



## Reference Point®

### A letter from:

John Radwanski

**Vice President & Assistant Treasurer, Debt Funding**

*Dear Freddie Mac Investor:*

*The second half of 2007 was a tumultuous period in the credit markets. The period was also marked by continued deterioration in the U.S. housing market — and the stories about the deterioration spreading beyond the subprime market continued. Through November 2007, existing home sales dropped 20 percent over the prior year, and are expected to continue to decline. Mortgage delinquencies and foreclosures have increased and are predicted to climb even higher in 2008. The prime national seriously delinquent rate reported for the third quarter by the Mortgage Bankers Association (MBA) rose to 131 basis points, the highest level in six years. Any way you look at it, 2008 is shaping up to be a tough year for the U.S. housing market.*

*Against this backdrop, Freddie Mac continues its efforts to help deal with the current crisis in the mortgage market. Our efforts are in line with our mission—to bring liquidity, stability and affordability to the U.S. residential mortgage market in all economic environments. We are focused on aiding lenders and borrowers, as well as assisting with mortgage market liquidity. For example, we have delivered on our commitment to purchase \$20 billion in subprime mortgages. We developed the Freddie Mac SafeStep Mortgages<sup>SM</sup> suite and announced a 90-day forward commitment capability that will accommodate a majority of the fixed- and adjustable-rate Alt-A products. We have also increased our efforts to help customers develop workout solutions to reduce borrower foreclosures and keep people in*

*their homes and have maintained our market presence in affordable lending through increased purchases of Home Possible® mortgages.*

*As we move through this crisis, we understand the importance of making sure that our investors have the information they need about our own portfolio—specifically about its credit quality. Freddie Mac released additional credit information around our Alt-A and risk-layered products with our second quarter 2007 financial results and updated that information with our third quarter 2007 financial release. The disclosure provides information such as LTV, FICO, credit enhancement and delinquency information for specific products in our portfolio—our Alt-A, IO, Option ARM and products with low FICO scores and/or high LTVs. We explore these new disclosures in more detail in this issue, and as you will see, the disclosures show that we have a limited and manageable exposure to these products.*

*We remain committed to assisting the lenders, borrowers and the mortgage market through this tumultuous time. We recognize our investors are the key to Freddie Mac's success in providing assistance to the market and in fulfilling our housing mission. We remain committed to better serving you, our investors, as we serve the mortgage market as a whole. As always, we thank you for your support.*

Sincerely,



#### **IN THIS ISSUE**

- Freddie Mac's Subprime Initiative
- Data Bank

# Freddie Mac Expands its Credit Disclosures

Since our last edition of *Reference Point*, the problems in the U.S. housing market have grown more widespread and many reports indicate that a turnaround in the housing market is not likely until sometime in 2009. Freddie Mac continues to focus its efforts on providing liquidity and stability to the mortgage market, supporting our lenders and assisting as many borrowers as possible in this tumultuous market, while managing our capital to regulatory requirements. In addition to our subprime initiatives, we also committed to support the Alt-A market by providing 90-day forward purchase commitments to allow borrowers to “lock in” their rate. We continue to enter these non-traditional markets in a safe and sound manner, enabling us to maintain prudent credit risk standards.

While we have devoted considerable effort to helping lenders and borrowers through this tumultuous time in the market, we have also made it a top priority to provide investors with the information they need to understand our exposure to these products. We

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provided additional credit data with the release of our second quarter 2007 financial results and updated that information with our third quarter 2007 financial release. The new disclosure focuses on the riskier portions of our portfolio. The disclosure highlights that we have limited and manageable exposure to Alt-A and risk-layered products, such as those loans with both high LTV and low FICO scores. In addition, the data show that our delinquencies are still low when compared with broader market measures. While delinquencies are

trending up—particularly in Florida and California—our delinquency rates are still low compared to those of other mortgage market participants.

