATED RESULTS OF OPERATIONS Table 15 Summary of the Effect of Derivatives on Selected Consolidated Financial Statement Captions for reconciliation of fair value to the amounts presented on our consolidated balance sheets as of December 31, 2008.
- (3) Represents the notional weighted average rate for the fixed leg of the swaps.
- (4) Represents interest-rate swap agreements that are scheduled to begin on future dates ranging from less than one year to ten years.
- (5) Primarily represents purchased interest rate caps and floors, as well as written options, including guarantees of stated final maturity of issued Structured Securities and written call options on PCs we issued.

Guarantee Asset

See CONSOLIDATED RESULTS OF OPERATIONS Non-Interest Income (Loss) *Gains (Losses) on Guarantee Asset* for further discussion of gains (losses) on our guarantee asset. Table 42 summarizes changes in the guarantee asset balance.

Table 42 Changes in Guarantee Asset

	December 31,	
	2008	2007
	(in millions)	
Beginning balance	\$ 9,591	\$ 7,389
Additions	2,439	3,686
Other ⁽¹⁾	(92)	
Components of fair value gains (losses):		
Return of investment on guarantee asset	(1,750)	(1,739)
Change in fair value of management and guarantee fees	(5,341)	255
Gains (losses) on guarantee asset	(7,091)	(1,484)
Ending balance	\$ 4,847	\$ 9,591

- (1) Represents a reduction in our guarantee asset associated with the extinguishment of our previously issued long-term credit guarantees upon conversion into either PCs or Structured Transactions.

The decrease in additions to our guarantee asset during 2008 compared to 2007 was primarily due to a decrease in the overall issuance volume of our guaranteed securities. Our issuance volume progressively decreased during the second half of

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2008 as the housing market slowed and seller/servicers increasingly utilized FHA and Ginnie Mae programs for newly originated mortgages. Fair value losses on guarantee asset increased for 2008 compared to 2007, primarily due to significant declines in interest rates during 2008, particularly in the fourth quarter, as well as declines in market valuations for excess-servicing, interest-only mortgage securities, which we use to value our guarantee asset. As a result of certain government actions, funding costs for many financial institutions declined, which caused the average rates for conventional single-family mortgages to decline significantly during the fourth quarter of 2008.

Real Estate Owned, Net

We acquire residential properties in satisfaction of borrower defaults on mortgage loans that we own or for which we have issued our financial guarantees. The balance of our REO, net increased substantially to \$3.3 billion at December 31, 2008 from \$1.7 billion at December 31, 2007. Our single-family REO property inventory doubled during 2008, with the most significant amount of acquisitions in the states of California, Arizona, Florida, Michigan and Nevada. REO acquisitions in the West region and Florida generally have higher average property values due to home price appreciation prior to the more recent decreases in home prices. Our temporary suspension of foreclosure sales on occupied homes from November 26, 2008 through January 31, 2009 caused a decrease in the growth of REO acquisitions and inventory in December 2008. We reinstated the suspension of foreclosure sales on occupied homes from February 14, 2009 through March 6, 2009. The expiration of this suspension will likely result in continued growth of our REO inventory during 2009. See **CREDIT RISKS Mortgage Credit Risk Credit Loss Performance** for additional information.

Net Deferred Tax Assets

Deferred tax assets and liabilities are recognized based upon the expected future tax consequences of existing temporary differences between the financial reporting and the tax reporting basis of assets and liabilities using enacted statutory tax rates. Valuation allowances are recorded to reduce net deferred tax assets when it is more likely than not that a tax benefit will not be realized. The realization of our net deferred tax assets is dependent upon the generation of sufficient taxable income or upon our intent and ability to hold available-for-sale debt securities until the recovery of any temporary unrealized losses. On a quarterly basis, we determine whether a valuation allowance is necessary. In so doing, we consider all evidence currently available, both positive and negative, in determining whether, based on the weight of that evidence, the net deferred tax assets will be realized and whether a valuation allowance is necessary.

Subsequent to the date of our entry into conservatorship, we determined that it was more likely than not that a portion of our net deferred tax assets would not be realized due to our inability to generate sufficient taxable income. We made the same determination in the fourth quarter of 2008 after a thorough evaluation of available evidence, including the events and developments related to our conservatorship, other recent events in the market, and related difficulty in forecasting future profit levels. As a result, in 2008, we recorded a \$22.4 billion partial valuation allowance against our net deferred tax assets, including \$8.3 billion recorded in the fourth quarter. As of December 31, 2008, we had a remaining deferred tax asset of \$15.4 billion representing the tax effect of unrealized losses on our available-for-sale debt securities, which management believes is more likely than not of being realized because of our intent and ability to hold these securities until the unrealized losses are recovered. For additional information, see **NOTE 14: INCOME TAXES Net Deferred Tax Assets** to our consolidated financial statements and **CRITICAL ACCOUNTING POLICIES AND ESTIMATES Realizability of Net Deferred Tax Assets**. Our view of our ability to realize the net deferred tax assets may change in future periods, particularly if the mortgage and housing markets continue to decline.

Total Debt

Table 43 reconciles the par value of our debt, including short-term debt and long-term debt, to the amounts shown on our consolidated balance sheets. See **LIQUIDITY AND CAPITAL RESOURCES** for further discussion of our debt

management activities.

Table 43 Reconciliation of the Par Value to Total Debt, Net

	December 31,	
	2008	2007
	(in millions)	
Total debt:		
Par value ⁽¹⁾	\$ 870,276	\$ 781,261
Unamortized balance of discounts and premiums ⁽²⁾	(28,008)	(43,540)
Hedging-related and other basis adjustments ⁽¹⁾⁽³⁾	753	836
Total debt, net	\$ 843,021	\$ 738,557

(1) Prior period amounts have been revised to conform to the current year presentation.

(2) Primarily represents unamortized discounts on zero-coupon debt.

(3) Primarily represents deferrals related to debt instruments that were in hedge accounting relationships. 2008 also includes changes in the fair value attributable to instrument-specific credit risk related to foreign-currency-denominated debt.

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Table 44 summarizes our short-term debt.

Table 44 Short-Term Debt

	December 31, Weighted		2008 Average Outstanding During the Year Weighted		Maximum Balance, Net Outstanding at Any Month End
	Balance, Net ⁽¹⁾	Average Effective Rate ⁽²⁾	Balance, Net ⁽³⁾	Average Effective Rate ⁽⁴⁾	
			(dollars in millions)		
Reference Bills [®] securities and discount notes	\$ 310,026	1.67%	\$ 231,361	2.65%	\$ 310,026
Medium-term notes	19,676	2.61	11,758	2.74	19,676
Federal funds purchased and securities sold under agreements to repurchase			519	2.86	3,500
Subtotal	329,702	1.73			
Current portion of long-term debt	105,412	3.46			
Short-term debt	\$ 435,114	2.15			

	December 31, Weighted		2007 Average Outstanding During the Year Weighted		Maximum Balance, Net Outstanding at Any Month End
	Balance, Net ⁽¹⁾	Average Effective Rate ⁽²⁾	Balance, Net ⁽³⁾	Average Effective Rate ⁽⁴⁾	
			(dollars in millions)		
Reference Bills [®] securities and discount notes	\$ 196,426	4.52%	\$ 158,467	5.02%	\$ 196,426
Medium-term notes	1,175	4.36	4,496	5.27	8,907
Federal funds purchased and securities sold under agreements to repurchase			112	5.42	804
Subtotal	197,601	4.52			
Current portion of long-term debt	98,320	4.44			

Short-term debt \$ 295,921 4.49

	December 31,		2006 Average Outstanding During the Year		Maximum Balance, Net Outstanding at Any Month End
	Weighted Balance, Net ⁽¹⁾	Average Effective Rate ⁽²⁾	Weighted Balance, Net ⁽³⁾	Average Effective Rate ⁽⁴⁾	
Reference Bills [®] securities and discount notes	\$ 157,553	5.14%	\$ 165,270	4.76%	\$ 182,946
Medium-term notes	9,832	5.16	4,850	4.82	9,832
Federal funds purchased and securities sold under agreements to repurchase			81	5.48	2,200
Subtotal	167,385	5.14			
Current portion of long-term debt	117,879	4.10			
Short-term debt	\$ 285,264	4.71			

(1) Represents par value, net of associated discounts, premiums and foreign-currency-related and hedge-related basis adjustments, of which \$1.6 billion of current portion of long-term debt represents the fair value of foreign-currency denominated debt in accordance with SFAS 159 at December 31, 2008.

(2) Represents the approximate weighted average effective rate for each instrument outstanding at the end of the period, which includes the amortization of discounts or premiums and issuance costs. For 2008, the current portion of long-term debt includes the amortization of hedging-related basis adjustments.

(3) Represents par value, net of associated discounts, premiums and issuance costs. Issuance costs are reported in the other assets caption on our consolidated balance sheets.

(4) Represents the approximate weighted average effective rate during the period, which includes the amortization of discounts or premiums and issuance costs.

Guarantee Obligation

See NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES to our consolidated financial statements for information regarding the accounting and measurement of our guarantee obligation.

Table of Contents**Table 45 Changes in Guarantee Obligation**

	December 31,	
	2008	2007
	(in millions)	
Beginning balance	\$ 13,712	\$ 9,482
Transfer-out to the loan loss reserve ⁽¹⁾	(18)	(7)
Deferred guarantee income of newly-issued guarantees	3,366	6,142
Other ⁽²⁾	(136)	
Amortization income:		
Static effective yield	(2,660)	(1,706)
Cumulative catch-up	(2,166)	(199)
Income on guarantee obligation	(4,826)	(1,905)
Ending balance	\$ 12,098	\$ 13,712

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

(2) Represents a reduction in our guarantee obligation associated with the extinguishment of our previously issued long-term credit guarantees upon conversion into either PCs or Structured Transactions.

The primary drivers affecting our guarantee obligation balances are our credit guarantee business volumes, fair values of performance obligations on new guarantees and cumulative catch-up adjustments. Deferred guarantee income of our newly issued guarantees decreased during 2008, compared to 2007, primarily as a result of our change in approach to determining fair value at initial issuance of our guarantees, coupled with the lower volume of guarantee issuances during 2008 as compared to 2007. We issued \$358 billion and \$471 billion of our financial guarantees during 2008 and 2007, respectively. See **CONSOLIDATED RESULTS OF OPERATIONS Non-Interest Income (Loss) *Income on Guarantee Obligation*** for a discussion of amortization income related to our guarantee obligation.

