



A letter from:

John Radwanski

Vice President & Assistant Treasurer, Debt Funding

Dear Freddie Mac Investor:

2005 was a solid year for Freddie Mac. We fulfilled our housing mission in a way that benefited homeowners and the U.S. economy and achieved excellent growth in our business. We were able to grow our retained portfolio last year while maintaining a disciplined approach to investing in mortgage assets that meet our long-term objectives for return on equity. This is because we effectively tapped one of our core competitive competencies — funding ourselves for the long-term at attractive levels. We achieve this through our issuance of debt to meet the needs of worldwide investors for liquid and high-quality securities issued in a transparent and predictable manner.

While we had a strong 2005, we look forward to more success in our funding programs this year. The addition of Tim Bitsberger as Senior Vice President and Treasurer, Funding and Investor Relations, will no doubt contribute to our prospects for success. Tim's expertise in global capital markets makes him a superb leader for our team and we are excited to have his additional insights to support our already well-known debt and mortgage funding platforms. All of our fixed-income market activities will be integrated further, with the goal of expanding our access to global capital and providing the lowest cost of funds to finance housing in America. Bringing the full-range of our debt and mortgage securities products to the market under one umbrella gives us the opportunity to focus our entire team on our investors and sharpen our execution of fixed-income securities offerings.

Our disciplined investment management strategy extends to our approach to liability management. While Reference Notes® securities are the backbone of our suite of debt products, we offer medium-term notes (MTNs) with various structures for investors seeking to potentially enhance their investment returns.

Many of these structures have embedded call options that grant us the right, but not the obligation, to call the bonds prior to the final maturity of the issue. This call feature is an integral part of our interest-rate risk management framework, enabling us to reduce our outstanding debt obligations in line with prepayments of our mortgage assets. Our renewed focus on issuing structured securities reflects the progress Freddie Mac has made toward improving our systems and controls infrastructure. This will continue to be a primary focus for Freddie Mac over the next few years as we position ourselves for future growth.

As always, thank you for your continued support of Freddie Mac's full suite of fixed-income products. We know that we wouldn't be able to provide an enduring source of stability for housing and the broader economy without your continued interest in our funding programs.

Sincerely,



John Radwanski

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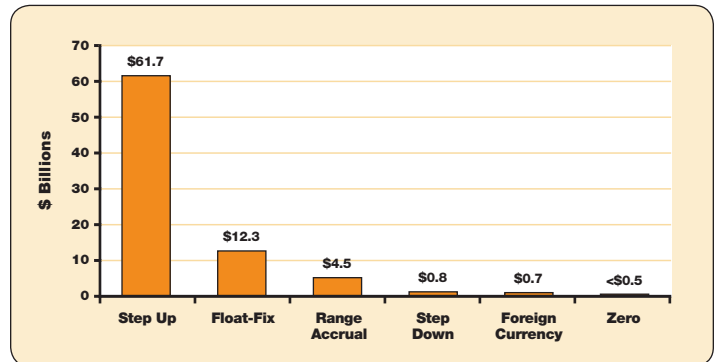
Structured Securities Offer Potential Yield Enhancement

Freddie Mac offers a variety of debt products to help attract global capital to the U.S. housing finance system. While Reference Notes® securities are our flagship product, we offer medium-term notes (MTNs) with various structures for investors seeking to enhance their investment returns. The higher interest rates on structured MTNs are compensation for the increased risk embedded in these securities. Since these securities are not for all investors, issuance is currently primarily driven by investor demand.

Our funding program can generally be broken down into three groups – one-third short-term debt, one-third Reference Notes securities, and one-third callable debt. While our suite of Reference products offers investors highly liquid securities issued in a transparent and predictable manner, we also have a large MTN funding platform that provides customized securities to meet investor interest while serving as a hedge against our portfolio of mortgage-related assets. The majority of our MTNs have a call option, enabling us to reduce our outstanding debt obligations in line with prepayments of our mortgage assets.

We issue dozens of different types of MTN structures, encompassing a variety of first-call dates, final maturities and call provisions (Exhibits 1 and 2). The diversity of structures is a testament to our program's flexibility, allowing investors and underwriters to customize a security to match their desire for yield, structure, size and maturity. The breadth of our MTN program also underscores our need for optionality across the yield curve in order to maintain low levels of interest-rate risk across various market conditions. Currently, callable debt covers more than 50 percent of the convexity embedded in our fixed-rate mortgage portfolio.

