

Freddie Mac's 2002 Global Reference Note[®] financing calendar, the first multi-currency fixed-income calendar created by any issuer in the world.

A Letter From

Jerome Lienhard

Freddie Mac Initiates First Multi-Currency Financing Calendar

This spring, we continued our innovation in the global capital markets with the development of the 2002 Global Reference Note[®] financing calendar. Introduced on May 31, this calendar, together with our previously released 2001 financing calendar, provides investors a 19-month forward view of our financing plans for the Reference suite of debt securities. Our 2002 calendar is the first multi-currency fixed-income financing calendar created by any issuer in the world, including governments—an integrated U.S. dollar and euro term debt funding program for 2002 totaling over \$100 billion.

Building upon the successful franchise of our U.S. dollar-denominated Reference Notes program, eReference issues offer investors in euros the same high quality, AAA-rated liquid debt securities that buyers of our dollar-denominated issues have enjoyed since the inception of the Reference program in 1998. Our new calendar fully integrates the U.S. dollar- and euro-denominated Reference Note programs, taking our worldwide financing commitment to a new level and setting an unprecedented standard for borrowers.

Key features of the Freddie Mac 2002 Global Reference Note calendar and new developments include:

- Specified pricing weeks for new issuances and re-opening windows for 3-, 5- and 10-year eReference Notes
- Eight Internet-based auctions of 2- and 3-year U.S. dollar-denominated Reference Notes and expanded use of auctions for other maturities
- Stated minimum sizes for new issues and re-opening windows in both U.S. dollars and euros

The two innovations that we pioneered over the last twelve months—eReference Notes and Internet-based auctions—are now fully embedded in our program. We expect their roles in our financing activity to increase. The response to Freddie Mac's auctions has surpassed our expectations, particularly in the immediate development of an active "when-issued" market. We believe this development has significantly enhanced investors' ability to participate in the new issue process from announcement date to pricing date, as well as realize greater benefit from the pricing transparency and liquidity of our debt securities.

Completing our first year commitment to issue e20 billion eReference Notes over four calendar quarters starting in September 2000, we held a e5 billion re-opening of all outstanding eReference Notes in June. We also plan a new 10-year eReference Note offering during the week of September 24-28, and have a re-opening window of outstanding eReference Notes during the week of October 22-26, depending upon market conditions. All existing and new eReference Notes are eligible to be traded on the EuroMTS system.

Our objective is to grow the amount of outstanding eReference Notes beyond e5 billion. Together, the calendar-based new issuance and re-opening windows will allow us to accomplish this goal. In 2002, Freddie Mac may use weeks designated for new eReference

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Senior Vice President, Global Debt Funding*

*Yield Curve Analysis
by Lou Crandall of Wrightson Associates*

*Historical data on Freddie Mac's
US\$- and Euro-denominated debt securities*

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Market Talk

Yield Curve Dynamics: U.S. Treasury, Agency and Swap

Lou Crandall
Wrightson Associates

The dynamics of the swap market have undergone a series of major changes in recent years. In the late 1990s, swap spreads were driven largely by two factors: Treasury market supply and global credit concerns. Spreads between Treasury bonds and private securities embarked on a long-term widening trend when the public debt began to decline in 1997, as scarcity concerns drove Treasury yields down relative to other debt instruments. The major short-run swings around that trend were sparked by events like the Asian financial crisis and the collapse of Long Term Capital Management (LTCM).

By the middle of 2000, though, a different force began to dominate short-term movements in swap spreads. Mortgage investors had increasingly turned to swaps for duration management purposes, and the volume of mortgage-related “convexity hedging” in the swap market exploded when long-term rates began to fall last year. The initial impact of these portfolio adjustments was to drive spreads in, as mortgage accounts had an overwhelming need to “buy” swaps—that is, to receive fixed interest payments.¹ As a result, swap yields fell even faster than Treasury yields when the bond rally accelerated in the final part of the year.