Total Stockholders Equity (Deficit)

Total stockholders equity (deficit) at December 31, 2008 reflects the following actions as a result of the Purchase Agreement:

The liquidation preference of the senior preferred stock increased by \$14.8 billion, reflecting the issuance of \$1 billion of senior preferred stock on September 8, 2008 and our receipt of \$13.8 billion on November 24, 2008 from Treasury.

We issued a warrant to Treasury with an estimated value of \$2.3 billion for the purchase of our common stock representing 79.9% of our common stock outstanding on a fully diluted basis at the time of exercise at a price of \$0.00001 per share.

We paid dividends of \$172 million in cash on the senior preferred stock to Treasury on December 31, 2008 at the direction of our Conservator.

We issued the senior preferred stock and the warrant to Treasury in consideration for the commitment set forth in the Purchase Agreement, and for no other consideration. As a result, the issuance of the senior preferred stock and warrant to Treasury had no impact on total stockholders' equity (deficit) as the offset was to additional paid-in capital. If we do not pay future dividends on the senior preferred stock in cash, the amount of the dividend will be added to the aggregate liquidation preference of the senior preferred stock.

Without the consent of Treasury, we are restricted from making payments to purchase or redeem our common or preferred stock as well as paying any dividends, including preferred dividends, other than dividends on the senior preferred stock. We did not declare common or preferred dividends during the second half of 2008 other than on the senior preferred stock.

Total stockholders' equity (deficit) also reflects the following actions of the Director of FHFA, as Conservator:

The elimination of the par value of our common stock, which resulted in the reclassification of \$152 million from common stock to additional paid-in-capital on our consolidated balance sheet as of December 31, 2008.

An increase in the number of common shares available for issuance to four billion shares as of December 31, 2008.

See EXECUTIVE SUMMARY for additional information regarding our Purchase Agreement with Treasury and actions taken by FHFA, as Conservator.

Total stockholders' equity (deficit) decreased \$57.5 billion during 2008. This decrease was primarily a result of a net loss of \$50.1 billion during 2008, a \$21.2 billion net decrease in AOCI, \$0.8 billion of common and preferred stock dividends declared prior to conservatorship, and \$0.2 billion of senior preferred stock dividends to Treasury. These factors were partially offset by an increase of \$1.0 billion to our beginning retained earnings as a result of the adoption of SFAS 159 and the \$14.8 billion increase in the liquidation preference of the senior preferred stock, of which the initial \$1 billion of the liquidation preference had no impact on the total stockholders' equity (deficit). The balance of AOCI at December 31, 2008 was a net loss of approximately \$32.4 billion, net of taxes, compared to a net loss of \$11.1 billion, net of taxes, at

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December 31, 2007. The increase in the net loss in AOCI was primarily attributable to unrealized losses on our non-agency single-family mortgage-related securities backed by subprime, Alt-A and MTA mortgage loans, and CMBS with changes in net unrealized losses, net of taxes, recorded in AOCI of \$22.2 billion for 2008. In addition, we reclassified a net gain of \$0.9 billion, net of taxes, from AOCI to retained earnings (accumulated deficit) in adopting SFAS 159 that was partially offset by the reclassification from AOCI to earnings of deferred losses related to closed cash flow hedges. See *Mortgage-Related Investments Portfolio Higher Risk Components of Our Mortgage-Related Investments Portfolio* regarding mortgage-related securities backed by subprime loans, Alt-A and other loans and MTA loans.

CONSOLIDATED FAIR VALUE BALANCE SHEETS ANALYSIS

Our consolidated fair value balance sheets include the estimated fair values of financial instruments recorded on our consolidated balance sheets prepared in accordance with GAAP, as well as off-balance sheet financial instruments that represent our assets or liabilities that are not recorded on our GAAP consolidated balance sheets. See **NOTE 17: FAIR VALUE DISCLOSURES** Table 17.4 Consolidated Fair Value Balance Sheets to our consolidated financial statements for our fair value balance sheets.

These off-balance sheet items predominantly consist of: (a) the unrecognized guarantee asset and guarantee obligation associated with our PCs issued through our guarantor swap program prior to the implementation of FIN 45, (b) certain commitments to purchase mortgage loans and (c) certain credit enhancements on manufactured housing asset-backed securities. The fair value balance sheets also include certain assets and liabilities that are not financial instruments (such as property and equipment and real estate owned, which are included in other assets) at their carrying value in accordance with GAAP. During 2008 and 2007, our fair value results were impacted by several improvements in our approach for estimating the fair value of certain financial instruments. See **OFF-BALANCE SHEET ARRANGEMENTS** and **CRITICAL ACCOUNTING POLICIES AND ESTIMATES** as well as **NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** and **NOTE 17: FAIR VALUE DISCLOSURES** to our consolidated financial statements for more information on fair values.

In conjunction with the preparation of our consolidated fair value balance sheets, we use a number of financial models. See **RISK FACTORS**, **OPERATIONAL RISKS** and **QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK** Interest-Rate Risk and Other Market Risks for information concerning the risks associated with these models.

Key Components of Changes in Fair Value of Net Assets

Our attribution of changes in the fair value of net assets relies on models, assumptions, and other measurement techniques that evolve over time. Changes in the fair value of net assets from period to period result from returns (measured on a fair value basis) on our investment and credit guarantee activities and capital transactions and are primarily attributable to changes in a number of key components:

Investment Activities

Core Spread Income

Core spread income on our mortgage-related investments portfolio is a fair value estimate of the net current period accrual of income from the spread between our mortgage-related investments and our debt, calculated on an option-adjusted basis. OAS is an estimate of the yield spread between a given financial instrument and a benchmark (LIBOR, agency or Treasury) yield curve, after consideration of potential variability in the instrument's cash flows resulting from any options embedded in the instrument, such as prepayment options.

Changes in Mortgage-To-Debt OAS

The fair value of our net assets can be significantly affected from period to period by changes in the net OAS between the mortgage and agency debt sectors. The fair value impact of changes in OAS for a given period represents an estimate of the net unrealized increase or decrease in fair value of net assets arising from net fluctuations in OAS during that period. We do not attempt to hedge or actively manage the basis risk represented by the impact of changes in mortgage-to-debt OAS because we generally hold a substantial portion of our mortgage assets for the long term and we do not believe that periodic increases or decreases in the fair value of net assets arising from fluctuations in OAS will significantly affect the long-term value of our mortgage-related investments portfolio. Our estimate of the effect of changes in OAS excludes the impact of other market risk factors we actively manage, or economically hedge, to keep interest-rate risk exposure within prescribed limits.

Asset-Liability Management Return

Asset-liability management return represents the estimated net increase or decrease in the fair value of net assets resulting from net exposures related to the market risks we actively manage. We do not hedge all of the interest-rate risk that exists at the time a mortgage is purchased or that arises over its life. The market risks to which we are exposed as a result of

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our mortgage-related investments portfolio activities that we actively manage include duration and convexity risks, yield curve risk and volatility risk. We seek to manage these risk exposures within prescribed limits as part of our overall portfolio management strategy. Taking these risk positions and managing them within prudent limits is an integral part of our investment activity. We expect that the net exposures related to market risks we actively manage will generate fair value returns, although those positions may result in a net increase or decrease in fair value for a given period. See **QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK** Interest-Rate Risk and Other Market Risks for more information.

Credit Guarantee Activities

Core Management and Guarantee Fees, Net

Core management and guarantee fees, net represents a fair value estimate of the annual income of the credit guarantee portfolio, based on current portfolio characteristics and market conditions. This estimate considers both contractual management and guarantee fees collected over the life of the credit guarantee portfolio and credit-related delivery fees collected up-front when pools are formed, and associated costs and obligations, which include default costs.

Change in the Fair Value of the Credit Guarantee Portfolio

Change in the fair value of the credit guarantee portfolio represents the estimated impact on the fair value of the credit guarantee business resulting from additions to the portfolio (net difference between the fair values of the guarantee asset and guarantee obligation recorded when pools are formed) plus the effect of changes in interest rates, projections of the future credit outlook and other market factors (*e.g.*, impact of the passage of time on cash flow discounting). Our estimated fair value of the credit guarantee portfolio will change as credit conditions change.

We generally do not hedge changes in the fair value of our existing credit guarantee portfolio, with two exceptions discussed below. While periodic changes in the fair value of the credit guarantee portfolio may have a significant impact on the fair value of net assets, we believe that changes in the fair value of our existing credit guarantee portfolio are not the best indication of long-term fair value expectations because such changes do not reflect our expectation that, over time, replacement business will largely replenish management and guarantee fee income lost because of prepayments. However, to the extent that projections of the future credit outlook reflected in the changes in fair value are realized, our fair value results may be affected.

We hedge interest-rate exposure related to net buy-ups (up-front payments we make that increase the management and guarantee fee that we will receive over the life of the pool) and float (expected gains or losses resulting from our mortgage security program remittance cycles). These value changes are excluded from our estimate of the changes in fair value of the credit guarantee portfolio, so that it reflects only the impact of changes in interest rates and other market factors on the unhedged portion of the projected cash flows from the credit guarantee business. The fair value changes associated with net buy-ups and float are considered in asset-liability management return (described above) because they relate to hedged positions.

Fee Income

Fee income includes securitization fees, fees generated by our automated underwriting service and delivery fees on some mortgage purchases.

Discussion of Fair Value Results

In 2008, the fair value of net assets, before capital transactions, declined by \$120.9 billion compared to a \$24.7 billion decrease in 2007. The decrease in the fair value of net assets due to the payment of common, preferred and senior preferred dividends, and the reissuance of treasury stock was more than offset by funds received from Treasury of \$13.8 billion under the Purchase Agreement, resulting in a net increase in total fair value of net assets of \$12.7 billion in 2008. The fair value of net assets as of December 31, 2008 was \$(95.6) billion, compared to \$12.6 billion as of December 31, 2007. Included in the reduction of the fair value of net assets is \$40.2 billion related to our valuation allowance for our net deferred tax assets at fair value during 2008.

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Table 46 summarizes the change in the fair value of net assets for 2008 and 2007.

Table 46 Summary of Change in the Fair Value of Net Assets

	2008	2007
	(in billions)	
Beginning balance	\$ 12.6	\$ 31.8
Changes in fair value of net assets, before capital transactions	(120.9)	(24.7)
Capital transactions:		
Dividends, share repurchases and issuances, net ⁽¹⁾	12.7	5.5
Ending balance	\$ (95.6)	\$ 12.6

(1) 2008 includes the funds received from Treasury of \$13.8 billion under the Purchase Agreement, which increased the liquidation preference of our senior preferred stock.