## **Exposure to Higher Risk Products is Low**

As the tables in the Data Bank show, our exposure to Alt-A and risk-layered loans is low. When taken together these higher risk products only represent about nine percent of our total single-family guarantee portfolio. On the Alt-A side, as of the end of September 2007, we had guaranteed \$131 billion of loans that were either identified by the originator as Alt-A or had reduced levels of documentation. Importantly, we have been able to price for this higher risk because we sourced most of these loans through bulk purchases—the purchase of portfolios or “pools” of mortgages through negotiated terms. This varies from our purchase of mortgages through the contracts that we have with a number of mortgage lenders. The contracts include a commitment by the lender to sell Freddie Mac a minimum percentage or dollar amount of its mortgage origination volume.

A significant percentage of the Alt-A book has been purchased with credit enhancement. In addition, Alt-A purchases have strong average current LTVs of 72 percent and FICO scores of 715. These attributes should limit the credit impact from these loans.

As to risk layered products with low FICOs and high LTVs, at the end of the third quarter of 2007, we had total guarantees of about \$12 billion, or about 1 percent of our portfolio. As with Alt-A, most of these loans were sourced through our bulk channel and we have been able to select the risk attributes we accept and price for the risk we take.

## **Delinquencies**

As you can see in Exhibit 1, our total single-family portfolio delinquency rates remain very low by historical standards, but we are starting to see some regional increases. Over the past couple of years, delinquencies reflected

**Exhibit 1 – Single-family delinquency rates by region**

(In Basis Points)	1Q 2007	2Q 2007	3Q 2007
Non-credit enhanced delinquency rates <sup>1</sup>			
North Central	31	33	39
Northeast	24	25	31
Southeast	29	33	43
Southwest	25	23	27
West	14	17	26
Total single-family delinquency rates <sup>2</sup>			
California	15	20	31
Florida	35	47	75
Total portfolio	40	42	51

<sup>1</sup> Excludes structured transactions

<sup>2</sup> Total credit enhanced and non-credit enhanced delinquency rates excluding structured transactions

economic weakness in Michigan and Ohio. More recently, the biggest change has come from California and Florida, where house price declines have led to a sequential quarter increase in delinquencies of 55 to 60 percent.

Consistent with this recent deterioration, loans supporting 2006 PCs have exhibited significantly higher early delinquency rates through the first 18 months than we experienced in recent years. For example, serious delinquencies on the 2006 book are approximately double the average experienced by the 2000 – 2005 books. This is in part driven by a weaker house price path and higher percentage of loans that have secondary financing.

While delinquencies have started to rise, our delinquencies are still relatively low compared to the industry. For the third quarter of 2007, Freddie Mac's total single-family 90-day or more delinquencies totaled 51 basis points, compared to the MBA prime conventional mortgage delinquencies of 131 basis points.

As a result of the challenging mortgage market, delinquencies and credit losses will continue to be an area of focus. We recently announced that we would generally purchase mortgages that are 120 days or more delinquent from pools underlying Mortgage Participation Certificates (PCs) when:

- the mortgages have been modified;
- a foreclosure sale occurs;

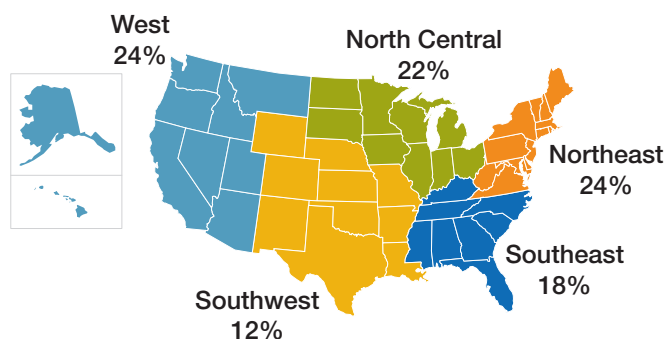
- the mortgages are delinquent for 24 months; or
- the cost of guarantee payments to security holders, including advances of interest at the security coupon rate, exceeds the cost of holding the nonperforming loans in its mortgage portfolio.