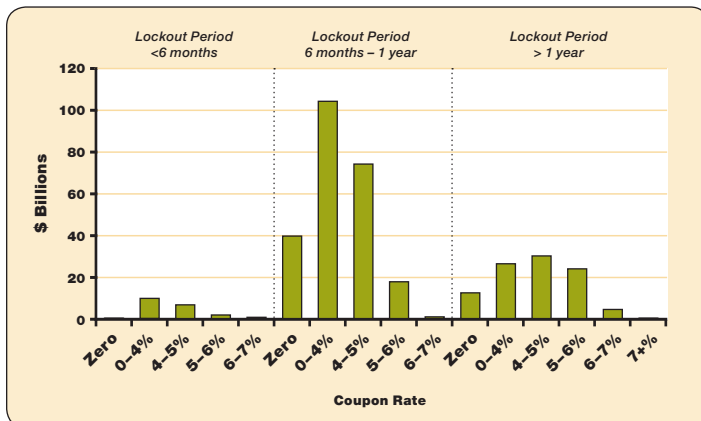
Exhibit 2 – Freddie Mac has issued a variety of structured products over the past five years



Structured securities offer investors an opportunity to express their expectations for movements in interest rates and volatility. Responding to investors' preference for risk, structured securities can be as simple as a floater indexed to 3-month LIBOR + 10 basis points, or relatively complex, containing leveraged structures, embedded caps, floors and coupon knockout provisions, or be indexed to constant maturity swaps (CMS) or constant maturity Treasuries (CMT). In the case of floating rate notes, the floor on the coupon rate is at least zero. MTN structures may often have a call option, which could be an American-, Bermudan-, or European-style option, enabling investors to simultaneously take a view on volatility. Some of the more popular structured products we've issued over the past year include "step-ups", "flip-flops" and "range accrual" notes.

- **Step Ups** have fixed-rate coupons that step up according to a pre-determined schedule on specific dates, enabling investors to lock-in a long-term investment while capturing expectations for higher interest rates.
- **Flip-flops** allow investors to switch between two types of securities, *i.e.*, convert floating-rate debt to fixed-rate debt or vice versa. The date at which the conversion takes place generally coincides with the security's call date. This past year we experienced increased investor demand for flip-flop securities that convert floating-to-fixed rate debt, as investors attempted to capture the benefit of the Fed's interest rate hikes before locking in a fixed rate for a longer period of time. Investors may determine the length of time the coupon rate floats to reflect their expectations for the end of the Fed's tightening cycle.

Exhibit 1 – Freddie Mac offers callable securities with a variety of lock-out periods and coupon rates



We will continue to strive to find the right balance between our need to manage our interest-rate risk as well as meeting the needs of specific investors.

- Range accrual notes** offer investors the opportunity to express their expectations for short-term interest rates to remain within a certain range. When the indexed interest rate (e.g., 3-month LIBOR) remains in the specified range, the investor earns the note’s stated coupon rate. But on days when the indexed interest rate is outside of this range, the investor accrues no interest. Typically, investor demand for such products increases when volatility is high.

Conclusion

Freddie Mac issues a wide variety of funding products — ranging from highly liquid fixed-income securities to adjustable-rate securities with call options — with maturities across the entire yield curve out to 30 years. All of our securities are AAA rated, except for our subordinated debt, which has a rating of AA-. Structured securities may be appropriate for investors able to understand and willing to accept the risks while seeking a high-quality, higher yielding debt instrument to potentially enhance the returns on their portfolios. These securities can be structured to meet investor desire to capture their view on interest rates or volatility. We will continue to strive to find the right balance between our need to manage our interest-rate risk as well as meeting the needs of specific investors. Providing a broad array of securities enables us to attract global capital to the U.S. housing finance system, helping us to fulfill our mission of providing liquidity, stability and affordability to the U.S. housing market.

¹ For additional information on our callable debt program, please see our Product Overview on Callable Debt on our Web site at www.FreddieMac.com/debt/pdf/callable-debt_brochure.pdf.

Exhibit 3 – Highlights of structured notes parameters

Feature	Description
Maturity	1-year to 30-years
Lockout Period	3-months to 10-years
Minimum Issue Size	\$15 million
Denominations	\$100,000 x \$1,000
Structure	Embedded caps, floors and coupon knockout provisions (i.e., no interest for those days when the indexed interest rate breaches a pre-set range) American-, Bermudan- or European-style call option For range accruals, only Bermudan- or European-style call options
Coupon Rate	Indexed to LIBOR, constant maturity swaps (CMS) or constant maturity Treasuries (CMT) Indexed interest rate can be any maturity Fixed-rate, simple floating-rate (index +/- spread) or leveraged floating-rate (multiplier * index +/- spread) For floating-rate range accruals notes, the index for the coupon and range must be the same. In addition, the range must be referenced against the same maturity. For instance, the range cannot be the spread between 10-year CMT and 2-year CMT, as this would make it a dual index range which we currently do not issue.
Coupon Payment and/or Reset	Frequency can be monthly, quarterly, semi-annually or annually The reset and payment frequency must match
Issuance Frequency	Very frequently