Estimated Impact of Changes in Mortgage-To-Debt OAS on Fair Value Results

For 2008 and 2007, we estimate that on a pre-tax basis the changes in the fair value of net assets, before capital transactions, included decreases of approximately \$90.7 billion and \$23.8 billion, respectively, due to a net widening of mortgage-to-debt OAS.

How We Estimate the Impact of Changes in Mortgage-To-Debt OAS on Fair Value Results

The impact of changes in OAS on fair value should be understood as an estimate rather than a precise measurement. To estimate the impact of OAS changes, we use models that involve the forecast of interest rates and prepayment behavior and other inputs. We also make assumptions about a variety of factors, including macroeconomic and security-specific data, interest-rate paths, cash flows and prepayment rates. We use these models and assumptions in running our business, and we rely on many of the models in producing our financial statements and measuring, managing and reporting interest-rate and other market risks. The use of different estimation methods or the application of different assumptions could result in a materially different estimate of OAS impact.

An integral part of this framework includes the attribution of fair value changes to assess the performance of our investment activities. On a daily basis, all interest rate sensitive assets, liabilities and derivatives are modeled using our proprietary prepayment and interest rate models. Management uses interest-rate risk statistics generated from this process, along with daily market movements, coupon accruals and price changes, to estimate and attribute returns into various risk factors commonly used in the fixed income industry to quantify and understand sources of fair value return. One important risk factor is the change in fair value due to changes in mortgage-to-debt OAS.

Understanding Our Estimate of the Impact of Changes in Mortgage-To-Debt OAS on Fair Value Results

A number of important qualifications apply to our disclosed estimates. The estimated impact of the change in OAS on the fair value of our net assets in any given period does not depend on other components of the change in fair value. Although the fair values of our financial instruments will generally move toward their par values as the instruments approach maturity, investors should not expect that the effect of past changes in OAS will necessarily reverse through future changes in OAS. To the extent that actual prepayment or interest rate distributions differ from the forecasts contemplated in our models, changes in values reflected in mortgage-to-debt OAS may not be recovered in fair value

returns at a later date.

When the OAS on a given asset widens, the fair value of that asset will typically decline, all other things being equal. However, we believe such OAS widening has the effect of increasing the likelihood that, in future periods, we will recognize income at a higher spread on this existing asset. The reverse is true when the OAS on a given asset tightens current period fair values for that asset typically increase due to the tightening in OAS, while future income recognized on the asset is more likely to be earned at a reduced spread. Although a widening of OAS is generally accompanied by lower current period fair values, it can also provide us with greater opportunity to purchase new assets for our mortgage-related investments portfolio at the wider mortgage-to-debt OAS.

For these reasons, our estimate of the impact of the change in OAS provides information regarding one component of the change in fair value for the particular period being evaluated. In addition, results for a single period should not be used to extrapolate long-term fair value returns. We believe the potential fair value return of our business over the long term depends primarily on our ability to add new assets at attractive mortgage-to-debt OAS and to effectively manage over time the risks associated with these assets, as well as the risks of our existing portfolio.

Estimated Impact of Credit Guarantee Activities on Fair Value Results

Our credit guarantee activities, including multifamily and single-family mortgage loan credit exposure, decreased pre-tax fair value by an estimated \$40.1 billion in 2008. This estimate includes an increase in the single-family guarantee obligation of approximately \$36.7 billion, primarily due to a declining credit environment. This increase in the single-family guarantee

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obligation includes a reduction of \$7.1 billion in the fair value of our guarantee obligation recorded on January 1, 2008, as a result of our adoption of SFAS 157.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

Our business activities require that we maintain adequate liquidity to fund our operations, which may include the need to make payments upon the maturity, redemption or repurchase of our debt securities; make payments of principal and interest on our debt securities and on our PCs and Structured Securities; make net payments on derivative instruments; pay dividends on our senior preferred stock; purchase mortgage-related securities and other investments; and purchase mortgage loans. See **RISK MANAGEMENT AND DISCLOSURE COMMITMENTS** for a discussion of our agreement with FHFA to maintain and periodically test a liquidity management and contingency plan. Pursuant to this agreement, FHFA periodically assesses the size of our liquidity portfolio.

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

receipts of principal and interest payments on securities or mortgage loans we hold;

other cash flows from operating activities, including guarantee activities;

borrowings against mortgage-related securities and other investment securities we hold; and

sales of securities we hold.

As described below under *Actions of Treasury, the Federal Reserve and FHFA*, Treasury, the Federal Reserve and FHFA have taken a number of actions that affect our cash requirements and ability to fund those requirements. The support of Treasury and the Federal Reserve to date has enabled us to access debt funding on terms sufficient for our needs.

As discussed above, our dividend obligations on the senior preferred stock are substantial, and make it more likely that we will face increasingly negative cash flows from operations. For more information, see **RISK FACTORS** *Conservatorship and Related Developments* *Factors including credit losses from our mortgage guarantee activities have had an increasingly negative impact on our cash flows from operations during 2007 and 2008. As we anticipate these trends to continue for the foreseeable future, it is likely that the company will increasingly rely upon access to the public debt markets as a source of funding for ongoing operations. Access to such public debt markets may not be available.*

We measure our cash position on a daily basis, netting uses of cash with sources of cash. We manage the net cash position with the goal of providing debt funds to cover expected net cash outflows without adversely affecting overall funding costs. Our approach to liquidity management has three components:

we are required to maintain a net cash surplus for at least 21 days based on projected outflows and inflows;

we maintain alternative sources of liquidity to allow normal operations without relying upon the issuance of unsecured debt. The alternative sources of liquidity include potential sales from our cash and other investments portfolio and our ability to borrow against our largely unencumbered agency mortgage-related investments portfolio through repurchase transactions with Treasury under the Lending Agreement, as current market

conditions make it difficult to find other suitable counterparties for such transactions; and

our liquidity management policy requires us to maintain a portfolio of liquid, marketable, non-mortgage-related securities with maturities greater than 21 days or designated money market instruments of at least \$20 billion. These securities provide liquidity either through potential sales or our receipt of payments from the securities, including at maturity.

We monitor compliance with these requirements on a daily basis. We periodically conduct tests of our ability to implement our liquidity plans in response to hypothetical liquidity events. As discussed below under *Mortgage-Related Investments Portfolio*, current market conditions limit the availability of the assets in our mortgage-related investments portfolio as a significant source of funding. Consequently, our long-term liquidity contingency strategy currently is dependent on use of the Lending Agreement, which expires on December 31, 2009.

We may require cash in order to fulfill our mortgage purchase commitments. Historically, we fulfilled our purchase commitments related to our mortgage purchase flow business primarily by swap transactions, whereby our customers exchange mortgage loans for PCs, rather than through cash outlays. However, it is at the discretion of the seller, subject to limitations imposed by the contract governing the commitment, whether the purchase commitment is fulfilled by a swap transaction or through the exchange of cash. Since mortgage interest rates declined late in the fourth quarter of 2008, there has been an increase in refinance mortgage originations. A higher than historically experienced volume of these refinance originations have been delivered to us for cash purchase rather than for swap transactions. We provide liquidity to our seller/servicers through our cash purchase program. Loans purchased through the cash purchase program are typically sold to investors through a cash auction of PCs, and, in the interim, are carried as mortgage loans on our consolidated balance sheets. However, because of continuing market disruptions in the second half of 2008, demand for our cash auctions of PCs

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has continued to be negatively impacted, and, when coupled with our increased cash purchase activity, resulted in us retaining higher balances of single-family mortgage loans at December 31, 2008 than at December 31, 2007. See

OFF-BALANCE SHEET ARRANGEMENTS Other for additional information regarding our purchase commitments at December 31, 2008.

For use of the Fedwire system, the Federal Reserve requires that we fully fund our account in the system to the extent necessary to cover payments on our debt and mortgage-related securities each day, before the Federal Reserve Bank of New York, acting as our fiscal agent, will initiate such payments. We have open lines of credit with third parties, certain of which require that we post collateral that, in certain limited circumstances, the secured party has the right to repledge to other third parties, including the Federal Reserve Bank. As of December 31, 2008, we pledged approximately \$20.7 billion of securities to these secured parties. These lines of credit, which provide intraday liquidity to fund our activities through the Fedwire system, are uncommitted intraday loan facilities. As a result, while we expect to continue to use these facilities, we may not be able to draw on them if and when needed. See NOTE 5: INVESTMENTS IN SECURITIES Collateral Pledged to our consolidated financial statements for further information.

Depending on market conditions and the mix of derivatives we employ in connection with our ongoing risk management activities, our derivative portfolio can be either a net source or a net use of cash. For example, depending on the prevailing interest-rate environment, interest-rate swap agreements could cause us either to make interest payments to counterparties or to receive interest payments from counterparties. Purchased options require us to pay a premium while written options allow us to receive a premium.

We are required to pledge collateral to third parties in connection with secured financing and daily trade activities. In accordance with contracts with certain derivative counterparties, we post collateral to those counterparties for derivatives in a net loss position, after netting by counterparty, above agreed-upon posting thresholds. See NOTE 5: INVESTMENTS IN SECURITIES Collateral Pledged to our consolidated financial statements for information about assets we pledge as collateral.

We are involved in various legal proceedings, including those discussed in LEGAL PROCEEDINGS, which may result in a use of cash.

Actions of Treasury, the Federal Reserve and FHFA

Treasury, the Federal Reserve and FHFA have taken a number of actions that affect our cash requirements and ability to fund those requirements, including the following:

we have entered into the Purchase Agreement with Treasury, in connection with which Treasury has provided us with its announced commitment to provide up to \$200 billion in funding under specified conditions;

we may request funds from Treasury until December 31, 2009 under our Lending Agreement with Treasury;

Treasury has implemented a program to purchase mortgage-related securities issued by Freddie Mac and Fannie Mae, under which Treasury held \$94.2 billion of GSE mortgage-related securities as of January 31, 2009;

the Federal Reserve has implemented a program to purchase up to \$100 billion in direct obligations of Freddie Mac, Fannie Mae and the FHLBs and up to \$500 billion of mortgage-related securities issued by Freddie Mac, Fannie Mae and Ginnie Mae. The Federal Reserve will purchase these direct obligations and mortgage-related securities from primary dealers. Under this program, the Federal Reserve held \$17.3 billion of our direct obligations and purchased \$74.2 billion of our mortgage-related securities as of February 25, 2009;

FHFA, as Conservator, has eliminated the dividends on our common stock and preferred stock (other than the senior preferred stock); and

FHFA has suspended our capital requirements and the requirement to provide funds to the HUD and Treasury housing funds established by the Reform Act.

