

November 2002

A Letter From

Jerome Lienhard
Senior Vice President, Global Debt Funding

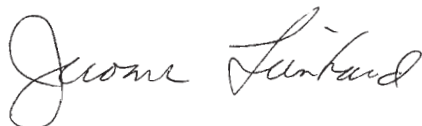
Dear Freddie Mac Investor,

The recent economic environment has presented all of us with many challenges and has led to heightened concern regarding the safety and soundness of corporations across America. In the housing market, unprecedented declines in interest rates have spurred another bout of mortgage refinancings and have supported continued growth in U.S. house prices. Questions about Freddie Mac's preparedness for handling the current economic environment have been raised by some of our investors and more broadly, by media reports.

Freddie Mac is extremely disciplined in its approach to risk. We deploy capital only when we can achieve a return on equity that meets our threshold and manage the associated risks. Our disciplined investment philosophy was evident earlier this year when we found mortgage assets were too expensive. As a result, liquidations of our mortgage holdings exceeded new purchases and our investment portfolio shrank from March to May.

*Recently, much attention has been focused on the topic of interest rate risk, and more specifically, about how government sponsored housing entities manage that risk. Freddie Mac's Investor Relations team has traveled the globe to meet with investors to help them understand our business and to explain our interest rate risk management practices. Based on information we collected during our most recent investor visits, we have decided to present a detailed explanation of Freddie Mac's approach to interest rate risk management in this issue of **Reference Point**.*

Our Global Debt Funding team focuses on our responsibilities to bondholders every day. We strive to deliver high quality, innovative debt products to both new and existing investors alike. In September, we released our funding calendar for 2003. As always, we remain committed to sustaining our Reference Bills®, Reference Notes® and €Reference Notes® programs. Over time, our objective is to create debt securities that are attractive to a wide array of investors throughout the world. We believe that is the most appropriate strategy to ensure durable, low-cost financing, and securities that consistently outperform other securities. I hope you find this information useful.



Investor Focus

Interest Rate Changes: Friend or Foe?

Interest rate movements can be favorable, unfavorable or have virtually no effect on the business of a particular entity. The effect depends on the business and the degree to which interest rates relate to their asset and liability positions. More important, however, is the net effect—which depends on how effectively interest rate risks are managed within a company. In the case of Freddie Mac, our business largely consists of assets and liabilities that, in isolation, are highly sensitive to changes in interest rates. Our management team actively and deliberately manages this risk. Freddie Mac's investment goal is to produce long-term returns that are relatively insensitive to changes in interest rates.

The Business of Freddie Mac

To understand why it is important for us to manage interest rate risk, an understanding of our business is essential. Freddie Mac is in the business of making homeownership and quality, affordable rental housing more available in America. We accomplish this by helping to keep the cost of mortgage finance as low as possible. Our two primary businesses are securitization of mortgages and investment in mortgages. Freddie Mac purchases mortgages from lenders across the country and packages them into mortgage-backed securities that can be sold to investors. In the process, we insure the mortgages and principal payments on the mortgage-backed securities we sell and earn management and guarantee fees for providing this service.

This Issue

Interest Rate Changes: Friend or Foe?

The Business of Freddie Mac

PMVS: What is it?

What is duration gap?



Through this securitization process, we ultimately provide low- to middle-income homeowners and renters with lower housing costs and better access to home financing.

In addition to financing housing through securitization, Freddie Mac invests directly in mortgages. This investment is made possible by our ability to raise money to purchase mortgage assets by selling bonds to investors throughout the world. By providing investors with another means to

indirectly invest in mortgages on homes within the United States, we provide families with even more affordable mortgage financing.