In earlier cycles, the Treasury market had been the primary beneficiary of convexity hedging demand. However, Treasuries had started to fall out of favor for hedging purposes after the LTCM debacle, which had challenged traditional assumptions about the liquidity and stability of the Treasury market. The announcement of the Treasury’s buyback program in the first quarter of 2000 further spurred the migration of hedging activity to other markets. The mere announcement of the program had triggered another

destabilizing breakdown in spread relationships, and the proposed bond redemptions indicated that the Treasury market’s liquidity problems would only grow with time. Moreover, after years of spread widening, Treasuries had become a very expensive way to buy duration. Managers who needed to extend their durations would have sacrificed more yield than ever before had they bought Treasuries last year instead of spread products. Mortgage investors had strong incentives on several levels to alter their hedging styles by last year.

Convexity hedging feeds on itself when rates are falling, as the demand for duration tends to reinforce the rally and further increase prepayment risk. As powerful as this impact can be in the short run, though, it is always temporary. In time, the expected duration of the mortgage universe begins to rise again as homeowners refinance their debt. Seasoned loans are replaced by new, lower-coupon mortgages with less prepayment risk, longer remaining terms to maturity and (in many cases) higher loan balances. When the process is complete, the supply of mortgage debt ends up being larger *and* having a longer average life than before the refinancing wave began. Mortgage investors respond by unwinding their long positions in other markets once the new supply of longer-term mortgage debt arrives.

On its own, the unwinding of mortgage-related hedging trades might have pushed swap spreads back up faster than has been the case so far this year. By the beginning of 2001, however, the swaps market had found a new source of demand. U.S. corporations have sold record amounts of fixed-rate debt so far this year, and a significant proportion has been swapped from fixed to floating rates. Investment grade issuance alone topped \$375 billion in the first half of the year. Estimates vary, but it seems safe to say that more than \$100 billion of that total was swapped.

The surge in corporate issuance in the first half of 2001 came as a surprise. Investment spending plans have fallen even faster than internal cash flow at most companies, so the underlying demand for capital has been limited. Corporate CFOs, however, have vivid memories of earlier periods in which the primary market for corporate debt

“... Treasuries had started to fall out of favor for hedging purposes after the LTCM debacle, which had challenged traditional assumptions about the liquidity and stability of the Treasury market.”

Letter continued from cover

issues to concurrently re-open any outstanding euro-denominated issues. Re-openings will occur only at times designated on the calendar and only if market conditions are in alignment with Freddie Mac’s financing needs. By December of 2002, we expect to issue an additional €25 – €30 billion in euro-denominated debt, inclusive of the €5 billion issuance in June 2001.

Moving up the yield curve, we intend to expand our successful 2- and 3-year U.S. dollar Reference Note Internet-based auctions to include additional maturities in 2002, although we did not announce specific offerings. In response to investors’ input, we increased the maximum permissible amount of non-competitive bids in each auction to \$100 million and the size of the non-competitive pool to 20% of the offering amount, effective with the 2-year Reference Note auction held on June 7, 2001.

In another recognition of our global funding strategy, *Euromoney* magazine recently named us “Best Borrower of the Year” for 2001. *Euromoney* credited our senior management with the vision to redesign a previously “opportunistic” debt funding program and replace it with the large, calendar-based Reference Notes program. They cited our successful entry into the euro markets by creating the eReference Notes program, “a truly liquid Agency product,” in the face of an established and deep Government euro market and despite “loss of focus in the euro AAA-rated non-government market.” We have transformed a primarily domestic investor base into a truly globalized funding base for U.S. homeowners. We are dedicated to continuing our leadership in global capital markets and to delivering the predictability, liquidity, transparency and innovation that investors have come to expect from Freddie Mac.

