



A letter from:

Jerome Lienhard

Senior Vice President, Debt & Equity Financing

Dear Freddie Mac Investor:

The third quarter of 2004 was another decisive period for Freddie Mac as our CEO Dick Syron continued to execute his plan to put in place a world-class senior management team. Last month, Eugene McQuade joined the company as president and chief operating officer. Gene is the former president of Bank of America and chief operating officer of FleetBoston Financial, and he brings a wealth of operating and financial reporting experience to Freddie Mac. Our Board of Directors has nominated Gene, along with three other distinguished individuals – Geoffrey Boisi, Bill Lewis and Barbara Alexander – to serve as new directors. They will be on the slate standing for election at our annual meeting on November 4. Dick's ability to add strong new talent to the company confirms that Freddie Mac is not just moving forward with a top-notch senior management team, but with top-notch corporate governance as well.

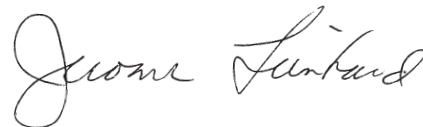
I am also pleased to share with you some organizational changes made within Debt & Equity Financing following the departure of our former Vice President and Treasurer, Louise Herrle. I have assumed the title of Senior Vice President and Treasurer and have named John Radwanski as Vice President – Assistant Treasurer, Debt Financing. I also have asked Phil Guth to assume new duties as Vice President – Assistant Treasurer, Dealer & Debt Investor Relations. John will report to me and Phil will have a dual reporting relationship to me and to Peter Mahoney, who continues to lead our unified Debt & Equity Investor Relations outreach. These organizational adjustments exemplify our continued focus on integrating our communications with you so that our debt execution and investor outreach activities ensure that we continue to offer securities of the right size and maturity.

*As we move into the fourth quarter of 2004, we are pleased that we have continued to meet our calendar commitments for new issues of Reference Notes® Securities. For 2005, we have modified the mix of information in our calendar and our **Quarterly Funding Announcement**. By moving up the date of our **Quarterly Funding Announcement**, we now will be providing the market with information about specific issuance plans and maturities before each quarter's commencement. More information about our 2005 Global Debt Funding Calendar and our enhanced approach to providing quarterly information on issuance plans can be found in our **Quarterly Funding Announcement & Summary** for the fourth quarter of 2004, available on our website at http://www.freddiemac.com/debt/html/funding_plans.html.*

*During the third quarter of 2004, we offered \$5 billion in syndicated callable debt securities, reaching a milestone for this product, with total issuance exceeding \$50 billion since this product was launched in March 2002. The liquidity in the syndicated callables sector has fostered the development of a parallel market for other equally large callable transactions that use the former as a pricing reference. This issue of **Reference Point** focuses on our callable debt program and explains why this product is an integral component of our debt funding program.*

As always, thank you for your continued support of Freddie Mac's debt products.

Sincerely,



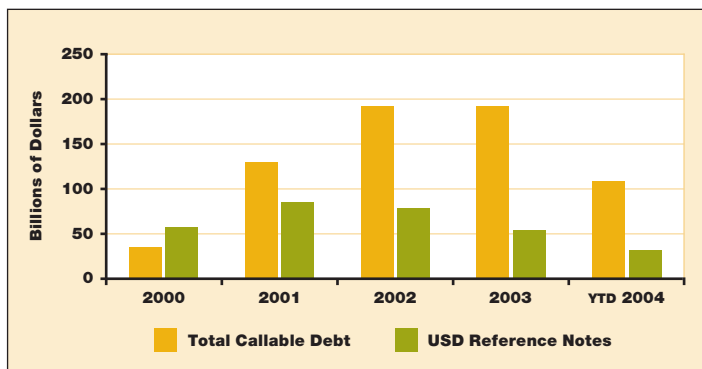
IN THIS ISSUE

- Freddie Mac's Callable Debt Securities
- Data Bank

Freddie Mac's Callable Debt Securities

Freddie Mac is one of the largest U.S. issuers of callable debt, which serves as an important asset-liability management tool for the company. Given the importance of this funding instrument, we pay careful attention to investors' needs by issuing callable debt in the most suitable formats and structures. Callable notes offer a higher nominal yield than bullet securities, compensating investors for the early redemption risk. To help increase the liquidity and transparency of these instruments, we worked closely with the Bond Market Association (BMA) and other government-sponsored enterprises (GSEs) to establish standard trading practices for callable bonds with a single call date and a minimum \$1 billion issue size. These efforts helped to create a viable asset class for investors. Evidence of this may be found in the rapid growth of our callable debt outstanding. As shown in Exhibit 1, our issuance of callable debt has outpaced that of our flagship non-callable (bullet) Reference Notes® securities (Reference Notes). The rapid growth in our callable notes issuance underscores the importance of this funding vehicle and our commitment to this product.