The Purchase Agreement provides that, if FHFA determines that our liabilities exceed our assets under GAAP, Treasury will contribute funds in an amount equal to the difference between such liabilities and assets; a higher amount may be drawn if Treasury and Freddie Mac mutually agree that the draw should be increased beyond the level by which liabilities exceed assets under GAAP. On November 24, 2008, we received \$13.8 billion from Treasury under the Purchase Agreement, and we expect to receive an additional \$30.8 billion in March 2009. As a result of our draws under the Purchase Agreement, the aggregate liquidation preference of the senior preferred stock will increase from \$1.0 billion as of September 8, 2008 to \$45.6 billion. Our annual dividend obligation, based on that liquidation preference, will be \$4.6 billion, which is in excess of our annual net income in eight of the ten prior fiscal years. These dividend obligations make it more likely that we will face increasingly negative cash flows from operations.

To date, our need for funding under the Purchase Agreement has not been caused by cash flow shortfalls but rather primarily reflects large credit-related expenses and non-cash fair value adjustments as well as a partial valuation allowance

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against our net deferred tax assets that resulted in reductions to our GAAP stockholders' equity (deficit). However, we expect this to change, particularly in light of the size of our dividend obligation in future periods.

Under the Purchase Agreement, our ability to repay the liquidation preference of the senior preferred stock is limited and we will not be able to do so for the foreseeable future, if at all. The aggregate liquidation preference of the senior preferred stock and our related dividend obligations will increase further if we make additional draws under the Purchase Agreement or any dividends or quarterly commitment fees payable under the Purchase Agreement are not paid in cash. The amounts payable for dividends on the senior preferred stock are substantial and will have an adverse impact on our financial position and net worth and, to the extent they are paid in cash, will increase the need for additional funding under the Purchase Agreement.

The Purchase Agreement includes significant restrictions on our ability to manage our business, including limiting the amount of indebtedness we can incur and capping the size of our mortgage-related investments portfolio as of December 31, 2009. In addition, beginning in 2010, we must decrease the size of our mortgage-related investments portfolio at the rate of 10% per year until it reaches \$250 billion. Depending on the pace of future mortgage liquidations, we may need to reduce or eliminate our purchases of mortgage assets or sell mortgage assets to achieve this reduction. We currently do not have plans to sell our mortgage assets at a loss. In addition, while the senior preferred stock is outstanding, we are prohibited from paying dividends (other than on the senior preferred stock) or issuing equity securities without Treasury's consent. The terms of the Purchase Agreement and warrant make it unlikely that we will be able to obtain equity from private sources. For additional information concerning the potential impact of the Purchase Agreement, including taking additional large draws, see **RISK FACTORS** **Conservatorship and Related Developments**.

We have not received funding to date under the Lending Agreement. Given that the interest rate we are likely to be charged under the Lending Agreement will be significantly higher than the rates we have historically achieved through the sale of unsecured debt, use of the facility in significant amounts could have a material adverse impact on our financial results. The Lending Agreement will terminate on December 31, 2009, but will remain in effect as to any loan outstanding on that date. After December 31, 2009, Treasury still may purchase up to \$2.25 billion of our obligations under its permanent authority, as set forth in our charter.

In an effort to conserve capital, on September 7, 2008, FHFA, as Conservator, announced the elimination of dividends on our common stock and preferred stock, excluding the senior preferred stock issued to Treasury under the Purchase Agreement.

On September 19, 2008, FHFA, as Conservator, advised us of FHFA's determination that no further common or preferred stock dividends should be paid by our REIT subsidiaries, Home Ownership Funding Corporation and Home Ownership Funding Corporation II. Since we are the majority owner of both the common and preferred shares of these two REITs, this action has eliminated our access through such dividend payments to the cash flows of the REITs.

On October 9, 2008, FHFA announced that it was suspending capital classification of Freddie Mac during conservatorship in light of the Purchase Agreement. FHFA has directed us to focus our risk and capital management activities on, among other things, maintaining a positive balance of GAAP stockholders' equity in order to reduce the likelihood that we will need to make additional draws on the Purchase Agreement with Treasury. However, FHFA has also directed us to pursue other objectives, such as providing relief to struggling homeowners, which can conflict with maintaining positive stockholders' equity. In addition, notwithstanding our failure to maintain required capital levels, FHFA has directed us to continue to make interest and principal payments on our subordinated debt. For more information, see **Capital Adequacy and BUSINESS Regulation and Supervision** *Federal Housing Finance Agency Other Regulatory Actions*.

The Reform Act requires us to set aside in each fiscal year, an amount equal to 4.2 basis points for each dollar of the unpaid principal balance of total new business purchases, and allocate or transfer such amount (i) to HUD to fund a Housing Trust Fund established and managed by HUD and (ii) to a Capital Magnet Fund established and managed by Treasury. FHFA has the authority to suspend our allocation upon finding that the payment would contribute to our financial instability, cause us to be classified as undercapitalized or prevent us from successfully completing a capital restoration plan. FHFA advised us that it has suspended the requirement to set aside or allocate funds for the Housing Trust Fund and the Capital Magnet Fund until further notice.

For more information on these events, see **BUSINESS** Conservatorship and Related Developments and **Regulation** and Supervision.

Debt Securities

We fund our business activities primarily through the issuance of short- and long-term debt. Competition for funding can vary with economic, financial market and regulatory environments. Historically, we mainly competed for funds in the debt issuance markets with Fannie Mae and the FHLBs. However, we face increasing competition for funding from other debt issuers, as many of our bank competitors are currently able to issue debt that is guaranteed by the U.S. government.

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This development may increase our funding costs. We repurchase or call our outstanding debt securities from time to time to help support the liquidity and predictability of the market for our debt securities and to manage our mix of liabilities funding our assets.

To fund our business activities, we depend on the continuing willingness of investors to purchase our debt securities. Any change in applicable legislative or regulatory exemptions, including those described in BUSINESS Regulation and Supervision, could adversely affect our access to some debt investors, thereby potentially increasing our debt funding costs.

During 2008, worldwide financial markets experienced substantial levels of volatility. This was particularly true over the latter half of 2008 as market participants struggled to digest the new government initiatives, including our conservatorship. In this environment where demand for debt instruments weakened considerably, and the debt funding markets are sometimes frozen, our ability to access both the term and callable debt markets has been limited, and we have relied increasingly on the issuance of shorter-term debt. While we use interest rate derivatives to economically hedge a significant portion of our interest rate exposure, we are exposed to risks relating to both our ability to issue new debt when our outstanding debt matures and to the variability in interest costs on our new issuances of debt. In the second half of 2008, we experienced less demand for our debt securities, as reflected in wider spreads on our term and callable debt. This reflected overall deterioration in our access to unsecured medium and long term debt markets. However, the Federal Reserve has been an active purchaser in the secondary market of our long-term debt under its purchase program, and spreads on our debt and our access to the debt markets have improved in early 2009 as a result of this activity.

There are many factors contributing to the reduced demand for our debt securities in the capital markets, including continued severe market disruptions, market concerns about our capital position and the future of our business (including its future profitability, future structure, regulatory actions and agency status) and the extent of U.S. government support for our debt securities. In addition, the various U.S. government programs are still being digested by market participants creating uncertainty as to whether competing obligations of other companies are more attractive investments than our debt securities.

As noted above, due to our limited ability to issue long-term debt, we have relied increasingly on short-term debt to fund our purchases of mortgage assets and to refinance maturing debt. As a result, we have been required to refinance our debt on a more frequent basis, exposing us to an increased risk of insufficient demand, increasing interest rates and adverse credit market conditions. It is unclear if or when these market conditions will reverse allowing us increased access to the longer-term debt markets that is not based on support from Treasury and the Federal Reserve. See RISK FACTORS for a discussion of the risks to our business posed by our reliance on the issuance of debt to fund our operations.

The Purchase Agreement provides that, without the prior consent of Treasury, we may not increase our indebtedness (as defined in the Purchase Agreement) above a specified limit or become liable for any subordinated indebtedness. For the purposes of the Purchase Agreement, the balance of our indebtedness at December 31, 2008 did not exceed the specified limit.

Table 47 summarizes the par value of the debt securities we issued, based on settlement dates, during 2008 and 2007.

Table 47 Debt Security Issuances by Product, at Par Value

**Year Ended
December 31,**

	2008	2007
	(in millions)	
Short-term debt:		
Reference Bills [®] securities and discount notes	\$ 812,539	\$ 597,587
Medium-term notes callable	13,237	4,100
Medium-term notes non-callable ⁽²⁾	12,093	202
Total short-term debt	837,869	601,889
Long-term debt:		
Medium-term notes callable ⁽³⁾	153,318	112,452
Medium-term notes non-callable	41,995	25,096
U.S. dollar Reference Notes [®] securities non-callable	49,000	51,000
Total long-term debt	244,313	188,548
Total debt issued	\$ 1,082,182	\$ 790,437

(1) Excludes federal funds purchased and securities sold under agreements to repurchase and lines of credit.

(2) Includes \$3.8 billion and \$ of medium-term notes non-callable issued for the years ended December 31, 2008 and 2007, respectively, which were accounted for as debt exchanges.

(3) Includes \$14.3 billion and \$200 million of medium-term notes callable issued for the years ended December 31, 2008 and 2007, respectively, which were accounted for as debt exchanges.

Short-Term Debt

We fund our operating cash needs, in part, by issuing Reference Bills[®] securities and other discount notes, which are short-term instruments with maturities of one year or less that are sold on a discounted basis, paying only principal at maturity. Our Reference Bills[®] securities program consists of large issues of short-term debt that we auction to dealers on a regular schedule. We issue discount notes with maturities ranging from one day to one year in response to investor demand

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and our cash needs. Short-term debt also includes certain medium-term notes that have original maturities of one year or less.

Long-Term Debt

We issue debt with maturities greater than one year primarily through our medium-term notes program and our Reference Notes[®] securities program.

