

A Letter From

Jerome Lienhard
Senior Vice President, Debt & Equity Financing

Dear Freddie Mac Investor:

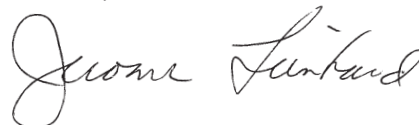
Freddie Mac recently took an important step toward transparent and timely financial reporting. On June 30, 2004, we released our quarterly and full-year financial results for 2003, which highlighted another strong financial year, with net income of \$4.9 billion. Our ability to produce strong financial and business results while fulfilling our housing mission and maintaining our strong risk management discipline underscores our strong business model. While successful interest-rate and mortgage-credit risk management have been and will remain a primary focus of Freddie Mac, our CEO Dick Syron has brought a newly reinvigorated focus on our mission of making home financing more affordable.

Dick also has recruited strong new management, recently hiring Patti Cook as Executive Vice President of Investments & Capital Markets. She brings over 25 years of global capital markets experience, most recently as Chief Investment Officer at JP Morgan Fleming Asset Management. Her expertise in global capital markets makes her a superb addition to our team and I'm excited to have additional insight into our already well-known investment management framework. Our disciplined investment strategy extends to our approach to liability management, as evidenced by our reduced debt issuance plans for the third quarter of 2004, announced in our July **Quarterly Funding Announcement & Summary**. Our funding needs have lessened amid an environment of slower retained mortgage portfolio growth. However, longer-term, we expect our retained portfolio to grow along with U.S. residential mortgage debt outstanding, which we currently expect to grow more than 8 percent a year in the next decade.

Our diverse and flexible debt funding program enables us to adapt quickly to changes in the mortgage investment environment and the agency debt market. While our issuance of Reference Bills® securities (Reference Bills) and Reference Notes® securities (Reference Notes) is scheduled on our Reference Notes® Calendar, we are able to manage our net issuance by executing carefully targeted periodic repurchase operations. These operations are structured to maximize the liquidity of our "on-the-run" Reference Notes, while also providing liquidity for our "off-the-run" issues. While ensuring the liquidity of our debt securities is a key objective, we primarily undertake these buyback operations for the purpose of asset-liability management. In this edition of **Reference Point**, we provide greater details about the way we conduct repurchase operations and other important features of our debt funding program.

I would like to emphasize that our Investor Relations team is here for the express purpose of educating and informing you about our Company as well as satisfying your concerns. Please contact us at any time if we can be of any assistance. Please also consult our Investor Relations and Debt Securities web pages, which are found at www.FreddieMac.com. As always, thank you for your continued support of Freddie Mac's debt products.

Sincerely,



This Issue

Freddie Mac's Repurchase Operations
Data Bank



Freddie Mac's Repurchase Operations

Our Rationale

Freddie Mac's Reference Notes® securities (Reference Notes) are the backbone of our debt funding program. This borrowing platform is designed to offer investors around the globe fixed income investments with liquidity, transparency and predictability. A key feature of our Reference Notes program is periodic repurchase or "buyback" operations, which we conduct for several reasons. First and foremost, we conduct these repurchases for asset-liability management purposes. We also conduct buybacks to meet relative value or liquidity enhancement goals of our securities, and to manage the net issuance of our debt. A key consideration in executing these operations is to preserve the liquidity of our on-the-run Reference Notes securities. As with all our debt programs, we strive to conduct repurchase operations in a transparent and predictable manner.

What's Behind Our Repurchase Operations?

Asset-Liability Management – Our investments in mortgage-related securities are funded largely through our issuance of debt securities, ranging in maturity from overnight to thirty years. When interest rates decline, the expected lives of the mortgage assets held in our retained portfolio decrease, reducing the need for long-term debt. To shorten the effective weighted average lives of our outstanding debt and thereby manage the funding mismatch – or duration gap – created by the decline in interest rates, we use a combination of tools. We can extinguish long-term debt through redemptions or buyback operations; issue additional short-term debt; or use derivatives, such as entering receive-fixed payment interest rate swaps or terminating pay-fixed payment interest rate swaps.

Net Issuance Management – Our repurchase operations facilitate our ability to meet our calendar commitments for Reference Notes issuance, helping to funnel liquidity to on-the-run Reference Notes. Since our funding calendar is published just prior to the start of the year, it is difficult to estimate our funding needs as much as over a year in advance. Mortgage spreads can change rapidly which may increase or decrease our funding needs, and repurchase operations allow us to maintain our desired net issuance.

Liquidity Enhancement – Market disruptions can have a significant impact on the price performance of our debt securities relative to Treasuries or swaps. At such times, we may aim to provide liquidity to investors in the secondary market. One recent example was in June 2003. Immediately following the announcement of a change in our senior management, the spreads of our outstanding Reference Notes to swaps and Treasury securities widened significantly. Over the course of a week we repurchased nearly \$10 billion of our debt securities – the largest buyback operation ever conducted by a major issuer. Upon the announcement, our debt spreads versus swaps and Treasuries stabilized.