Jerome Lienhard
Senior Vice President, Global Debt Funding

Reference Point

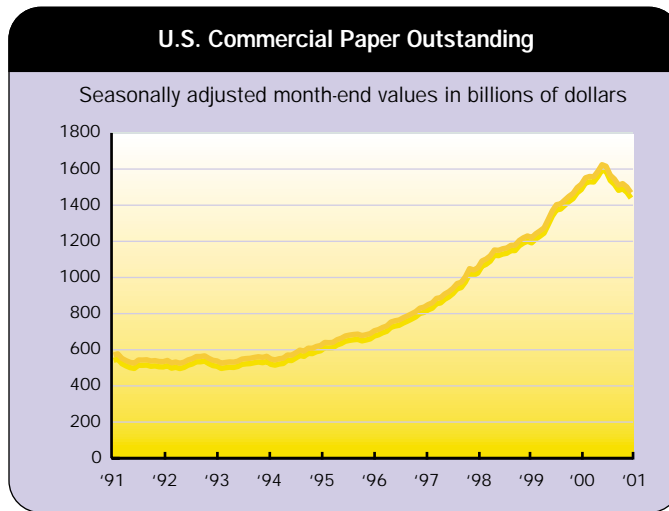
July 2001



dried up in the face of economic strains. The onset of the last recession in 1990 coincided with a severe credit crunch that made bond sales a challenge for even the strongest borrowers. More recently, the corporate bond market simply shut down during the LTCM crisis in the fall of 1998. The fact that underlying economic conditions at the time were still exceptionally strong was not enough to preserve corporate access to long-term debt markets. This year, faced with a deteriorating economic environment and some well-publicized problems in the commercial paper market associated with the California energy crisis, corporations decided to borrow while they could rather than risk being shut out of the capital markets. The surge in long-term borrowing has allowed the corporate sector to reduce its dependence on short-term debt sharply.

The swapping associated with this year's heavy corporate bond issuance has weighed heavily on spreads. When a corporate borrower wants to offset the fixed payments on debt that it has sold, it must "buy" a swap (i.e., receive fixed payments). And, unlike the effects of convexity hedging, the impact on spreads is not purely temporary.

In a calmer financial environment, this process tends to be self-limiting to a certain extent. If swap yields are driven down by heavy receiving demand, swapping becomes less attractive for issuers. The interest payments they receive on the fixed leg of the swap cover a smaller share of their own fixed-rate interest obligations, which effectively means that they pay a higher spread over 3-month LIBOR once the debt is converted to floating rates. In today's uncertain



climate, however, corporate borrowers have been willing to pay that price in order to secure long-term funding. Moreover, with the yield curve having steepened dramatically this year, corporate borrowers can improve their cash flow immediately by swapping from fixed to floating—even if their effective spread over 3-month LIBOR is a bit wider than it would have been a year ago.

The impact of corporate debt issuance on the swaps market illustrates the difficulty of interpreting swap spreads as a credit-quality measure. All else being equal, an increase in financial market uncertainty will tend to boost swap yields relative to Treasuries as investors demand a higher return on private instruments. As this year's events show, however, technical forces arising from developments in other markets can overwhelm that effect. Ironically, concerns about future credit availability have contributed to narrower spreads this year. And an improvement in the credit outlook could well lead to wider spreads in the future. If corporations felt confident enough to return to the commercial paper market for their floating-rate funding needs, the demand to receive fixed rates in the swap market would ease.