Medium-term Notes

We issue a variety of fixed- and variable-rate medium-term notes, including callable and non-callable fixed-rate securities, zero-coupon securities and variable-rate securities, with various maturities ranging up to 30 years. Medium-term notes with original maturities of one year or less are classified as short-term debt. Medium-term notes typically contain call provisions, effective as early as three months or as long as ten years after the securities are issued.

Reference Notes[®] Securities

Reference Notes[®] securities are regularly issued, U.S. dollar denominated, non-callable fixed-rate securities, which we currently issue with original maturities ranging from two through ten years. We have also issued Reference Notes[®] securities denominated in Euros, which remain outstanding, but did not issue any such securities in 2008 or 2007. We hedge our exposure to changes in foreign-currency exchange rates by entering into swap transactions that convert foreign-currency denominated obligations to U.S. dollar-denominated obligations. See **QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK** Interest-Rate Risk and Other Market Risks *Sources of Interest-Rate Risk and Other Market Risks* for more information.

The investor base for our debt is predominantly institutional. However, we also conduct regular offerings of FreddieNotes[®] securities, a medium-term notes program designed to meet the investment needs of retail investors.

Subordinated Debt

During 2008, we did not issue or call any Freddie SUBS[®] securities. During 2007, we called \$1.9 billion of higher-cost Freddie SUBS[®] securities, while not issuing any new Freddie SUBS[®] securities. At both December 31, 2008 and 2007, the balance of our subordinated debt outstanding was \$4.5 billion. Our subordinated debt in the form of Freddie SUBS[®] securities is a component of our risk management and disclosure commitments with FHFA. See **RISK MANAGEMENT AND DISCLOSURE COMMITMENTS** for a discussion of changes affecting our subordinated debt as a result of our placement in conservatorship and the Purchase Agreement, and the Conservator's suspension of certain requirements relating to our subordinated debt. Under the Purchase Agreement, we may not issue subordinated debt without Treasury's consent.

Debt Retirement Activities

We repurchase or call our outstanding debt securities from time to time to help support the liquidity and predictability of the market for our debt securities and to manage our mix of liabilities funding our assets. When our debt securities become seasoned or one-time call options on our debt securities expire, they may become less liquid, which could cause their price to decline. By repurchasing debt securities, we help preserve the liquidity of our debt securities and improve their price performance, which helps to reduce our funding costs over the long-term. Our repurchase activities also help us manage the funding mismatch, or duration gap, created by changes in interest rates. For example, when interest rates decline, the expected lives of the mortgage-related securities held in our mortgage-related

investments portfolio decrease, reducing the need for long-term debt. We use a number of different means to shorten the effective weighted average lives of our outstanding debt securities and thereby manage the duration gap, including retiring long-term debt through repurchases or calls; changing our debt funding mix between short- and long-term debt; or using derivative instruments, such as entering into receive-fixed swaps or terminating or assigning pay-fixed swaps. From time to time, we may also enter into transactions in which we exchange newly issued debt securities for similar outstanding debt securities held by investors. These transactions are accounted for as debt exchanges.

Table 48 provides the par value, based on settlement dates, of debt securities we repurchased, called and exchanged during 2008 and 2007.

Table 48 Debt Security Repurchases, Calls and Exchanges

	Year Ended December 31,	
	2008	2007
	(in millions)	
Repurchases of outstanding Reference Note® securities ⁽¹⁾	\$ 277	\$ 5,665
Repurchases of outstanding medium-term notes	7,724	10,986
Calls of callable medium-term notes	180,015	95,317
Calls of callable Freddie SUBS® securities		1,930
Exchanges of medium-term notes	9,921	145

(1) 2007 has been revised to conform to the presentation for 2008.

Table of Contents**Credit Ratings**

Our ability to access the capital markets and other sources of funding, as well as our cost of funds, are highly dependent upon our credit ratings. Table 49 indicates our credit ratings at March 2, 2009. After FHFA placed us into conservatorship and announced the elimination of our preferred stock dividends in September 2008, our preferred stock ratings were changed by three nationally recognized statistical rating organizations.

Table 49 Freddie Mac Credit Ratings

	Nationally Recognized Statistical Rating Organization		
	S&P	Moody's	Fitch
Senior long-term debt ⁽¹⁾	AAA	Aaa	AAA
Short-term debt ⁽²⁾	A-1+	P-1	F1+
Subordinated debt ⁽³⁾	A	Aa2	AA
Preferred stock ⁽⁴⁾	C	Ca	C/RR6

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

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

(3) Includes Freddie SUBS[®] securities only.

(4) Does not include senior preferred stock issued to Treasury.

At December 31, 2008, we no longer had a risk-to-the-government rating from S&P. On September 7, 2008, S&P lowered our risk-to-the-government rating to R (regulatory supervision) from A and withdrew the rating because of conservatorship. Moody's also provides a Bank Financial Strength rating that represents Moody's opinion of our intrinsic safety and soundness and, as such, excludes certain external credit risks and credit support elements. On September 7, 2008, Moody's lowered our Bank Financial Strength rating to E+ from D+ following our placement into conservatorship. Our Bank Financial Strength rating remained at E+ as of March 2, 2009. See RISK MANAGEMENT AND DISCLOSURE COMMITMENTS for additional information. A security rating is not a recommendation to buy, sell or hold securities. It may be subject to revision or withdrawal at any time by the assigning rating organization. Each rating should be evaluated independently of any other rating.

Equity Securities

See MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES and NOTE 9: STOCKHOLDERS' EQUITY (DEFICIT) to our consolidated financial statements for information about issuances of our equity securities.

Cash and Other Investments Portfolio

We maintain a cash and other investments portfolio that is important to our financial management and our ability to provide liquidity and stability to the mortgage market. At December 31, 2008, the investments in this portfolio consisted of liquid non-mortgage-related securities that we could sell to provide us with an additional source of liquidity to fund our business operations. For additional information on our cash and other investments portfolio, see CONSOLIDATED BALANCE SHEETS ANALYSIS - Cash and Other Investments Portfolio. The non-mortgage-related investments in this portfolio may expose us to institutional credit risk and the risk that the

investments could decline in value due to market-driven events such as credit downgrades or changes in interest rates and other market conditions. See CREDIT RISKS Institutional Credit Risk for more information.

Mortgage-Related Investments Portfolio

Historically, our mortgage-related investments portfolio assets have been a significant capital resource and a potential source of funding, if needed. A large majority of this portfolio is unencumbered. However, deteriorating market conditions have made it unlikely that we could obtain substantial amounts of funding by using these securities as collateral in repurchase transactions or other forms of secured borrowing, other than pursuant to the Lending Agreement. During 2008, the market for non-agency securities backed by subprime, Alt-A and other loans and MTA mortgages continued to experience a significant reduction in liquidity and wider spreads, as investor demand for these assets decreased. During 2008, the percentages of our non-agency securities backed by subprime mortgages that were AAA-rated and the total rated as investment grade, based on the lowest rating available, decreased from 96% to 28% and from 100% to 58%, respectively. In addition, during 2008, the percentages of our non-agency securities backed by Alt-A and other mortgages that were AAA-rated and the total rated as investment grade, based on the lowest rating available, decreased from 100% to 45% and from 100% to 79%, respectively. Also, during 2008, the percentages of our non-agency securities backed by MTA loans that were AAA-rated and the total rated as investment grade, based on the lowest rating available, decreased from 100% to 45% and from 100% to 72%, respectively. We expect these trends to continue in the near future. These market conditions, and the declining credit quality of the assets, limit their availability as a significant source of funds, as their value has declined, and it may be more difficult to sell them. However, we do continue to receive monthly remittances, although declining, from the underlying collateral. In addition, we have the ability and intent to hold these securities until recovery and, other than certain

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mortgage-related securities primarily backed by subprime loans, Alt-A and other loans, and MTA loans where we have already realized other-than-temporary impairments, we do not currently expect the cash flows from these securities to negatively impact our liquidity. See CONSOLIDATED BALANCE SHEETS ANALYSIS Mortgage-Related Investments Portfolio for more information.

On September 19, 2008, the Director of FHFA announced that FHFA had directed us to provide additional funding to the mortgage markets through the purchase of mortgage-related securities. This directive, however, does not supersede the restrictions on the size of our mortgage-related investments portfolio under the Purchase Agreement. Under the Purchase Agreement and FHFA regulation, our mortgage-related investments portfolio as of December 31, 2009 may not exceed \$900 billion, and must decline by 10% per year thereafter until it reaches \$250 billion.

Cash Flows

Our cash and cash equivalents increased \$36.8 billion to \$45.3 billion during 2008. Beginning in the second quarter of 2008, all investments in commercial paper with maturities of less than three months were entered into for working capital purposes. Consequently, commercial paper with maturities of less than three months was classified as cash and cash equivalents rather than investments. Cash flows used for operating activities during 2008 were \$10.5 billion, which primarily reflected a reduction in cash as a result of increases in purchases of held-for-sale mortgage loans. Cash flows used for investing activities during 2008 were \$71.1 billion, primarily resulting from purchases of trading securities and available-for-sale securities, partially offset by proceeds from maturities of available-for-sale securities and sales of trading securities. Cash flows provided by financing activities in 2008 were \$118.3 billion, largely attributable to proceeds from the issuance of debt securities, net of repayments.

SFAS 159 requires the classification of trading securities cash flows based on the purpose for which the securities were acquired. Upon adoption of SFAS 159, effective January 1, 2008, we classified our trading securities cash flows as investing activities because we intend to hold these securities for investment purposes. Prior to our adoption of SFAS 159, we classified cash flows on all trading securities as operating activities. As a result, the operating and investing activities on our consolidated statements of cash flows have been impacted by this change.

Our cash and cash equivalents decreased \$2.8 billion to \$8.6 billion during 2007. Cash flows used for operating activities in 2007 were \$7.5 billion, which reflected a reduction in cash primarily from a decrease in liabilities to PC investors as a result of a change in our PC issuance process to use of securitization trusts. Net cash used was primarily provided by net interest income, management and guarantee fees and changes in other operating assets and liabilities. Cash flows provided by investing activities in 2007 were \$9.7 billion, primarily due to a net increase in cash flows as we reduced our balance of federal funds sold and eurodollars. This was partially offset by an increase in cash used to purchase mortgage loans under financial guarantees as a result of increasing delinquencies. Cash flows used for financing activities in 2007 were \$5.0 billion and resulted from a decrease in debt securities, net, preferred and common stock repurchases and dividends paid. Cash used was partially offset by proceeds from the issuance of preferred stock.

