

February 2003

A Letter From

Jerome Lienhard
Senior Vice President, Global Debt Funding

Dear Freddie Mac Investor:

Freddie Mac faced an extremely challenging economic environment in 2002. Interest rates hovered around historical lows, leading to a continued surge in refinancing activity by American homeowners. As a major liquidity provider to one of the strongest housing markets in the world, Freddie Mac continued to fulfill its mission by financing over 4.5 million homes in America in 2002.

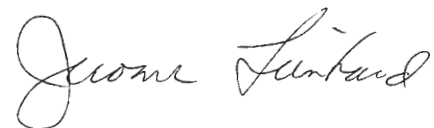
As you know, our business model includes the purchase of mortgage assets for our own portfolio when certain return thresholds are met. As a result of market conditions and our prudent approach to capital deployment, our investment portfolio shrank from March to May, when mortgage assets became expensive and liquidations of our mortgage holdings exceeded new purchases. Freddie Mac pursues its housing mission while adhering to an extremely disciplined approach to risk management. Fortunately, Freddie Mac debt securities benefited from this strict risk management philosophy in 2002. During the second half of the year, performance of our debt securities improved, largely reflecting a shift in the market's recognition of our risk management practices.

Freddie Mac made significant progress in advancing the goals of its Global Debt Funding Program in 2002. In the summary that follows, we highlight several of these successes. It is remarkable that we were able to accomplish so much in such a volatile economic and political environment. Freddie Mac consistently demonstrated its commitment to investors by voluntarily agreeing to register its equity securities with the Securities and Exchange Commission and to adhere to the same financial disclosure standards as other publicly-traded companies. On October 1st, our disciplined interest-rate risk management practices were highlighted in an article in *The Wall Street Journal*. Based on investor feedback, we focused our efforts on educating investors about our approach to risk management in a series of individual meetings conducted by our Investor Relations team. In December, the Office of Federal Housing Enterprise Oversight, our regulator, announced the first official

classification of Freddie Mac under both the minimum and risk-based capital standards. These results confirmed that Freddie Mac is extremely well capitalized, that we maintain excellent risk-management practices, and that our operations are safe and sound.

In 2003, we have already demonstrated our commitment to financial transparency. In the mortgage-backed securities area, we have agreed to increase the amount of information we provide on mortgage pools. In the debt securities area, we delayed the January launch of our 5-year €Reference Notes[®] securities to accommodate the release of our fourth-quarter 2002 earnings release and restatement announcement. We did this to ensure that investors had the opportunity to review this information before the pricing. When we did proceed with pricing a day later, we found that investors appreciated our approach, and the issue was a huge success.

Continue to look for transparency, liquidity and innovation as the core of Freddie Mac's debt funding program. We plan to maintain the pace of net growth in our callable debt program and look forward to The Bond Market Association's release of standardized trading practices for callable agency debt. Central to our debt funding needs is the outlook for the U.S. economy, and in particular, the housing market. We have included the Economic Outlook of Frank Nothaft, our Chief Economist, for your review. I hope you find it interesting. ■



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Debt Program Highlights 2002

Global Debt Funding continued to provide the support and innovation that is vital to the success of Freddie Mac's overall business model. By developing a liquid

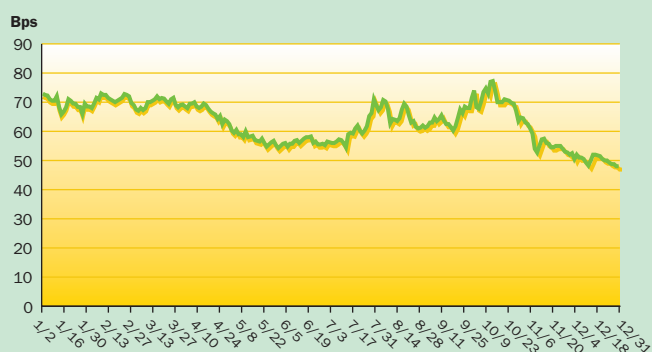
In 2002, we continued to see increasing dealer and investor support for the full range of Freddie Mac debt products.

and transparent global funding program we achieve the dual goals of providing debt instruments that are attractive to global investors while obtaining the lowest cost of funding possible.