Exhibit 1 – Freddie Mac Gross Issuance of Callable Debt and Bullet Debt



* As of September 13, 2004

Mortgage borrowers hold an option conferring the right to prepay a mortgage in whole or part at any time. In fixed-income terms, this means that Freddie Mac has sold call options via purchases of home mortgages. To hedge the risk of selling calls, Freddie Mac buys offsetting interest-rate call options in part by issuing callable debt. We exercise our option to call the debt when interest rates fall and mortgage prepayments accelerate. This helps Freddie Mac to better match the duration and convexity of our liabilities to that of our mortgage assets and to lower our debt funding costs. This translates into lower overall borrowing costs for America's homeowners.

We also purchase options in the derivatives markets to offset the interest-rate risks embedded in our mortgage assets. While derivatives are an important component in our overall risk management program, we often prefer to issue callable debt when rates are favorable. Using callable debt rather than derivatives limits our credit exposure to derivative counterparties and diversifies our outlets for laying off interest-rate risk. The vast majority of the callable debt that we issue is senior unsecured debt, though in the past we have issued three subordinated callable debt issues.

Callable Debt Issuance Vehicles

We issue callable debt through several key channels. Our flagship vehicle is **syndicated callable debt**, which, like bullet Reference Notes, offers the advantages of large issue sizes, international dealer sponsorship and secondary market liquidity. Recent guidelines published by the BMA have improved the method for providing market quotations for GSE callable debt meeting certain criteria (which are met by our syndicated callable securities) and have greatly enhanced secondary market transparency. More information on the BMA's pricing model and the guidelines for trading GSE European-style callable securities can be found at the BMA website.¹ In addition, Freddie Mac's website also provides some practical information on these guidelines.²

Freddie Mac also issues **non-syndicated callable medium term notes (MTNs)**, using a wide variety of structures with American-(callable anytime on or after the first call date), Bermudan-(callable on scheduled call dates, typically coupon payment dates) and European-style (callable on a specified call date) call options. If the call does not occur on the stated call date, the issue becomes a bullet security and will remain outstanding until its original stated maturity date. We issue MTNs using one of two approaches: 1) an underwriter requests a particular structure from Freddie Mac (reverse inquiry) or 2) we approach dealers with structures that meet our funding needs. Through this program, we provide investors with bonds having a variety of yield, term and call lockout characteristics.

Freddie Mac Callable Debt Issued and Outstanding

Since 2001, there has been a dramatic increase in the issuance of callable debt, which has outpaced the issuance of bullet debt. As a result, Freddie Mac callable debt has increased as a percentage of total Freddie Mac debt outstanding. Callable debt currently comprises about one-third of our funding.

The diversity of our investor base in Reference Notes extends to our syndicated callable securities. A diverse investor base drives down our funding costs, translating into lower mortgage rates for America's homeowners. Although our callable debt securities are primarily distributed in the U.S., we have seen increasing sponsorship from foreign investors, most notably from Asia, and to a lesser extent, Europe. Asian investors remain active participants, comprising about 21 percent of our investor base. Information on the geographic and investor distribution of our syndicated callable securities may be found in the Data Bank on the last page of this publication.

Why Do Investors Buy Callable Debt?

There are three fundamental reasons why investors buy callable debt: **1)** To enhance yields and returns relative to other fixed income assets; **2)** To serve as a vehicle for selling volatility; and **3)** To maintain market weightings relative to their fixed income benchmark indices.

First, the yield on a callable note tends to be higher than on bullet securities to compensate investors for assuming the early redemption risk of the callable security. Buying a callable note and holding it until maturity may, under certain circumstances, offer investors a higher return than buying a bullet bond from the same issuer maturing on the same date. Even in the event the call option is exercised before a bond's maturity date, investors may earn a higher yield by purchasing callable debt than from purchasing bullet debt maturing on the call date.

Exhibit 2 provides an example of the yield differences between callable bonds and current coupon (on-the-run) bullet debt issued by Freddie Mac for a number of maturity and lockout structures. Investors should note that, in some circumstances, such as falling rate environments when the call is "in-the-money" and likely to be exercised, the total return on a callable bond may be less than on a non-callable bond.