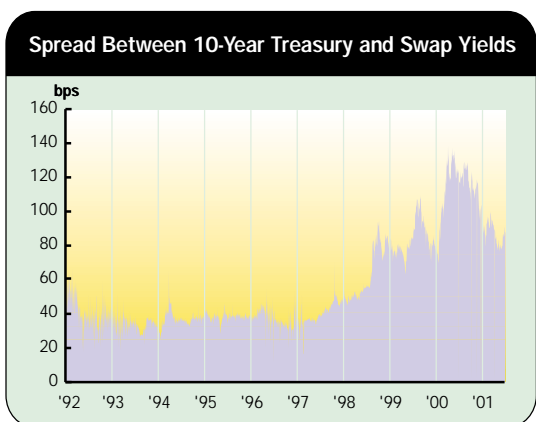
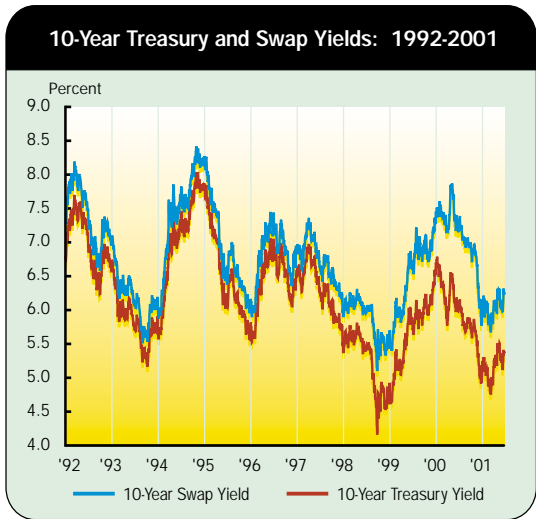
In the short run, the possibility of additional Fed rate cuts and further steepening of the yield curve between 3-month and long-term rates may slow the rebound in swap spreads. As the prospects for economic recovery become clearer, however, medium- and long-term swap spreads are likely to reverse some of the past year's decline.² Corporate bond issuance is likely to ease from the first half's record pace in almost any economic scenario, and convexity hedging would start to force spreads out rather than in if interest rate trends pushed mortgage duration up. Just as the bond market rally in late 2000 and early 2001 was associated with tighter swap spreads, a rising rate environment would probably see a widening between swaps and Treasuries.

¹ When interest rates fall, mortgage prepayment speeds rise and the expected duration of mortgage-related assets falls. Leveraged mortgage accounts can compensate for the shortened duration of their existing assets by purchasing other long-term securities or taking on additional long-term exposure in derivatives.

² The outlook for short-term swaps (out to two years) is a bit different. Treasury issuance of short-term debt will rise sharply this summer to pay for the 2001 tax rebate. Temporary Treasury supply burdens will tend to keep short-term swap spreads relatively tight. The supply of longer-term Treasury debt, in contrast, should continue to shrink.

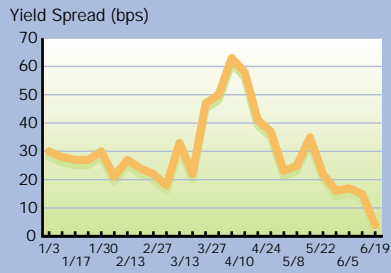
Mr. Crandall is chief economist of Wrightson Associates and is the principal author of its market-leading newsletter, "The Money Market Observer" (www.wrightson.com).

“The impact of corporate debt issuance on the swaps market illustrates the difficulty of interpreting swap spreads as a credit-quality measure. All else being equal, an increase in financial market uncertainty will tend to boost swap yields relative to Treasuries as investors demand a higher return on private instruments.”



Data Bank

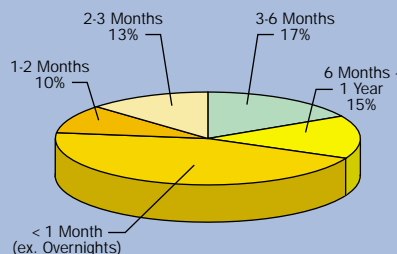
Reference Bills® Spread to Treasuries (3-month) January 1 - June 30, 2001



Reference Bills Issuance

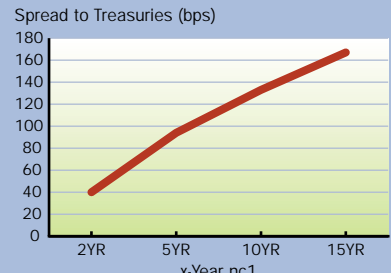
Maturity	Par Amount (billions)
1 Month	79.0
2 Month	84.0
3 Month	92.0
6 Month	17.5
12 Month	16.0
TOTAL	\$288.5

Discount Note Issuance January 1 - June 30, 2001



Maturity	Par Amount (billions)	Average Monthly Issuance
< 1 Month (ex. Overnights)	79.6	13.27
1-2 Months	16.9	2.82
2-3 Months	22.0	3.67
3-6 Months	29.8	4.97
6 Months - 1 YR	25.6	4.27
TOTAL	\$173.9	\$28.98