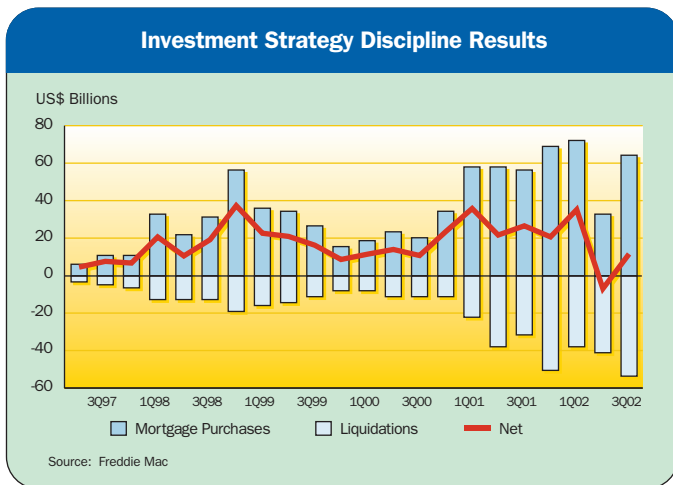
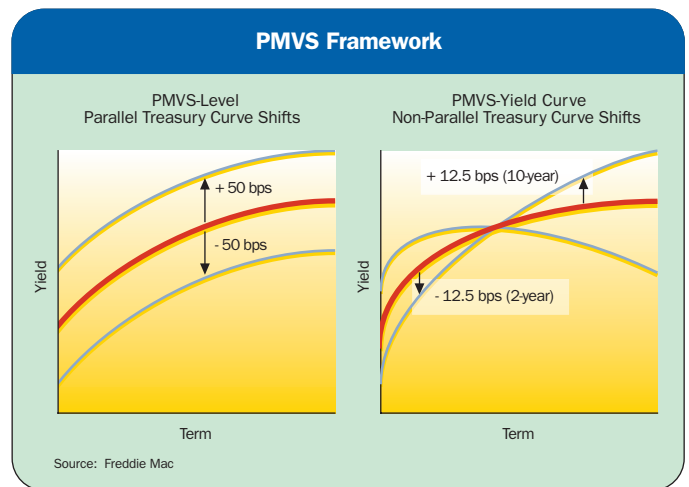
Freddie Mac's assets are the mortgages and related securities that are held in our retained mortgage portfolio. Our liabilities are the debt securities we issue,

over both short and long terms, to raise money to purchase these assets. Freddie Mac employs a disciplined approach to portfolio growth as part of its overall investment strategy. We only grow the portfolio if threshold investment returns are met, which means mortgages are purchased only when their yields exceed interest costs and associated rebalancing costs by enough to generate adequate returns on equity. This disciplined approach to investment sometimes results in a decrease in the size of our retained portfolio.

Freddie Mac's investment goal is to produce long-term returns that are relatively insensitive to changes in interest rates.

estimate of potential loss, not a realization of actual loss. PMVS uses the Treasury yield curve as a standard benchmark yield curve of interest rates. Since Treasury securities are viewed by the market as being free of credit risk, they provide a basis of comparison for other debt securities.

Scenario analyses are calculated to estimate the potential loss in market value of Freddie Mac's equity that would result from an increase or decrease in the level of interest rates (PMVS-L) and the slope of the yield curve (PMVS-YC). Under both scenarios (changes in level and slope), we use the most adverse impact to estimate the potential percentage loss in portfolio market value. Portfolio market value includes the valuation of all of Freddie Mac's interest rate sensitive assets and liabilities, including derivatives and PC guarantee obligations.



We invest in assets for our portfolio, but the story does not end here. Once we purchase mortgages and issue debt, the value of these assets and liabilities fluctuates in response to constantly moving interest rates. The question is: what do we do about this risk?

PMVS: What is it?