In 2002, we continued to see increasing dealer and investor support for the full range of Freddie Mac debt products. Highlights of our Global Debt Funding Program in 2002 include:

- Increased recognition as the *Premier Global Non-Sovereign Borrower*.
- Strong performance of both dollar ReferenceNotes® securities (Reference Notes) and €Reference Notes® securities (€Reference Notes), particularly in the second half of the year.

Freddie Mac On-the-Run 10-year Spread to Treasury



Source: Freddie Mac

- Conducted two debt exchanges: 30-year Reference Bonds® securities in February and 10-year Reference Notes in July.
- Conducted 11 internet-based Reference Notes repurchase operations and integrated €Reference Notes into the Periodic Repurchase Program.
- Priced the largest callable agency bond of 2002 in August.

- Refined our callable note offering program by issuing larger, more liquid securities in response to investor demand. We issued 10 syndicated callable note offerings, totaling \$23 billion in 2002.
- Issued \$2.5 billion of FreddieSUBSSM securities — our subordinated debt securities.
- Continued the dramatic growth in global distribution of Reference Notes and €Reference Notes, adding over 600 new investors during the year.
- Maintained our status as the most actively traded non-sovereign issuer on the EuroMTS trading platform. ■

Issuance Summary 2002

In response to the low-interest-rate environment and the subsequent slowdown in the growth of our retained mortgage portfolio, we adjusted our debt funding program accordingly. We increased our repurchase operations and conducted two debt exchanges to reduce the amount of certain “off-the-run” debt securities, while boosting the liquidity in those issues. Low interest rates also led us to reduce the issuance of short-term debt in favor of long-term debt, thus reducing our reliance on derivatives that hedge these securities. Finally, we increased the issuance and amount outstanding of callable debt because it is useful for hedging our mortgage-backed securities portfolio, and also in response to increased investor demand for higher-yielding securities. ■

2002 Global Debt Issuance

	\$Billions
Discount Notes	244.5
Overnights	672.2
Reference Bills	444.5
Total Short-term Debt	1361.2
Medium-Term Notes-Bullet	4.1
Medium-Term Notes-Callable	171.4
Syndicated Callable	23.0
FreddieNotes	9.6
€Reference Notes	13.8
Reference Notes	71.0
Subordinated Debt-Callable	2.5
Total Long-Term Debt	295.4
Total Debt	1656.6

Economic Outlook

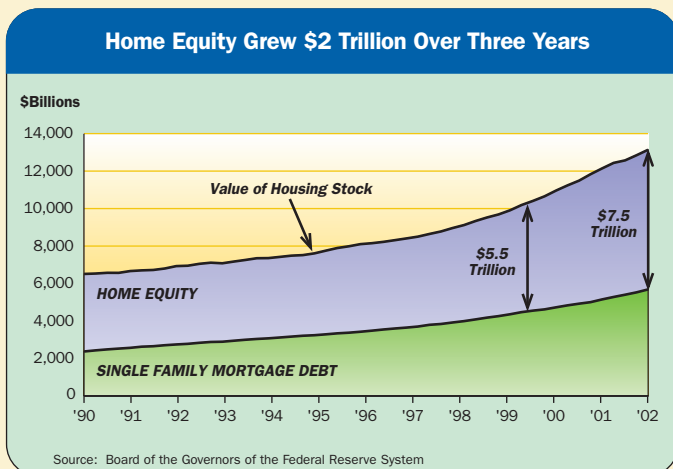
Frank Nothaft,
Chief Economist, Freddie Mac

NOTE: Opinions and estimates expressed in Reference Point are believed to be accurate but are relevant only as of the date of publication, are subject to change without notice, and Freddie Mac disclaims any obligation to correct or update such information. Please refer to additional disclaimers at the bottom of page 4.

We expect a gradually accelerating rate of GDP growth over the next year, rising from an estimated 1.0% growth rate over the final three months of 2002 to a 3.5-4.0% rate during the second half of 2003. Especially important to this projection is a rebound in business investment spending and continuing strength in consumer spending. With both major political parties advancing a fiscal stimulus package, it appears rather likely that some form of tax cut will be enacted before mid-year, providing further stimulus to propel growth into 2004.