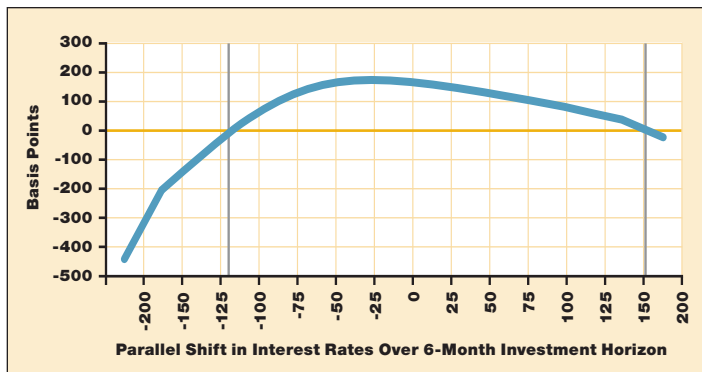
Exhibit 2 – Difference Between Freddie Mac American-style Callable and Equivalent Maturity On-the-Run Bullet Yield

Lockout (Years)	Maturity (Years)				
	2	3	5	7	10
Bullet	2.43%	2.98%	3.71%	4.16%	4.63%
0.25	2.85 (42) bp	3.70 (43) bp	4.19 (49) bp	4.73 (57) bp	5.25 (62) bp
0.50	2.83 (40)	3.37 (39)	4.17 (47)	4.73 (57)	5.23 (60)
1	2.77 (34)	3.30 (32)	4.10 (39)	4.67 (51)	5.21 (58)
2		3.15 (18)	3.96 (25)	4.53 (37)	5.08 (45)
3			3.84 (14)	4.42 (26)	4.95 (32)
4				4.34 (18)	4.90 (27)
5					4.81 (18)

Indicative offering levels from the Freddie Mac debt issuance desk as of September 14, 2004⁴

Under certain conditions, callable debt can outperform comparable bullet debt in both decreasing and increasing rate environments within a range of interest-rate changes. Exhibit 3 illustrates the total return spread between a recently issued Freddie Mac 5-year security callable in 2-years relative to a similar duration Treasury bullet security under different ending market scenarios.

Exhibit 3 – Total Return Spread Between FHLMC 3.875% Jan '09 European-style 5-Year Non-Call 2-Year and Similar Duration Treasury Note



Calculated using Bloomberg TRA function, as of September 15, 2004⁴

Investors should be aware of the difference in credit quality between a Freddie Mac callable debt security and a Treasury bullet security

that is free of credit risk. Investors should note that they will bear credit risk from Freddie Mac debt as, unlike Treasury securities, they are not guaranteed by the U.S. Government. Also, investors should be aware that if interest rates decline below or rise above a certain range, the total return performance of the callable security will be worse than that of the bullet Treasury Note.

When comparing Freddie Mac callable debt to bullet corporate bonds with comparable durations, investors would have to buy corporate bonds with lower credit ratings in order to earn equivalent yields. Therefore, there is a tradeoff between assuming more interest-rate risk via the callable bond or more credit risk via the corporate bond.

Second, investors seeking to sell or go short implied interest rate volatility through a convenient investment vehicle can do so by purchasing Freddie Mac's callable debt. Many investors wishing to sell volatility are precluded from doing so in the derivatives markets because they are restricted from trading derivatives. Freddie Mac's callable debt provides investors with a high credit quality security that enables them to sell volatility without assuming counterparty risks of derivatives.

Third, fixed income investors with performance benchmarked to public indices tend to invest in GSE callable debt to maintain portfolio market weightings for this sector. Investors that are underweight in GSE callable debt relative to their benchmark index may experience adverse tracking error in their performance. This is illustrated in Exhibit 3, which depicts a range of interest rate environments in which callable securities may outperform bullet securities.

For a more thorough understanding of the risks associated with investing in Freddie Mac's callable debt securities, investors should refer to the applicable Pricing Supplements and Offering Circulars for each callable security.

Conclusion

Callable debt serves as an important asset-liability management tool for Freddie Mac and is an integral part of our overall funding program, enabling us to fulfill our mission and expand opportunities for homeownership and affordable rental housing. Investors buy callable debt to earn enhanced returns by accepting incremental interest rate risk without compromising credit quality. Of course, callable securities are not without risk and are not suitable for all investors. Investors should carefully consider the risks, review the relevant offering materials, and, when appropriate, consult with their investment and other advisors before any investment in callable debt. A plethora of resources on callable debt, including Freddie Mac's offering materials and brochure providing more detail on how we issue, call and repurchase these structures, can be found on our website. A variety of online fixed income services also provide relevant information. Investors seeking to participate in a well-supported and liquid sector of the high-grade, U.S. fixed-income market should consider Freddie Mac callable debt securities. ■

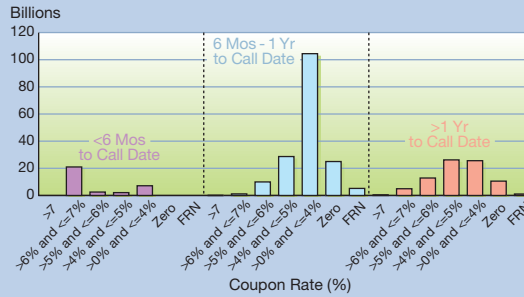
Endnotes

- <http://www.bondmarkets.com/story.asp?id=1086>
- <http://www.freddiemac.com/debt/html/calldebtmain.html>
- Illustrative information may not be reflective of future performance under any future market conditions. Past performance is not a guarantee of future performance.