Freddie Mac actively measures and manages interest rate risk. On a daily basis, we measure our interest-rate risk exposure to changes in both the level and shape of the Treasury yield curve using Portfolio Market Value Sensitivity (PMVS) analysis. PMVS represents the estimated percentage decline in Freddie Mac's market value of equity for a given adverse change in interest rates. As such, PMVS is an

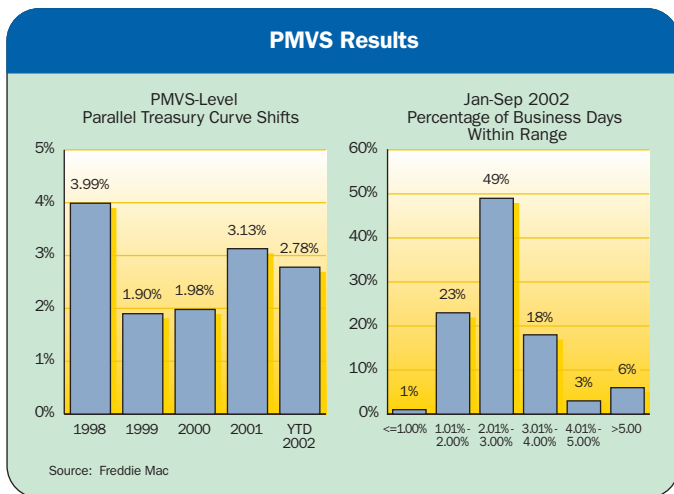
To calculate PMVS-L, Freddie Mac uses two scenarios: an immediate 50 basis point increase and an immediate 50-point decrease in Treasury rates. The 50 basis point change is applied as a parallel shift at each point along the Treasury yield curve. Given this assumed change in Treasury rates, Freddie Mac calculates the expected change in mortgage and debt rates using information about their historical relationship to Treasury yields, as well as to other interest rates and market information.

Freddie Mac's portfolio market value is also exposed to interest-rate risk arising from non-parallel shifts in the yield curve, i.e. steepening or flattening, when the cash flows of its assets and liabilities are not exactly matched. This risk is referred to as yield curve risk. Since future mortgage prepayments are impossible to predict with certainty, some cash flow mismatch is always present. Changes in the shape and slope of the yield curve can arise from changes in interest rates at different points along the curve. For this reason, Freddie Mac evaluates its exposure to yield curve risk by examining potential reshaping scenarios at various points along the curve.

On a daily basis, we measure our interest-rate risk exposure to changes in both the level and shape of the Treasury yield curve...

To calculate PMVS-YC, we examine two scenarios: an immediate 25 basis point steepening and an immediate 25 basis point flattening in the Treasury yield curve. The calculation is based on an assumed reshaping of the curve in which the 2-year and 10-year Treasury rates shift 12.5 basis points each—in opposite directions. The 2 and 10-year sectors are used because they are most reflective of mortgage market behavior. The 2 to 4 year sector of the yield curve is where expected cash flows from mortgages are concentrated and the 10-year sector is the benchmark for mortgage rates and can have a significant effect on prepayments.

We believe that the 50 basis point parallel shift and the 25 basis point yield curve shift are conservative measures of risk because they represent a severe shock that rarely occurs and they do not take into account any rebalancing actions we would take in response to such occurrences. Historically, our average annual PMVS level has remained at levels below 5 percent since we began disclosing this measure. Freddie Mac publishes its monthly PMVS disclosure information and duration gap in the Monthly Volume Summary.



What is duration gap?

Recent media articles have highlighted the concept of duration gap. Technically speaking, duration is a measure of the sensitivity of something—in this case assets or liabilities—to a change in interest rates. Another interpretation of duration is that it is a measure of the average life of an asset or liability. In this context, the average life of an asset will change in response to a given change in interest rates. Duration gap is the difference in the average lives of our assets and liabilities, or the difference between the duration of our assets and the duration of our liabilities. A basic goal of asset/liability management is to try to match expected cash inflows with expected outflows. In other words, we try to match the income stream derived from our mortgage investments with the required payments we must make on the debt that we issue. Duration gap is a part of the broader, more comprehensive PMVS measure. PMVS measures not only the duration gap in our assets and liabilities, but also convexity, i.e. the expected rate of change in duration resulting from a change in interest rates.