We had generally purchased mortgages from PC pools shortly after they reached 120 days delinquency. We believe that the historical practice of purchasing loans from PC pools at 120 days does not reflect the pattern of recovery for most delinquent loans, which more often cure or prepay than result in foreclosure. Allowing the loans to remain in PC pools will provide a presentation of our financial results that better reflects our expectations for future credit losses.

### Regional Diversification

Freddie Mac's regional diversification in our guarantee portfolio minimizes the impact of the downturn in the market on our portfolio. This diversification is a strategic differentiator for us. While many mortgage players have high concentrations in California, Florida or the weaker midwest markets, as illustrated in Exhibit 2, our house price risk is spread throughout the United States.

**Exhibit 2 – Diversification of Freddie Mac's portfolio**



Whether you view our overall portfolio, or look to our Alt-A book, layered products, total single-family delinquencies or charge-offs, we feel our credit position is near the very best in the industry. Our new disclosure will allow investors the opportunity to easily discern how our portfolio is performing as we continue to navigate through this difficult market.

### Single-family credit guarantee portfolio characteristics

Attribute	Total Portfolio as of 9/30/2007 <sup>1</sup>	Alt-A	IO	Option ARM	FICO<620	Original LTV >90%	FICO<620 and Original LTV>90%
Balance (UPB \$ Billions)	\$1,655	\$131	\$149	\$15	\$66	\$114	\$12
Share of Total Portfolio	100%	8%	9%	1%	4%	7%	1%
Original Loan-to-Value (OLTV)	71%	73%	74%	71%	76%	96%	97%
OLTV > 90%	7%	4%	3%	2%	18%	100%	100%
Current Loan-to-Value (CLTV)	60%	72%	75%	71%	68%	83%	84%
CLTV > 90%	5%	8%	8%	12%	12%	46%	51%
CLTV > 100%	1%	2%	1%	3%	2%	10%	11%
Average FICO Score	724	715	718	713	590	690	589
FICO < 620	4%	4%	4%	3%	100%	10%	100%
Book Year Concentration							
2007	20%	45%	54%	0%	28%	29%	35%
2006	18%	32%	33%	30%	21%	17%	19%
2005	18%	16%	13%	58%	16%	15%	13%
2004	13%	4%	0%	12%	11%	12%	9%
<= 2003	31%	3%	0%	0%	24%	27%	24%

<sup>1</sup> Based on the unpaid principal balance of the single-family mortgage portfolio excluding certain structured transactions and non-performing loans purchased under financial guarantees.

### Additional single-family credit guarantee portfolio characteristics

Attribute	Total Portfolio as of 9/30/2007 <sup>1</sup>	Alt-A	IO	Option ARM	FICO<620	Original LTV >90%	FICO<620 and Original LTV>90%
Balance (UPB \$ Billions)	\$1,655	\$131	\$149	\$15	\$66	\$114	\$12
Share of Total Portfolio	100%	8%	9%	1%	4%	7%	1%
Average UPB per loan	\$140,129	\$201,454	\$250,362	\$223,679	\$130,885	\$126,312	\$117,216
Fixed Rate (% of total portfolio)	86%	41%	22%	0%	88%	91%	93%
Owner Occupied	91%	81%	85%	76%	95%	96%	99%
Second Liens	0%	0%	0%	0%	0%	0%	0%
% of Loans with Credit Enhancement	17%	19%	13%	16%	34%	92%	95%
% Seriously Delinquent (D90+)	0.51%	1.61%	1.21%	1.32%	2.86%	1.62%	4.54%

<sup>1</sup> Based on the unpaid principal balance of the single-family mortgage portfolio excluding certain structured transactions and non-performing loans purchased under financial guarantees.

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