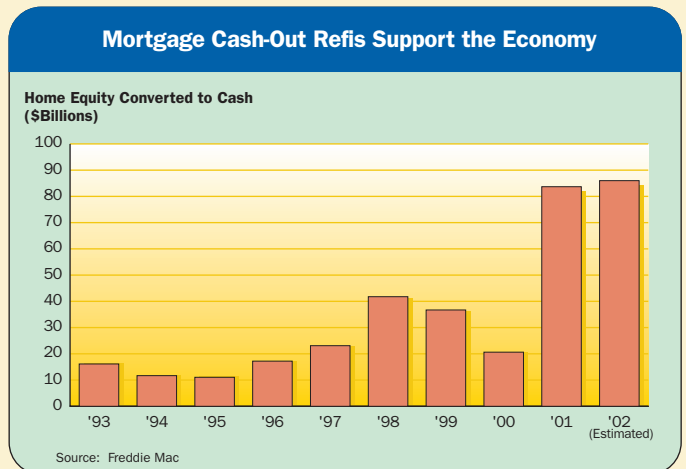
Acceleration to 2003 of income tax cuts currently set to take effect after this year will help to add to consumer spending power. Up to now, the rise in home equity wealth and the mortgage refinance boom has helped to sustain consumer expenditures. Exhibit 1 shows that home equity, aggregated across all families in the U.S., has grown by \$2 trillion over the past three years, helping to offset the loss in wealth from the fall in stock values (home equity is the difference between the value of the housing stock and the amount of mortgage debt placed on homes). The growth in home equity has been a powerful driver of expenditures for two reasons: Home equity wealth is far more broadly held across households than stock equities, and families regard wealth created by home equity growth as more permanent than stock market wealth.

Exhibit 1



Refinancing activity has sustained spending in two ways: by shaving a full percentage point off the average mortgage rate paid by families (putting a \$100 per month back into the pockets of the average family), and by allowing families to tap their home equity for debt consolidation, home improvements, purchases of consumer durables, and the like. As shown in Exhibit 2, we have estimated that home equity extraction via refinance reached a record \$90 billion in 2002.

Exhibit 2



A full or partial elimination of dividend taxation at a personal level will likely stimulate both business capital and consumer spending. This type of tax cut may lower the cost of equity capital for some firms, boosting capital spending. Stock values for dividend-paying companies may also be bid up, which can stimulate consumption spending through a wealth effect.

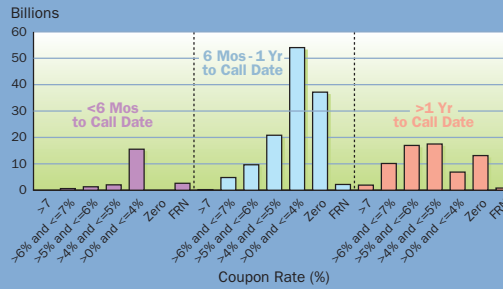
Fiscal policy has long lags before it affects the real economy, primarily because of the length of time it takes to be enacted. Quick action in Congress is important if the tax cuts are to have much effect in 2003. In the mean time, the Fed will continue its accommodative monetary policy: We see no rate hikes in the first half of the year, with the Fed “taking back” some of its rate cuts in the second half if economic growth accelerates. Thus, interest rates should remain at close to their current low levels for much of the first six months of 2003, then rise in the second half. With this rate scenario, 2003 should be an excellent year for housing, with new construction and sales close to 2002’s mark. Home-purchase originations are expected to be at or above last year’s level and refinance activity strong over the first half before falling about 40%, with total originations down 20% relative to 2002. ■

Data Bank

Discount Notes and Reference Bills Issued as of December 31, 2002

Maturity	4th Qtr 2002 Par Amount Issued (billions)	YTD Par Amount Issued (billions)
<1 Month (ex. Overights)	49.85	233.23
1-<2 Months	30.08	139.18
2-<3 Months	10.11	16.99
3-<6 Months	61.65	201.05
6 Months - 1 YR	22.83	98.57
TOTAL	\$174.52	\$689.02