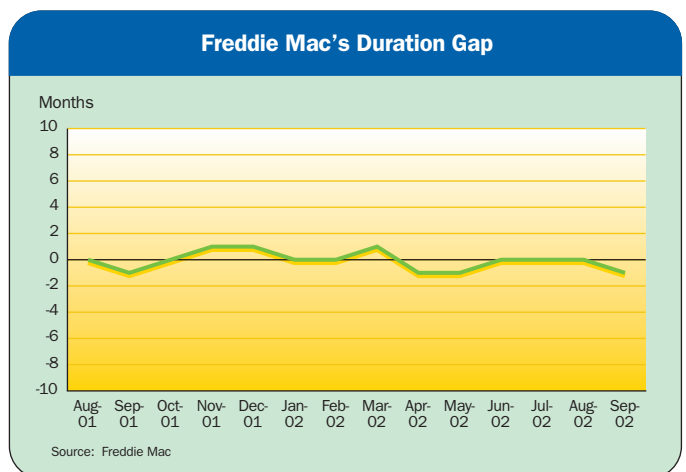
Freddie Mac experiences duration gap because we often finance the purchase of our mortgage assets with debt securities. The mortgages we purchase have a range of different characteristics, including: maturities, underlying collateral, principal and interest structures, and prepayment patterns. The debt securities we issue do not respond to interest rate changes at the same rate as mortgages. Fortunately, Freddie Mac has several tools available to manage our portfolio in response to interest rate movements.

Over the past year, Freddie Mac's monthly average duration gap has ranged between -1 and +1 month.

We offset most of the prepayment risk on these mortgage assets by using a mix of short- and long-term callable and non-callable debt and derivatives. As interest rates change, we continually rebalance our portfolio to

close any duration gap. Freddie Mac uses swaptions (options on interest rate swaps) to protect against extreme interest rate swings. Additionally, we conduct ongoing credit research to ensure that we only enter into derivatives transactions with financially strong counterparties.

Recently, we began releasing duration gap data in our Monthly Volume Summary. Over the past year, Freddie Mac's monthly average duration gap has ranged between -1 and +1 month. With the unprecedented low interest rate environment of recent months, the duration gap in a portfolio can grow quite large and lead to a decrease in a firm's equity value if the portfolio is not actively rebalanced. Freddie Mac has been successful in avoiding this situation by rebalancing our portfolio on a frequent basis.



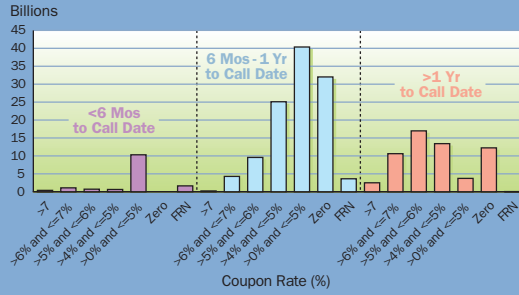
In summary, interest rate changes are neither friend nor foe to Freddie Mac, since we actively manage our interest rate risk. Freddie Mac's investment framework focuses on conservative risk levels and disciplined deployment of capital. These emphases are the key to maximizing shareholder value, while also serving the best interest of our bondholders. We take our responsibilities to all our investors seriously, and will continue to manage our risk responsibly to ensure that Freddie Mac will continue making the American dream of decent, accessible housing a reality for years to come.