Callable MTNs Yield Spreads of x-Year nc1 to Treasuries on June 30, 2001



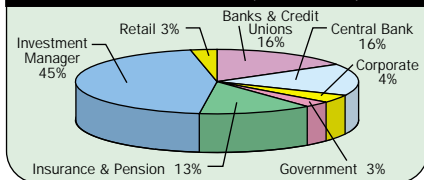
Maturity	Non-Callable MTN O/S (billions)	Callable MTN O/S (billions)
1-3 YRS	8.4	30.4
3-5 YRS	2.2	19.2
5-10 YRS	9.9	30.5
> 10 YRS	5.8	34.6
TOTAL	\$26.3	\$114.7

through June 30, 2001

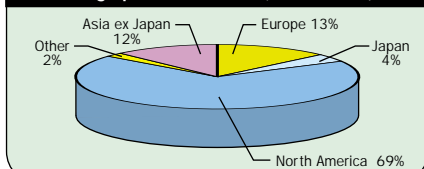
Reference Notes® and Reference Bonds Outstandings

Maturity	Structure	CUSIP	(billions)	Maturity	Structure	CUSIP	(billions)
15-Aug-02	2 YR	3134A35B8	4.00	15-Apr-08	10 YR	3134A2DT2	5.00
15-Mar-03	2 YR	AUCTION 3134A4DJ0	5.00	15-Oct-08	10 YR	3134A2UJ5	7.00
15-Jun-03	2 YR	AUCTION 3134A4FF6	4.00	15-Mar-09	10 YR	3134A3EM4	7.00
14-Dec-01	3 YR	3134A2ZJ0	3.00	15-Sep-09	10 YR	3134A3M78	9.00
15-May-02	3 YR	3134A3RE8	5.50	15-Mar-10	10 YR	3134A33L8	7.50
15-Oct-02	3 YR	3134A3T48	5.00	15-Sep-10	10 YR	3134A35H5	10.00
15-Feb-03	3 YR	3134A33D6	5.00	15-Mar-11	10 YR	3134A4DY7	5.00
15-May-03	3 YR	3134A34H6	5.00	15-Jun-11	10 YR	3134A4FM1	6.00
15-Nov-03	3 YR	3134A4C05	6.00	15-Sep-29	30 YR	3134A3U46	2.50
15-Feb-04	3 YR	AUCTION 3134A4DQ4	5.00	15-Mar-31	30 YR	3134A4AA2	4.00
15-May-04	3 YR	AUCTION 3134A4EX8	5.00			TOTAL	\$160.50
15-Jul-03	5 YR	3134A2KZ0	5.00				
15-Jan-04	5 YR	3134A2T99	6.00				
15-Jul-04	5 YR	3134A3YM2	6.00				
15-Jan-05	5 YR	3134A32S4	8.00				
15-Jul-05	5 YR	3134A34Q6	9.00				
15-Jan-06	5 YR	3134A4CX0	11.00				

Reference Notes® & Reference Bonds Issuance Investor Distribution (ex. auctions)

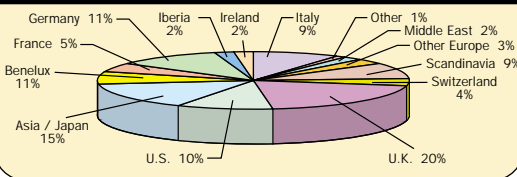


Reference Notes® & Reference Bonds Issuance Geographic Distribution (ex. auctions)

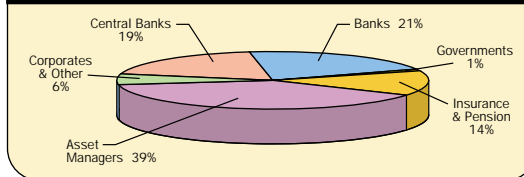


Reference NotesSM

Geographic Distribution



Investor Distribution



\$8 Billion

ISIN Number
XS0125902451
Structure
4-1/2% of 3/15/2004

\$6 Billion

ISIN Number
XS0121336266
Structure
5-1/4% of 1/15/2006

\$6 Billion

ISIN Number
XS0117858323
Structure
5-3/4% of 9/15/2010

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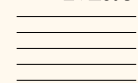
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