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

Maturity	3rd Qtr 2004 Par Amount Issued (billions)	YTD Par Amount Issued (billions)
< 1 Month (ex. Overnights)	42.08	107.98
1-2 Months	11.95	19.40
2-3 Months	13.32	25.67
3-6 Months	81.58	194.77
6 Months - 1 YR	36.60	105.34
TOTAL	\$185.52	\$453.15

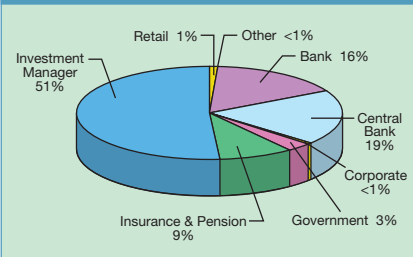
Callable MTNs Outstanding as of September 30, 2004



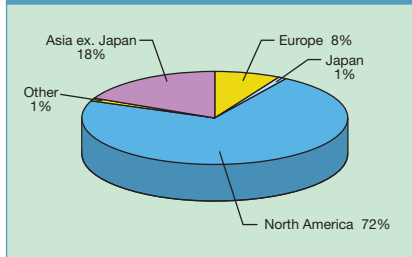
Maturity	Callable MTN O/S (billions)
1-3 YRS	75.5
> 3-5 YRS	58.9
> 5-10 YRS	61.8
> 10 YRS	72.5
TOTAL	\$268.7

12 Months Ended September 30, 2004

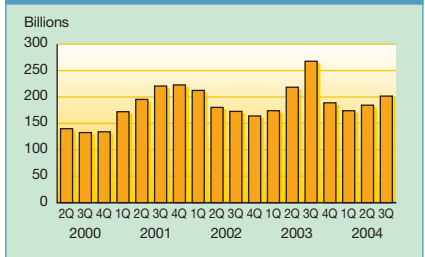
Reference Notes[®] Issuance Investor Distribution (ex. auctions)



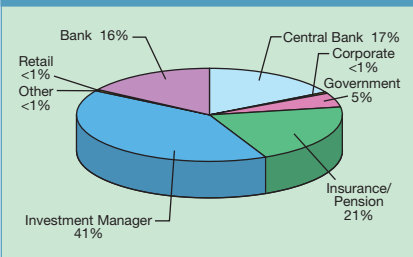
Reference Notes[®] Issuance Geographic Distribution (ex. auctions)



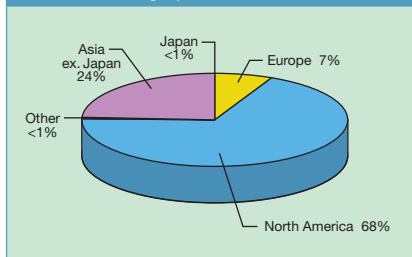
Discount Notes and Reference Bills[®] Outstanding as of September 30, 2004



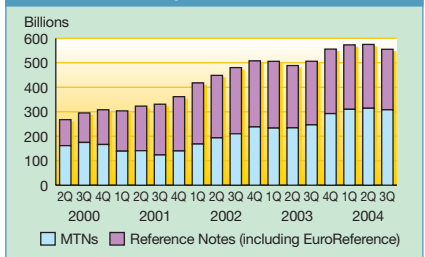
Syndicated MTN Issuance Investor Distribution



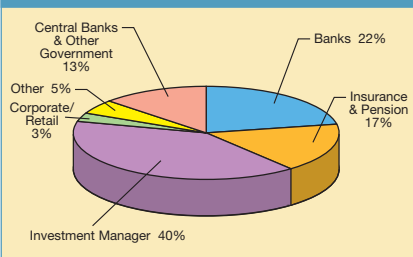
Syndicated MTN Issuance Geographic Distribution



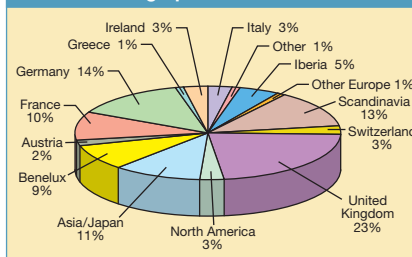
MTNs and Reference Notes[®] Outstanding as of September 30, 2004



eReference Notes[®] Investor Distribution



eReference Notes[®] Geographic Distribution



eReference Notes[®] Outstanding as of September 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
5-Year	3.500	2/15/08	XS0161387468	3.51
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	3.86
10-Year	4.375	1/15/14	XS0184595311	3.57

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