Data Bank

Discount Notes and Reference Bills[®] Issued as of September 30, 2002

Maturity	3rd Qtr 2002 Par Amount Issued (billions)	YTD Par Amount Issued (billions)
<1 Month (ex. Overnights)	73.26	183.38
1-<2 Months	41.79	109.10
2-<3 Months	3.59	6.88
3-<6 Months	38.90	139.40
6 Months - 1 YR	23.67	75.74
TOTAL	\$181.21	\$514.50

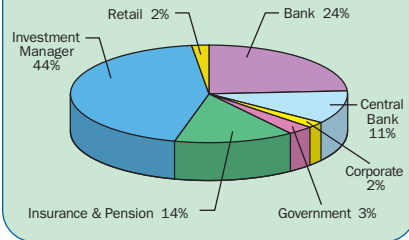
Callable MTNs Outstanding as of September 30, 2002



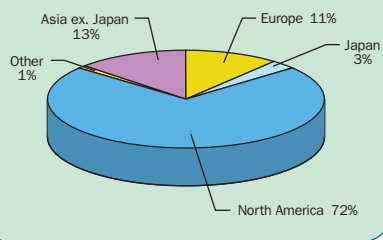
Maturity	Callable MTN O/S (billions)
1-≤3 YRS	58.10
>3-≤5 YRS	36.20
>5-≤10 YRS	31.20
>10 YRS	64.50
TOTAL	\$190.00

Year to Date through September 30, 2002

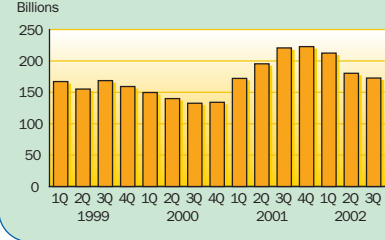
Reference Notes[®] Issuance Investor Distribution (ex. auctions)



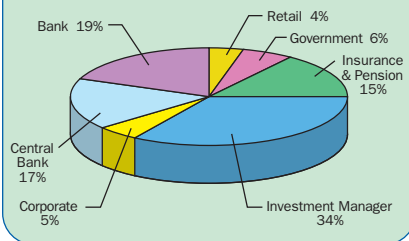
Reference Notes Issuance Geographic Distribution (ex. auctions)



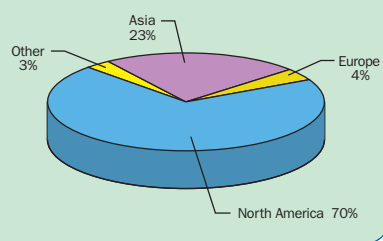
Discount Notes and Reference Bills Outstanding as of September 30, 2002



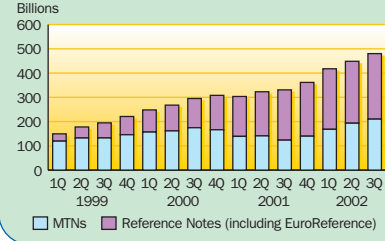
Syndicated Callable Issuance Investor Distribution



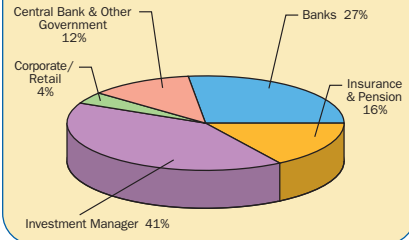
Syndicated Callable Issuance Geographic Distribution



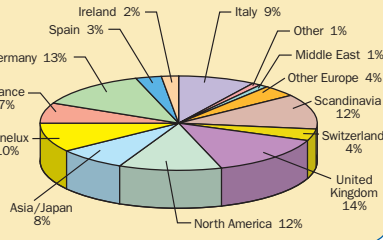
MTNs and Reference Notes Outstanding as of September 30, 2002



€Reference Notes[®] Issuance Investor Distribution



€Reference Notes Geographic Distribution



€Reference Notes Outstanding as of September 30, 2002

Coupon	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	5.50
5-Year	4.625	2/15/07	XS0142391209	5.00
10-Year	5.750	9/15/10	XS0117858323	5.25
10-Year	5.125	1/15/12	XS0136341814	5.00
10-Year	4.750	1/15/13	XS0154444870	5.00

For More Information

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