Relative Value – Relative value is a key consideration in all our debt repurchase operations, as we will buy back the cheapest of all securities designated for the repurchase operation, providing mutual benefits for both us and investors. For example, in June 2004, the 7-year sector of our curve was trading especially cheap. Our repurchase operation targeted the June 2011 and September 2011 issues and we bought back a combined \$1.8 billion of those issues. Both issues tightened on a LIBOR basis upon the repurchase announcement and have remained tighter since the operation.

Table 1

2004 Year-to-Date Reference Notes Repurchases

Settlement Date	Coupon	Structure	Amount Repurchased (Millions)
3/23/2004	6.625%	10 YR	\$450
3/23/2004	5.625%	10 YR	\$225
3/23/2004	5.125%	10 YR	\$685
3/23/2004	4.500%	10 YR	\$490
3/23/2004			\$1,850
6/8/2004	2.750%	10 YR	\$150
6/8/2004	3.625%	10 YR	\$375
6/8/2004	6.625%	5 YR	\$375
6/8/2004	5.750%	5 YR	\$565
6/8/2004			\$1,465
6/23/2004	5.500%	10 YR	\$900
6/23/2004	4.875%	5 YR	\$225
6/23/2004	6.000%	10 YR	\$990
6/23/2004	5.500%	5 YR	\$125
6/23/2004			\$2,240

Our Process is Transparent and Predictable, While Preserving Liquidity

Our Reference Notes repurchase operations reflect the input of numerous domestic and overseas market participants, and target several issues at the same time (see Table 1). We execute our repurchase operations in a transparent and predictable manner, while aiming to preserve the liquidity of our debt securities.

In order to maximize the transparency of these operations, we provide advance public disclosure to the marketplace of our intent to engage in repurchase operations, the specific securities we are targeting, and the maximum amount we will buy back. The announcements of buyback transactions include details of the target issues included in the buyback, the cut-off time for offers, and the maximum purchase amounts. Freddie Mac provides advance overnight notice of an imminent repurchase operation via designated dealers, our website, and all major newswires. In exceptional circumstances, we may conduct periodic repurchase operations with a one-hour notice period.

To ensure our operations are conducted in a predictable manner, we have very specific guidelines for our debt buy backs. The guidelines, available on our website at www.FreddieMac.com/debt, include a limit on the amount eligible for repurchase of each targeted issue during an operation. The individual securities and amounts eligible for repurchase are also displayed on our website. All of our repurchase operations are conducted via the internet through designated dealer group members, and dealers may submit several offers per issue. After the cut-off time, Freddie Mac considers all the offerings

together and accepts those that best meet the repurchase operation’s objectives. We then return an automated response to dealers within 5 minutes of the cut-off time for submission of offers, and the final results are disclosed within 15 minutes on our website and on major newswires. The announcement includes the amount of each issue repurchased and the overall offer-to-cover ratio (see Table 2).

We execute our repurchase operations in a transparent and predictable manner, while aiming to preserve the liquidity of our debt securities.

The transparent and predictable manner in which we conduct debt buybacks is intended to promote the smooth execution of these transactions. In order to safeguard the liquidity, transparency, and predictability of our Reference Notes, our debt buybacks focus exclusively on older, off-the-run issues. This helps to preserve and funnel liquidity toward active, on-the-run securities. We also are committed to maintaining a core amount of flexibility in outstanding Reference Notes and for this reason, we seek to repurchase no more than 20 percent of the outstanding balance of a security in any one repurchase operation. Furthermore, we also maintain a minimum outstanding balance of at least \$3 billion in all issues of Reference Notes. To eliminate conflicts with issuance, our guidelines required us to refrain from repurchasing issues

from the same maturity sector as any issue being currently offered pursuant to our Reference Notes® Calendar. The lockout period for this restriction extends from one week prior to the scheduled Reference Notes announcement date in the given month through the ensuing settlement date. Further, we will not conduct a repurchase operation within one week of the final delivery date of CBOT agency debt futures contracts of similar maturities. Finally, it is important to note that all repurchased securities are permanently retired. ■

Table 2

Reference Note Repurchase Results

Offer-to-cover ratio: 2.80

Dollar amounts in millions

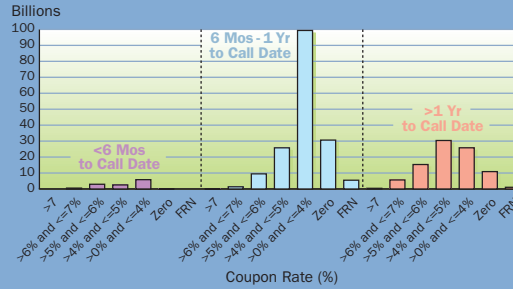
CUSIP	Coupon	Maturity	Amount Outstanding	Amount Repurchased	New Amount Outstanding
3134A4FM1	6.000%	Jun 2011	\$4,565	\$900	\$3,665
3134A4GK4	5.500%	Jul 2006	8,285	225	8,060
3134A4HF4	5.500%	Sep 2011	5,711	990	4,721
3134A4NWO	4.875%	Mar 2007	6,449	125	6,324
Total:				\$2,240	