Freddie Mac Funding Summary

2005 Quarter 4

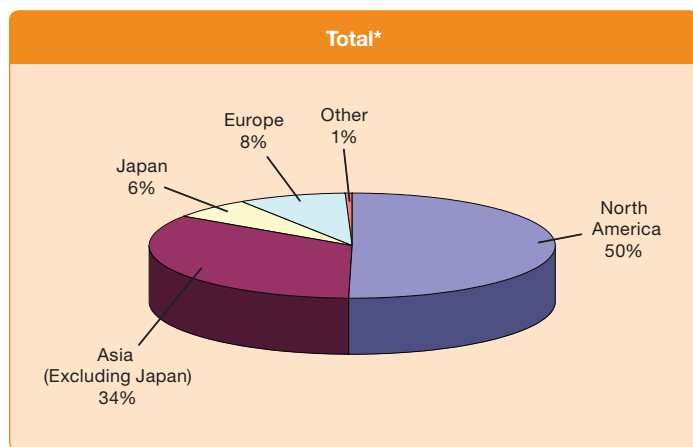
Estimated issuance, redemption and balances - unaudited (1, 2, 3)

	Outstanding 9/30/05	Gross Issuance (4)	Matured	Called	Repurchased (4)	Net Issuance (5)	Outstanding 12/31/05
Reference Bills & Discount Notes	\$ 178.8	236.7	(232.1)	—	—	4.6	\$ 183.4
Medium Term Notes							
Global Floating Rate	\$8.0	—	(8.0)	—	—	(8.0)	\$0.0
Syndicated Callable	24.7	—	—	(2.0)	—	(2.0)	22.7
MTN Callable	239.0	24.4	(8.3)	(0.8)	(3.6)	11.7	250.6
MTN Other	44.8	7.1	(1.2)	—	(0.3)	5.6	50.4
FreddieNotes	18.1	0.7	—	—	—	0.7	18.7
Total Medium Term Notes	\$334.5	32.2	(17.5)	(2.8)	(3.9)	8.0	\$342.4
Reference Notes							
USD Reference Notes	\$201.9	16.0	(5.0)	—	—	11.0	\$212.9
€Reference Notes (6)	29.1	—	—	—	—	—	29.1
Total Reference Notes	\$231.0	16.0	(5.0)	—	—	11.0	\$242.0
Subordinated Debt	\$5.9	—	—	—	—	—	\$5.9
Total Debt	\$750.2	284.8	(254.6)	(2.8)	(3.9)	23.5	\$773.7

Disclaimer: (1) All figures are estimates based on Freddie Mac's unaudited internal reports and are subject to change. Totals may not recalculate due to rounding. (2) All figures represent face amounts in USD billions. These figures could differ significantly from proceeds, amortized principal amount and book value figures, particularly for zero-coupon securities. (3) Effective date for inclusion in the reported period is trade date. (4) "Gross Issuance" and "Repurchased" amounts include transactions that may be considered exchanges for financial reporting purposes under generally accepted accounting principles, or GAAP. (5) Represents the sum of the "Gross Issuance", "Matured", "Called" and "Repurchased" columns. (6) The US dollar amounts reflected for non-dollar debt are based on the exchange rate at issuance.

Geographical Distribution

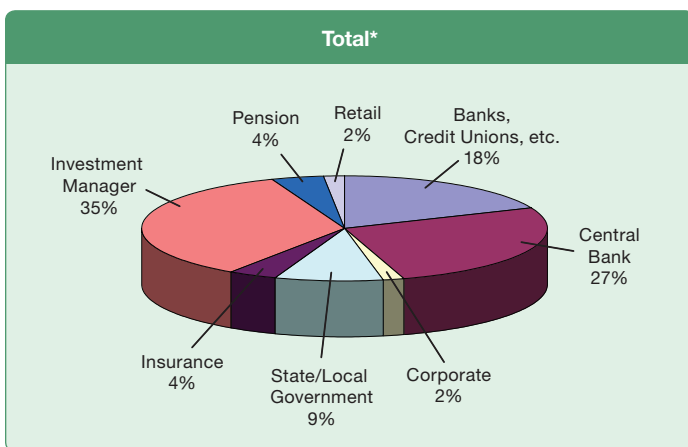
Last 12 Months through December 31, 2005



*Includes exchanged securities' cash portion only.

Investor Type Distribution

Last 12 Months through December 31, 2005



*Includes exchanged securities' cash portion only.

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