Our cash and cash equivalents increased \$0.9 billion to \$11.4 billion during 2006. Cash flows provided by operating activities in 2006 were \$9.0 billion, which primarily reflected cash flows provided by net interest income, management and guarantee fees and changes in other operating assets and liabilities, partially offset by non-interest expenses. Cash flows used for investing activities in 2006 were \$5.2 billion, primarily resulting from purchases of held-for-investment mortgages and available-for-sale securities, as well as a net decrease in cash flows from federal funds sold and securities purchased under agreements to resell, partially offset by proceeds from sales and maturities of available-for-sale securities and repayments of held-for-investment mortgages. Cash flows used for financing activities in 2006 were \$3.0 billion and were primarily due to repayments of debt securities, repurchases of common stock, payment of cash dividends on preferred stock and common stock, and payments of housing tax credit

partnerships notes payable, partially offset by proceeds from issuance of debt securities.

Capital Adequacy

Our entry into conservatorship resulted in significant changes to the assessment of our capital adequacy and our management of capital. On October 9, 2008, FHFA announced that it was suspending capital classification of us during conservatorship in light of the Purchase Agreement. Concurrent with this announcement, FHFA classified us as undercapitalized as of June 30, 2008 based on discretionary authority provided by statute. FHFA noted that although our capital calculations as of June 30, 2008 reflected that we met the statutory and FHFA-directed requirements for capital, the continued market downturn in July and August of 2008 raised significant questions about the sufficiency of our capital. Factors cited by FHFA leading to the downgrade in our capital classification and the need for conservatorship included (a) our accelerated safety and soundness weaknesses, especially with regard to our credit risk, earnings outlook and capitalization, (b) continued and substantial deterioration in equity, debt and mortgage-related securities market conditions, (c) our current and projected financial performance, (d) our inability to raise capital or issue debt according to normal

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practices and prices, (e) our critical importance in supporting the U.S. residential mortgage markets and (f) concerns over the growing proportion of intangible assets as part of our core capital.

FHFA continues to closely monitor our capital levels, but the existing statutory and FHFA-directed regulatory capital requirements are not binding during conservatorship. We continue to provide our regular submissions to FHFA on both minimum and risk-based capital. FHFA continues to publish relevant capital figures (minimum capital requirement, core capital, and GAAP net worth) but does not publish our critical capital, risk-based capital or subordinated debt levels during conservatorship. Additionally, FHFA announced on October 9, 2008 that it will engage in rule-making to revise our minimum capital and risk-based capital requirements. See NOTE 10: REGULATORY CAPITAL to our consolidated financial statements for our minimum capital requirement, core capital and GAAP net worth results as of December 31, 2008.

FHFA has directed us to focus our risk and capital management, among other things, on maintaining a positive balance of GAAP stockholders' equity in order to reduce the likelihood that we will need to make additional draws on the Purchase Agreement with Treasury, while returning to long-term profitability. The Purchase Agreement provides that, if FHFA determines as of quarter end that our liabilities have exceeded our assets under GAAP, Treasury will contribute funds to us in an amount equal to the difference between such liabilities and assets. The maximum aggregate amount that may be funded under the Purchase Agreement initially was \$100 billion, which Treasury has committed to increase to \$200 billion.

Under the Reform Act, FHFA must place us into receivership if FHFA determines in writing that our assets are less than our obligations for a period of 60 days. FHFA has notified us that the measurement period for any mandatory receivership determination with respect to our assets and obligations would commence no earlier than the SEC public filing deadline for our quarterly or annual financial statements and would continue for 60 calendar days after that date. See BUSINESS Regulation and Supervision *Federal Housing Finance Agency Receivership* for additional information on mandatory receivership. At December 31, 2008 our liabilities exceeded our assets under GAAP by \$30.6 billion while our stockholders' equity (deficit) totaled \$(30.7) billion. As such, we must obtain funding from Treasury pursuant to its commitment under the Purchase Agreement in order to avoid being placed into receivership by FHFA. On November 24, 2008, we received \$13.8 billion from Treasury under the Purchase Agreement, and we expect to receive an additional \$30.8 billion in March 2009. As a result of these draws, the aggregate liquidation preference on the senior preferred stock will increase from \$1.0 billion as of September 8, 2008 to \$45.6 billion and the remaining funding available under Treasury's announced commitment will decrease to approximately \$155.4 billion. We expect to make additional draws on Treasury's funding commitment in the future. The size of such draws will be determined by a variety of factors, including whether market conditions continue to deteriorate.

The senior preferred stock accrues quarterly cumulative dividends at a rate of 10% per year or 12% per year in any quarter in which dividends are not paid in cash until all accrued dividends have been paid in cash. We paid our first quarterly dividend of \$172 million in cash on the senior preferred stock on December 31, 2008 at the direction of our Conservator. Following receipt of our pending draw, Treasury will be entitled to annual cash dividends of \$4.6 billion, as calculated based on the aggregate liquidation preference of \$45.6 billion. If we make additional draws under the Purchase Agreement, this would further increase our dividend obligation.

This substantial ongoing dividend obligation, combined with potentially substantial commitment fees payable to Treasury starting in 2010 and limited flexibility to pay down draws under the Purchase Agreement, will have an adverse impact on our future financial position and net worth. A variety of factors could materially affect the level and volatility of our GAAP stockholders' equity (deficit) in future periods, requiring us to make additional draws under the Purchase Agreement. For more information on the Purchase Agreement, its effect on our business and capital management activities, and the potential impact of taking additional large draws, see EXECUTIVE SUMMARY Capital Management and RISK FACTORS.

PORTFOLIO BALANCES AND ACTIVITIES

Total Mortgage Portfolio

Our total mortgage portfolio includes mortgage loans and mortgage-related securities held on our consolidated balance sheet as well as the balances of PCs and Structured Securities held by third parties. Guaranteed PCs and Structured Securities held by third parties are not included on our consolidated balance sheets.

Guaranteed PCs and Structured Securities

Guaranteed PCs and Structured Securities represent the unpaid principal balances of the mortgage-related assets we issue or otherwise guarantee. Our guaranteed PCs are pass-through securities that represent undivided interests in trusts that own pools of mortgages we have purchased. Our Structured Securities represent beneficial interests in pools of PCs and certain other types of mortgage-related assets. We also issue certain Structured Securities to third parties in exchange for non-Freddie Mac mortgage-related securities, which we refer to as Structured Transactions. See BUSINESS and CREDIT

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RISKS Mortgage Credit Risk herein for detailed discussion and other information on our PCs and Structured Securities, including Structured Transactions.

In addition to our mortgage security guarantees, during 2008 and 2007, we entered into \$1.6 billion and \$32.2 billion, respectively, of long-term standby commitments for mortgage assets held by third parties that require us to purchase loans from lenders when the loans subject to these commitments meet certain delinquency criteria. We terminated \$19.9 billion of these previously issued long-term standby commitments in 2008. The majority of the loans previously covered by these commitments were subsequently securitized as PCs. We include these long-term standby commitments in the reported activity and balances of our guaranteed PCs and Structured Securities portfolio. Long-term standby commitments represented approximately 1% and 2% of the balance of our PCs and Structured Securities portfolio at December 31, 2008 and December 31, 2007, respectively.

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Table 50 provides information about our total mortgage portfolio at December 31, 2008, 2007 and 2006.

Table 50 Total Mortgage Portfolio and Segment Portfolio Composition⁽¹⁾

	2008	December 31, 2007 (in millions)	2006
Total mortgage portfolio:			
<i>Mortgage-related investments portfolio:</i>			
Single-family mortgage loans	\$ 38,755	\$ 24,589	\$ 20,640
Multifamily mortgage loans	72,721	57,569	45,207
Total mortgage loans	111,476	82,158	65,847
Guaranteed PCs and Structured Securities in the mortgage-related investments portfolio	424,524	356,970	354,262
Non-Freddie Mac mortgage-related securities, agency	70,852	47,836	45,385
Non-Freddie Mac mortgage-related securities, non-agency	197,910	233,849	238,465
Total non-Freddie Mac mortgage-related securities	268,762	281,685	283,850
<i>Total Mortgage-related investments portfolio⁽²⁾</i>	804,762	720,813	703,959
<i>Guaranteed PCs and Structured Securities held by third parties:</i>			
Single-family PCs and Structured Securities	1,381,531	1,363,613	1,105,437
Single-family Structured Transactions	7,586	9,351	8,424
Multifamily PCs and Structured Securities	12,768	7,999	8,033
Multifamily Structured Transactions	829	900	867
<i>Total guaranteed PCs and Structured Securities held by third parties</i>	1,402,714	1,381,863	1,122,761
Total mortgage portfolio	\$ 2,207,476	\$ 2,102,676	\$ 1,826,720
Guaranteed PCs and Structured Securities:			
In our mortgage-related investments portfolio	\$ 424,524	\$ 356,970	\$ 354,262
Held by third parties	1,402,714	1,381,863	1,122,761
Total Guaranteed PCs and Structured Securities	\$ 1,827,238	\$ 1,738,833	\$ 1,477,023
Segment portfolios:			
<i>Investments Mortgage-related investments portfolio:</i>			
Single-family mortgage loans	\$ 38,755	\$ 24,589	\$ 20,640
Guaranteed PCs and Structured Securities in the mortgage-related investments portfolio	424,524	356,970	354,262
	268,762	281,685	283,850

Non-Freddie Mac mortgage-related securities in the mortgage-related investments portfolio

<i>Total Investments Mortgage-related investments portfolio⁽¹⁾</i>	732,041	663,244	658,752
<i>Single-family Guarantee Credit guarantee portfolio:</i>			
Single-family PCs and Structured Securities in our mortgage-related investments portfolio	405,375	343,071	336,869
Single-family PCs and Structured Securities held by third parties	1,381,531	1,363,613	1,105,437
Single-family Structured Transactions in our mortgage-related investments portfolio	17,088	11,240	17,011
Single-family Structured Transactions held by third parties	7,586	9,351	8,424
<i>Total Single-family Guarantee Credit guarantee portfolio</i>	1,811,580	1,727,275	1,467,741
<i>Multifamily Guarantee and loan portfolios:</i>			
Multifamily PCs and other Structured Securities	14,829	10,658	8,415
Multifamily Structured Transactions	829	900	867
Total multifamily guarantee portfolio	15,658	11,558	9,282
Multifamily loan portfolio	72,721	57,569	45,207
<i>Total Multifamily Guarantee and loan portfolios</i>	88,379	69,127	54,489
Less: Guaranteed PCs and Structured Securities in the mortgage-related investments portfolio ⁽⁴⁾	(424,524)	(356,970)	(354,262)
Total mortgage portfolio	\$ 2,207,476	\$ 2,102,676	\$ 1,826,720

- (1) Based on unpaid principal balance and excludes mortgage loans and mortgage-related securities traded, but not yet settled. For PCs and Structured Securities, the balance reflects reported security balances and not the unpaid principal of the underlying mortgage loans. Mortgage loans held in our mortgage-related investments portfolio reflect the unpaid principal balance of the loan.
- (2) See CONSOLIDATED BALANCE SHEETS ANALYSIS Mortgage-Related Investments Portfolio for reconciliations of the mortgage-related investments portfolio amounts shown in this table to the amounts shown on our consolidated balance sheets.
- (3) Includes certain assets related to Single-family Guarantee activities and Multifamily activities.
- (4) The amount of our PCs and Structured Securities in the mortgage-related investments portfolio is included in both our segments mortgage-related and guarantee portfolios and thus deducted in order to reconcile to our total mortgage portfolio.

