



**Supplement dated January 18, 2005 to  
Information Statement dated September 24, 2004**

**FREDDIE MAC PROVIDES MARKET UPDATE**

Freddie Mac today updated the market on business results and volumes for 2004 and the timetable for resuming timely financial reporting.

“I am pleased to report that we remain on track on our timeline to return to timely financial reporting and that we continue to work diligently to achieve that,” said Richard Syron, Freddie Mac chairman and chief executive officer. “Our progress is encouraging: we are continuing our efforts to focus sharply on the fundamentals of our business, streamline our operations and build new and stronger business relationships.”

“The key to Freddie Mac’s future success is ensuring that our company has the ability to respond quickly and effectively to our customers and execute on potential business opportunities,” said Eugene McQuade, president and chief operating officer. “To do that, we are reorganizing at Freddie Mac. We are consolidating, under Patti Cook in the capital markets area, our single-family pricing and risk functions to provide the best all-in bid to our customers; creating a unified operations and technology division under Joe Smialowski; and strengthening our single-family mortgage-sourcing activities, under Dave Stevens, to provide the best customer service in the market.”

**BUSINESS RESULTS AND VOLUMES**

The following is a discussion of certain preliminary and unaudited volume statistics and business results for 2004, some of which we regularly disclose in our Monthly Volume Summary. Our December 2004 Monthly Volume Summary, which we plan to publish next week, will provide further details of our preliminary volume statistics for full-year 2004.

***Total PCs Issued***

We currently expect to report full-year 2004 growth in our total PCs issued of approximately four percent. Our lower growth in 2004 compared to approximately seven percent growth in 2003 is due in part to rising fixed-rate mortgage rates and a corresponding increase in the percentage of adjustable-rate mortgages (ARMs) and other non-traditional mortgage products originated. As a result of originators retaining a high percentage of these ARMs, we estimate that the percentage of mortgage loans sold to the GSEs declined in 2004.

## **Retained Portfolio**

We currently expect to report little, if any, retained portfolio growth for 2004, in part because there was relatively less demand for us to provide liquidity to the fixed-rate sector of the mortgage market. Strong demand from other investors, coupled with lower mortgage loan originations, provided for a relatively stable and liquid fixed-rate market in 2004 and generally resulted in tight mortgage-to-debt option-adjusted spreads. We expect to maintain a disciplined approach to grow our portfolio only when it meets our mission and return objectives.

## **RISK MANAGEMENT**

The retained portfolio and its related debt funding are the primary source of our interest-rate risk. In 2004, our interest-rate risk remained low. For full-year 2004 we expect to report that Portfolio Market Value Sensitivity-L and duration gap averaged two percent and zero months, respectively.

Although we expect single-family market conditions to remain favorable in 2005, we expect single-family credit losses to increase from their recent, very low levels. Given our strong credit position, in 2005 we expect single-family credit losses to remain low as a percentage of our average total mortgage portfolio. Based on current multifamily market conditions, we expect our multifamily delinquencies and credit losses to increase from their recent, very low levels but to remain relatively low in 2005.

We continue to believe the current level of our capital is adequate to meet all regulatory capital requirements, as well as the target capital surplus, equal to 30 percent of our regulatory minimum capital requirement, established by our safety and soundness regulator, the Office of Federal Housing Enterprise Oversight (OFHEO).

## **Fair Value Balance Sheet Net Asset Growth**

A significant portion of our consolidated fair value balance sheet net asset growth for 2003 was due to the tightening of mortgage-to-debt option-adjusted spreads as of December 31, 2003. As a result, the increase in consolidated fair value balance sheet net assets for 2003 was above our long-term expectations. While we currently expect consolidated fair value balance sheet net asset growth in 2004 to be below the growth seen in 2003, we expect to report an increase in the fair value of net assets.

## **Administrative Expenses**

We expect administrative expenses, which include salaries and employee benefits, occupancy expense and certain other expenses such as professional services and audit fees, to be higher than historical levels in 2004 and at least through 2005 due to the significant infrastructure and control remediation efforts that are necessary to address the material weaknesses in controls surrounding our financial reporting. We expect to report administrative expenses for full-year

2004 of approximately \$1.5 billion, compared to \$1.3 billion for 2003. Our objective in 2005 is to keep administrative expenses relatively flat.

**TIMETABLE FOR FINANCIAL REPORTING**

There is no change to the timetable of objectives for financial reporting that we announced in our November 1, 2004 market update.