Data Bank

Discount Notes and Reference Bills[®] Issued as of June 30, 2004

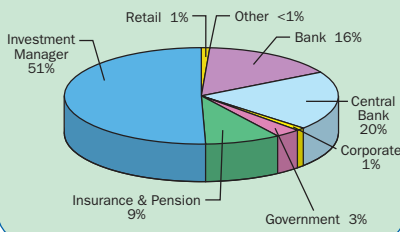
Maturity	1st Qtr 2004 Par Amount Issued (billions)	YTD Par Amount Issued (billions)
< 1 Month (ex. Overights)	50.21	65.90
1- < 2 Months	7.30	7.45
2- < 3 Months	10.33	12.35
3- < 6 Months	56.62	113.20
6 Months - 1 YR	25.86	68.74
TOTAL	\$150.32	\$267.63

Callable MTNs Outstanding as of June 30, 2004

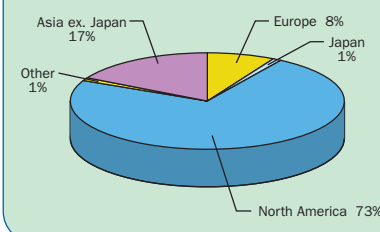


12 Months Ended June 30, 2004

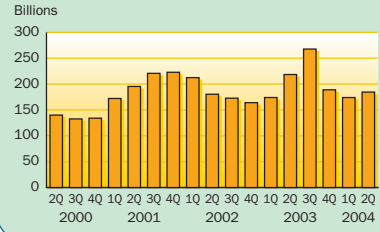
Reference Notes[®] Issuance Investor Distribution (ex. auctions)



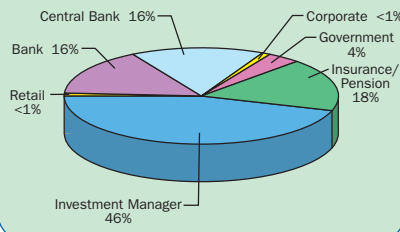
Reference Notes[®] Issuance Geographic Distribution (ex. auctions)



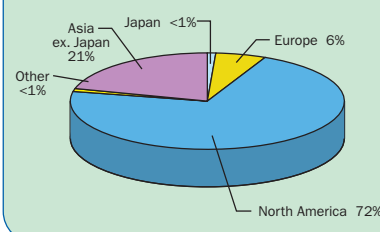
Discount Notes and Reference Bills[®] Outstanding as of June 30, 2004



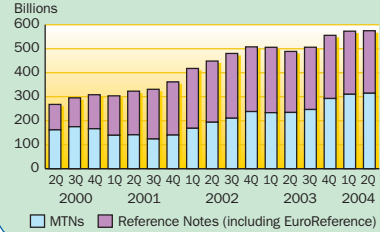
Syndicated MTN Issuance Investor Distribution



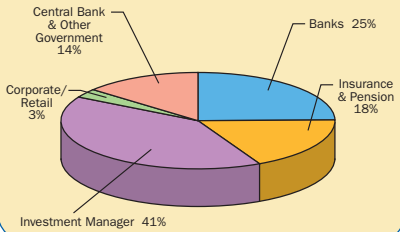
Syndicated MTN Issuance Geographic Distribution



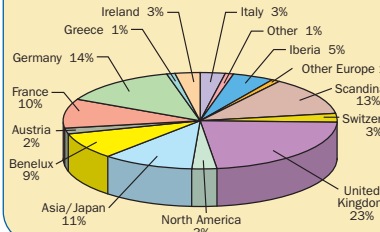
MTNs and Reference Notes[®] Outstanding as of June 30, 2004



€Reference Notes[®] Investor Distribution



€Reference Notes[®] Geographic Distribution



€Reference Notes[®] Outstanding as of June 30, 2004

Structure	Coupon Rate	Date Contractual Maturity	ISIN	Amount Outstanding (Euros in bins)
3-Year	4.625	5/15/05	XS0146883581	4.29
5-Year	5.250	1/15/06	XS0121336266	4.05
5-Year	4.625	2/15/07	XS0142391209	3.86
3-Year	3.500	2/15/08	XS0161387468	3.58
5-Year	3.750	7/15/09	XS0193557138	3.00
10-Year	5.750	9/15/10	XS0117858323	3.95
10-Year	5.125	1/15/12	XS0136341814	3.30
10-Year	4.750	1/15/13	XS0154444870	4.02
10-Year	4.375	1/15/14	XS0184595311	4.00

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