In 2008 and 2007, our total mortgage portfolio grew at a rate of 5% and 15%, respectively. Our new business purchases consist of mortgage loans and non-Freddie Mac mortgage-related securities that are purchased for our mortgage-related investments portfolio or serve as collateral for our issued PCs and Structured Securities. We generate a significant portion of our mortgage purchase volume through several key mortgage lenders. Table 51 summarizes purchases into our total mortgage portfolio.

Table of Contents**Table 51 Total Mortgage Portfolio Activity⁽⁴⁾**

	Year Ended December 31,					
	2008	% of	2007	% of	2006	% of
	Amount	Purchase	Amount	Purchase	Amount	Purchase
		Amounts	(dollars in millions)	Amounts		Amounts
New business purchases:						
Single-family mortgage purchases:						
Conventional:						
30-year amortizing fixed-rate ⁽²⁾	\$ 290,166	74%	\$ 326,455	66%	\$ 251,143	67%
15-year amortizing fixed-rate	29,669	8	28,910	6	21,556	6
ARMs/adjustable-rate ⁽³⁾	11,140	3	12,465	3	18,854	5
Interest-only ⁽⁴⁾	23,102	6	97,778	20	58,176	16
Balloon/resets ⁽⁵⁾	150		125		419	
Conforming jumbo	2,562	1				
FHA/VA ⁽⁶⁾	565		157		946	
USDA Rural Development and other federally guaranteed loans	231		176		176	
<i>Total single-family</i>	357,585	92	466,066	95	351,270	94
Multifamily:						
Conventional and other	23,972	6	21,645	4	13,031	4
<i>Total multifamily</i>	23,972	6	21,645	4	13,031	4
<i>Total mortgage purchases</i>	381,557	98	487,711	99	364,301	98
Non-Freddie Mac mortgage-related securities purchased for Structured Securities:						
Single-family:						
Ginnie Mae Certificates	36		48		48	
Structured Transactions	8,246	2	3,431	1	8,592	2
<i>Total Non-Freddie Mac mortgage-related securities purchased for Structured Securities</i>	8,282	2	3,479	1	8,640	2
<i>Total single-family and multifamily mortgage purchases and total non-Freddie Mac mortgage-related securities purchased for Structured</i>	\$ 389,839	100%	\$ 491,190	100%	\$ 372,941	100%

*Securities***Non-Freddie Mac
mortgage-related securities
purchased into the
mortgage-related investments
portfolio:****Agency securities:***Fannie Mae:*

Fixed-rate	\$ 49,534	\$ 2,170	\$ 4,259
Variable-rate	18,519	9,863	8,014

<i>Total Fannie Mae</i>	68,053	12,033	12,273
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<i>Ginnie Mae fixed-rate</i>	8		
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<i>Total agency mortgage-related securities</i>	68,061	12,033	12,273
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Non-agency securities:*Single-family*

Single-family:

Fixed-rate		881	718
Variable-rate	618	49,563	96,906

<i>Total single-family</i>	618	50,444	97,624
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Commercial mortgage-backed securities:

Fixed-rate	713	3,558	2,534
Variable-rate	703	18,526	13,432

<i>Total commercial mortgage-backed securities</i>	1,416	22,084	15,966
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Mortgage revenue bonds:

Fixed-rate	81	1,813	3,178
Variable-rate			

<i>Total mortgage revenue bonds</i>	81	1,813	3,178
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Manufactured Housing:

Fixed-rate			
Variable-rate		127	

<i>Total Manufactured Housing</i>		127	
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<i>Total non-agency mortgage-related securities</i>	2,115	74,468	116,768
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	70,176	86,501	129,041
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***Total non-Freddie Mac
mortgage-related securities
purchased into the mortgage-related
investments portfolio***

Total new business purchases	\$ 460,015	\$ 577,691	\$ 501,982
Mortgage purchases with credit enhancements ⁽⁷⁾	21%	21%	17%
Mortgage liquidations ⁽⁸⁾	\$ 319,546	\$ 298,089	\$ 339,814
Mortgage liquidations rate (annualized) ⁽⁸⁾	15%	16%	20%
Freddie Mac securities repurchased into the mortgage-related investments portfolio:			
Single-family:			
Fixed-rate	\$ 192,701	\$ 111,976	\$ 76,378
Variable-rate	26,344	26,800	27,146
Multifamily:			
Fixed-rate	111	2,283	

***Total Freddie Mac securities
repurchased into the
mortgage-related investments
portfolio***

	\$ 219,156	\$ 141,059	\$ 103,524
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- (1) Based on unpaid principal balances. Excludes mortgage loans and mortgage-related securities traded but not yet settled. Also excludes net additions to the mortgage-related investments portfolio for delinquent mortgage loans and balloon/reset mortgages purchased out of PC pools.
- (2) Includes 40-year and 20-year fixed-rate mortgages.
- (3) Includes amortizing ARMs with 1-, 3-, 5-, 7- and 10-year initial fixed-rate periods. We did not purchase any option ARM loans during 2006, 2007 or 2008.
- (4) Represents loans where the borrower pays interest only for a period of time before the borrower begins making principal payments. Includes both fixed and variable-rate interest-only loans.
- (5) Represents mortgages whose terms require lump sum principal payments on contractually determined future dates unless the borrower qualifies for and elects an extension of the maturity date at an adjusted interest rate.
- (6) Excludes FHA/VA loans that back Structured Transactions.
- (7) Excludes mortgage-related securities backed by Ginnie Mae Certificates.
- (8) Based on total mortgage portfolio.

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Table 52 presents the distribution of underlying mortgage assets for our PCs and Structured Securities.

Table 52 Issued PCs and Structured Securities⁽⁴⁾

	2008	December 31, 2007 (in millions)	2006
Single-family:			
Conventional:			
30-year fixed-rate ⁽²⁾	\$ 1,216,765	\$ 1,091,212	\$ 882,398
20-year fixed-rate	67,215	72,225	66,777
15-year fixed-rate	246,089	272,490	290,314
ARMs/adjustable-rate	80,771	91,219	100,808
Option ARMs ⁽³⁾	1,551	1,853	2,808
Interest-only ⁽⁴⁾	159,645	159,028	76,114
Balloon/resets	10,967	17,242	21,551
Conforming jumbo	2,475		
FHA/VA	1,310	1,283	1,398
USDA Rural Development and other federally guaranteed loans	118	132	138
<i>Total single-family</i>	1,786,906	1,706,684	1,442,306
Multifamily:			
Conventional and other	14,829	10,658	8,415
<i>Total multifamily</i>	14,829	10,658	8,415
Structured Securities backed by non-Freddie Mac mortgage-related securities:			
Ginnie Mae Certificates ⁽⁵⁾	1,089	1,268	1,510
Structured Transactions ⁽⁶⁾	24,414	20,223	24,792
<i>Total Structured Securities backed by non-Freddie Mac mortgage-related securities</i>	25,503	21,491	26,302
Total guaranteed PCs and Structured Securities	\$ 1,827,238	\$ 1,738,833	\$ 1,477,023

(1) Based on unpaid principal balances and excludes mortgage-related securities traded, but not yet settled. Also includes long-term standby commitments for mortgage assets held by third parties that require that we purchase loans from lenders when these loans meet certain delinquency criteria.

(2) Portfolio balances include \$1.9 billion, \$1.8 billion and \$42 million of 40-year fixed-rate mortgages at December 31, 2008, 2007 and 2006, respectively.

(3) Excludes option ARM mortgage loans that back our Structured Transactions. See endnote (6) for additional information.

(4) Represents loans where the borrower pays interest only for a period of time before the borrower begins making principal payments. Includes both fixed and variable-rate interest only loans.

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

(6)

Represents Structured Securities backed by non-agency securities that include prime, FHA/VA and subprime mortgage loan issuances. Includes \$10.8 billion, \$12.8 billion and \$18.5 billion of securities backed by option ARM mortgage loans at December 31, 2008, 2007 and 2006, respectively.

Due in large part to falling interest rates over the last three years, the percentages of 30-year, fixed-rate mortgages have increased for single-family loans underlying our PCs and Structured Securities. Similarly, the percentages of ARM and balloon/reset loans have declined. With the tightening of mortgage underwriting standards by financial institutions and us during 2008 and a continuation of falling interest rates into 2009, we expect the trends toward conventional fixed-rate, amortizing mortgage products to continue. See **CREDIT RISKS** Mortgage Credit Risks for additional information on characteristics and types of mortgage loans underlying our guaranteed PCs and Structured Securities as well as historical performance data.

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OFF-BALANCE SHEET ARRANGEMENTS

We enter into certain business arrangements that are not recorded on our consolidated balance sheets or may be recorded in amounts that differ from the full contract or notional amount of the transaction. Most of these arrangements relate to our financial guarantee and securitization activity for which we record guarantee assets and obligations, but the related securitized assets are owned by third parties. These off-balance sheet arrangements may expose us to potential losses in excess of the amounts recorded on our consolidated balance sheets.

Guarantee of PCs and Structured Securities

As discussed in **BUSINESS** Our Business and Statutory Mission *Our Business Segments* *Single-Family Guarantee Segment*, we guarantee the payment of principal and interest on PCs and Structured Securities we issue. Mortgage-related assets that back PCs and Structured Securities held by third parties are not reflected as assets on our consolidated balance sheets.