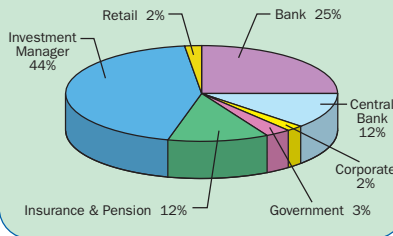
Callable MTNs Outstanding as of December 31, 2002



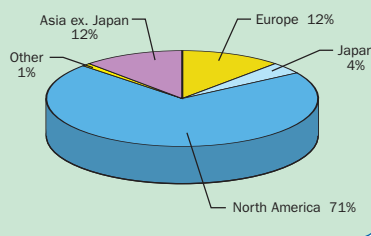
Maturity	Callable MTN O/S (billions)
1-≤3 YRS	66.67
>3-≤5 YRS	40.02
>5-≤10 YRS	37.77
>10 YRS	73.89
TOTAL	\$218.40

Year-to-Date through December 31, 2002

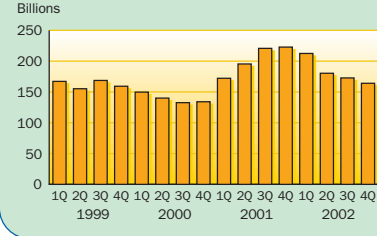
Reference Notes Issuance Investor Distribution (ex. auctions)



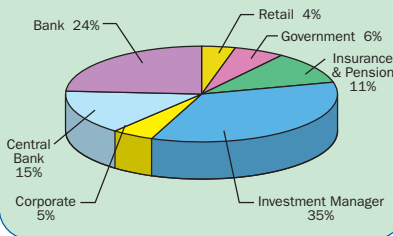
Reference Notes Issuance Geographic Distribution (ex. auctions)



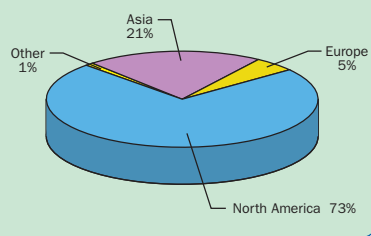
Discount Notes and Reference Bills Outstanding as of December 31, 2002



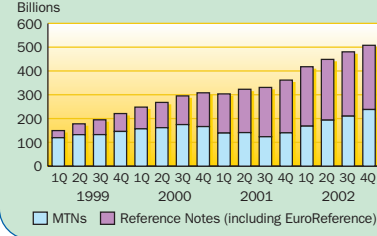
Syndicated Callable Issuance Investor Distribution



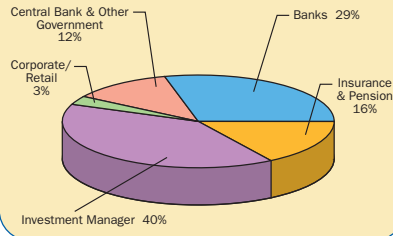
Syndicated Callable Issuance Geographic Distribution



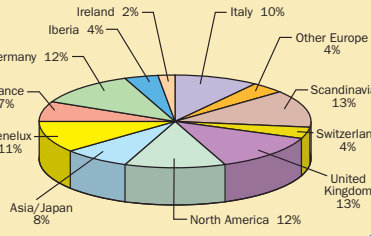
MTNs and Reference Notes Outstanding as of December 31, 2002



€Reference Notes Issuance Investor Distribution



€Reference Notes Geographic Distribution



€Reference Notes Outstanding as of December 31, 2002

Structure	Coupon Rate	Maturity	ISIN	Amount Outstanding (Euros)
3-Year	4.500	3/15/04	XS0125902451	7.50
3-Year	4.625	5/15/05	XS0146883581	5.00
5-Year	5.250	1/15/06	XS0121336266	4.75
5-Year	4.625	2/15/07	XS0142391209	5.00
10-Year	5.750	9/15/10	XS0117858323	4.875
10-Year	5.125	1/15/12	XS0136341814	4.625
10-Year	4.750	1/15/13	XS0154444870	5.00

For More Information

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