In some cases, we share the risks of our credit guarantee activity with third parties through the use of primary mortgage insurance, pool insurance and other credit enhancements. **NOTE 2: FINANCIAL GUARANTEES AND MORTGAGE SECURITIZATIONS** to our consolidated financial statements provides information about our guarantees, including details related to credit protections and maximum coverages that we obtain through credit enhancements. Also, see **CREDIT RISKS** Mortgage Credit Risks for more information.

We also resecuritize our PCs and issue single- and multi-class Structured Securities and subsequently transfer such Structured Securities to third parties in exchange for cash, PCs or other mortgage-related securities. We earn resecuritization fees in connection with the creation of certain Structured Securities. We resecuritized a total of \$507 billion and \$457 billion of Structured Securities during 2008 and 2007, respectively. The increase of our principal credit risk exposure on Structured Securities relates only to that portion of resecuritized assets that consists of non-Freddie Mac mortgage-related securities.

In addition, we enter into long-term standby commitments for mortgage assets held by third parties that require that we purchase loans from lenders when the loans subject to these commitments meet certain delinquency criteria. We have included these transactions in the reported activity and balances of our PCs and Structured Securities. Long-term standby commitments represented approximately 1% and 2% of the balance of our PCs and Structured Securities as of December 31, 2008 and 2007, respectively.

Our maximum potential off-balance sheet exposure to credit losses relating to our PCs and Structured Securities is primarily represented by the unpaid principal balance of those securities held by third parties, which was \$1,403 billion and \$1,382 billion at December 31, 2008 and 2007, respectively. Based on our historical credit losses, which in 2008 and 2007 averaged approximately 20.1 and 3.0 basis points, respectively, of the aggregate unpaid principal balance of our PCs and Structured Securities, we do not believe that the maximum exposure is representative of our actual exposure on these guarantees. The maximum exposure does not take into consideration the recovery we would receive through exercising our rights to the collateral backing the underlying loans nor the available credit enhancements, which include recourse and primary insurance with third parties. In addition, we provide for incurred losses each period on these guarantees to third parties within our provision for credit losses. The accounting policies and fair value estimation methodologies we apply to our credit guarantee activities significantly affect the volatility of our reported earnings. See **CONSOLIDATED RESULTS OF OPERATIONS** Non-Interest Income (Loss) for an analysis of the effects on our consolidated statements of operations related to our credit guarantee activities.

Other

We extend other guarantees and provide indemnification to counterparties for breaches of standard representations and warranties in contracts entered into in the normal course of business based on an assessment that the risk of loss would be remote. See NOTE 2: FINANCIAL GUARANTEES AND MORTGAGE SECURITIZATIONS to our consolidated financial statements for additional information.

We are a party to numerous entities that are considered to be variable interest entities, or VIEs, in accordance with FIN 46(R). These variable interest entities include low-income multifamily housing tax credit partnerships, certain Structured Transactions and certain asset-backed investment trusts. See NOTE 4: VARIABLE INTEREST ENTITIES to our consolidated financial statements for additional information related to our significant variable interests in these VIEs, including those not consolidated within our financial statements.

As part of our credit guarantee business, we routinely enter into forward purchase and sale commitments for mortgage loans and mortgage-related securities. Some of these commitments are accounted for as derivatives. Their fair values are reported as either derivative assets, net or derivative liabilities, net on our consolidated balance sheets. See QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK Interest-Rate Risk and Other Market Risks for further information.

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We also have purchase commitments primarily related to flow business for single-family mortgage loans which we fulfill by executing PC guarantees in swap transactions and through cash purchases of loans and, to a lesser extent, commitments to purchase multifamily mortgage loans and revenue bonds. These non-derivative commitments totaled \$216.5 billion and \$173.4 billion at December 31, 2008 and 2007, respectively. The increase in these commitments during 2008 is due primarily to the timing of contract renewals with existing customers. During 2008, several of the counterparties to these transactions have merged with other institutions, and in some cases these counterparties have been placed into receivership under the control of the FDIC. See **CREDIT RISKS** Institutional Credit Risk *Mortgage Seller/Servicers* for further information. Such commitments are not accounted for as derivatives and are not recorded on our consolidated balance sheets. These mortgage purchase contracts contain no penalty or liquidated damages clauses based on our inability to take delivery of mortgage loans.

Effective December 2007, we established securitization trusts for the administration of cash remittances received on the underlying assets of our PCs and Structured Securities. We receive trust management income, which represents the fees we earn as master servicer, issuer, trustee and administrator for our PCs and Structured Securities. These fees, which are included in our non-interest income, are derived from interest earned on principal and interest cash flows held in the trusts between the time funds are remitted to the trusts by servicers and the date of distribution to our PC and Structured Securities holders. The trust management income is offset by interest expense we incur when a borrower prepays a mortgage, but the full amount of interest for the month is due to the PC investor. We have off-balance sheet exposure to the trusts of the same maximum amount that applies to our credit risk of our outstanding guarantees; however, we also have exposure to the trusts and applicable institutional counterparties for any investment losses that are incurred in our role as the securities administrator for the trusts. In accordance with the trust agreements, we invest the funds of the trusts in eligible short-term financial instruments that are mainly the highest-rated debt types as classified by a nationally recognized rating service organization. During the third quarter of 2008, we recognized \$1.1 billion of losses on investment activity associated with our role as securities administrator for the trusts as a result of the Lehman short-term lending transactions. See **CONSOLIDATED RESULTS OF OPERATIONS** Non-Interest Expense *Securities Administrator Loss on Investment Activity* for further information. As of December 31, 2008, the investments of the trusts were in cash and other financial instruments categorized as cash equivalents.

On September 6, 2008, the Director of FHFA placed us into conservatorship. On September 7, 2008, the Conservator entered into the Purchase Agreement with the Treasury for senior preferred stock and a warrant for the purchase of 79.9% of our common stock outstanding in return for the Treasury's commitment in the Purchase Agreement. The Purchase Agreement provides that Treasury will provide us additional equity capital funding under certain conditions. We have also entered into the Lending Agreement with Treasury, which provides for short-term funding, under certain terms and conditions, on a secured basis. See **BUSINESS** Conservatorship and Related Developments for further information on both the Purchase and Lending Agreements.

As part of the guarantee arrangements pertaining to certain multifamily housing revenue bonds and securities backed by multifamily housing revenue bonds, we provided commitments to advance funds, commonly referred to as liquidity guarantees, totaling \$12.3 billion and \$8.0 billion at December 31, 2008 and 2007, respectively. These guarantees require us to advance funds to third parties that enable them to repurchase tendered bonds or securities that are unable to be remarketed. Any repurchased securities are pledged to us to secure funding until the securities are remarketed. We hold cash and cash equivalents in our cash and other investments portfolio equal to these commitments to advance funds. At December 31, 2008 and 2007, there were no liquidity guarantee advances outstanding. Advances under our liquidity guarantees would typically mature in 60 to 120 days.

CONTRACTUAL OBLIGATIONS

Table 53 provides aggregated information about the listed categories of our contractual obligations as of December 31, 2008. These contractual obligations affect our short- and long-term liquidity and capital resource needs. The table includes information about undiscounted future cash payments due under these contractual obligations, aggregated by type of contractual obligation, including the contractual maturity profile of our debt securities and other liabilities reported on our consolidated balance sheet and our operating leases at December 31, 2008. The timing of actual future payments may differ from those presented due to a number of factors, including discretionary debt repurchases. Our contractual obligations include other purchase obligations that are enforceable and legally binding. For purposes of this table, purchase obligations are included through the termination date specified in the respective agreements, even if the contract is renewable. Many of our purchase agreements for goods or services include clauses that would allow us to cancel the agreement prior to the expiration of the contract within a specified notice period; however, this table includes these obligations without regard to such termination clauses (unless we have provided the counterparty with actual notice of our intention to terminate the agreement).

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In Table 53, the amounts of future interest payments on debt securities outstanding at December 31, 2008 are based on the contractual terms of our debt securities at that date. These amounts were determined using the key assumptions that (a) variable-rate debt continues to accrue interest at the contractual rates in effect at December 31, 2008 until maturity and (b) callable debt continues to accrue interest until its contractual maturity. The amounts of future interest payments on debt securities presented do not reflect certain factors that will change the amounts of interest payments on our debt securities after December 31, 2008, such as (a) changes in interest rates, (b) the call or retirement of any debt securities and (c) the issuance of new debt securities. Accordingly, the amounts presented in the table do not represent a forecast of our future cash interest payments or interest expense.

Table 53 excludes the following items:

any future cash payments associated with the liquidation preference of the senior preferred stock, as well as the quarterly commitment fee and the dividends on the senior preferred stock because the timing and amount of any such future cash payments are uncertain. Beginning on March 31, 2010, we are required to pay a quarterly commitment fee to Treasury, which will accrue from January 1, 2010. We are required to pay this fee, unless waived by Treasury, each quarter for as long as the Purchase Agreement is in effect. The amount of this fee has not yet been determined. See **BUSINESS Conservatorship and Related Developments** for additional information regarding the Purchase Agreement;

future payments related to our guarantee obligation, because the amount and timing of such payments are generally contingent upon the occurrence of future events and are therefore uncertain;

future contributions to our Pension Plan, as we have not yet determined whether a contribution is required for 2009. See **NOTE 15: EMPLOYEE BENEFITS** to our consolidated financial statements for additional information about contributions to our Pension Plan;

future cash settlements on derivative agreements not yet accrued, because the amount and timing of such payments are dependent upon changes in the underlying financial instruments and are therefore uncertain;

future dividends on the preferred stock we issued, because dividends on these securities are non-cumulative. The classes of preferred stock issued by our two consolidated REIT subsidiaries pay dividends that are cumulative. However, dividends on the REIT preferred stock are excluded because the timing of these payments is dependent upon declaration by the boards of directors of the REITs. The Conservator has eliminated the dividends on the preferred stock we issued (other than the senior preferred stock), and determined that no further dividends should be paid on the REIT preferred stock; and

the guarantee arrangements pertaining to multifamily housing revenue bonds, where we provided commitments to advance funds, commonly referred to as liquidity guarantees.

Table 53 Contractual Obligations by Year at December 31, 2008

	Total	2009	2010	2011	2012	2013	Thereafter
	(in millions)						
Long-term debt ⁽¹⁾	\$ 539,374	\$ 105,420	\$ 97,965	\$ 63,561	\$ 38,202	\$ 59,904	\$ 174,322
Short-term debt ⁽¹⁾	330,902	330,902					