



**Supplement dated May 12, 2005 to  
Information Statement dated September 24, 2004**

**RECENT EVENTS**

**Resolution of REIT Dividend Tax Issues**

Freddie Mac announced on May 12, 2005 that it has entered into a Closing Agreement with the Internal Revenue Service (IRS) that resolves issues relating to the tax treatment of dividends paid on step-down preferred stock issued by the company's two real estate investment trust (REIT) subsidiaries. The IRS refers to these issuances as "fast-pay" preferred stock transactions.

***Background***

In February 1997, Freddie Mac formed two REIT subsidiaries that issued a total of \$4 billion in step-down preferred stock to investors. Under the IRS regulations in effect when the REITs were formed, the company believed that the dividend payments by the REITs to holders of the REITs' step-down preferred stock were fully tax deductible.

Subsequent to the formation of Freddie Mac's REIT subsidiaries, the Department of the Treasury issued final regulations that retroactively would limit the tax benefits attributable to the REIT preferred stock and challenged Freddie Mac's position that the REIT dividends were fully deductible. The company has since changed its position that the REIT dividends were fully deductible and, under the Closing Agreement, has agreed to the limitation contained in the Treasury regulations.

***Agreement with the IRS***

Freddie Mac and the IRS have agreed that Freddie Mac will only be entitled to deductions attributable to the step-down preferred stock transactions as if it had borrowed the funds directly from the REITs' preferred shareholders.

***Effect of Agreement on Freddie Mac Financial Results***

The Closing Agreement with the IRS will result in changes to the 2004 financial results released by Freddie Mac on March 31, 2005. The changes will be reflected in the 2004 consolidated financial statements to be included in the annual report that the company expects to issue in June 2005.

As the result of the Closing Agreement, Freddie Mac will increase its previously reported net income for 2004 by approximately \$110 million to \$2.9 billion, as compared to the previously

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released \$2.8 billion. Specifically, the company will record in the first quarter of 2004 a reduction in tax reserves of approximately \$98 million, and in the second through fourth quarters of 2004 a reduction in tax reserves of approximately \$4 million each quarter. These reserve reductions will result in corresponding increases to income in the stated periods. In 2005 and thereafter, Freddie Mac will record in its consolidated financial statements tax benefits related to REIT preferred stock dividend payments in a manner consistent with the Closing Agreement.

**Executive Compensation Actions**

As of May 6, 2005, the Compensation and Human Resources Committee (the “CHRC”) of the Board of Directors approved 2004 cash bonuses, 2005 base salaries and bonus targets, and long-term incentive awards for certain of the company’s executive officers. We are providing information in this Information Statement Supplement about two of those executive officers, Patricia L. Cook and Ralph F. Boyd, whose compensation was not described in Freddie Mac’s most recent proxy statement for the meeting held on November 4, 2004. The table below sets forth the dollar amounts for their 2004 cash bonuses and long-term incentive grants and 2005 base salaries and bonus targets (expressed as a percentage of the 2005 base salary).

Name and Position	2004 Cash Bonus	2005 Base Salary	2005 Bonus Target	Long-Term Incentive Grants <sup>1</sup>	
				Stock Options <sup>3</sup>	Restricted Stock Units (RSUs) <sup>4</sup>
Patricia L. Cook, Executive Vice President – Investments	\$1,000,000 <sup>2</sup>	\$600,000	167%	37,590	17,650
Ralph F. Boyd, Executive Vice President – Community Relations	\$ 375,000 <sup>4</sup>	\$500,000	100%	9,400	4,420

<sup>1</sup> The long-term incentive grants will vest over a four-year period at the rate of 25 percent per year. The options and RSUs were granted together with dividend equivalents. Dividend equivalents granted together with options accrue during such period as the related options are outstanding, and are paid in cash upon the earlier of the expiration of the option or upon the exercise of the option or any portion thereof, and are subject to all terms and conditions (including forfeiture) otherwise applicable to such options. Dividend equivalents granted with RSUs are paid to the grantees in cash as promptly as possible after the payment of such dividend or distribution by Freddie Mac. More detailed information regarding these grants is available in their respective Forms 4 available on the investor relations page of the company’s website at [www.FreddieMac.com/investors](http://www.FreddieMac.com/investors).

<sup>2</sup> The 2004 bonus amount for Ms. Cook does not include a \$2,000,000 one-time cash sign-on bonus she previously received, which is subject to repayment under certain circumstances.

<sup>3</sup> Options were granted with an exercise price of \$62.69 and a grant date of May 6, 2005.

<sup>4</sup> Annualized bonus amount is \$500,000; however, the amount was prorated for the number of months Mr. Boyd was employed by the company in 2004. The 2004 bonus amount for Mr. Boyd does not include a \$125,000 one-time cash sign-on bonus he previously received.

The 2004 bonuses and 2005 bonus targets were established by the CHRC in accordance with the company’s officer short-term incentive program. The program provides cash awards to eligible officers based on individual performance during the performance year. Bonus pool funding

depends upon whether the company has met thresholds in key performance areas. The allocation of these funds to divisions and individuals is dependent upon division and individual performance against annual objectives. The long-term incentive awards of options and RSUs were made under Freddie Mac's 2004 Stock Compensation Plan, which was included in the company's proxy statement for approval at the annual meeting of stockholders held on November 4, 2004 and was approved by the stockholders at that meeting.

### **Compensation of Ms. Cook and Amendment of Employment Agreement**

Ms. Cook joined Freddie Mac as its Executive Vice President - Investments on August 2, 2004. Under the terms of a letter agreement dated July 8, 2004, as amended by a letter agreement dated July 9, 2004, Ms. Cook received an annualized base salary of \$600,000 and the opportunity to earn short-term and long-term performance-based incentives. As indicated in the table above, her base salary will remain \$600,000 for 2005. Assuming continued employment in the specified position, the agreement provides for a guaranteed minimum bonus for 2004 of \$1,000,000. Thereafter, under the terms of her agreement, Ms. Cook has the opportunity to earn an annual cash bonus targeted at 167% of her bonus eligible earnings (currently defined as base salary), subject to a maximum of 200% of her target incentive. Previously, the agreement also provided that she had the opportunity to earn an annual long-term incentive compensation grant that, after 2004, was subject to a maximum of 250% of her annualized base salary. Based on Ms. Cook's performance to date, the CHRC has removed this restriction on the maximum amount of Ms. Cook's annual long-term incentive compensation.

Under the terms of the agreement, Ms. Cook received a one-time sign-on cash bonus in the amount of \$2,000,000 in August 2004. If Ms. Cook resigns or we terminate her employment for violating any standard of conduct, attendance or behavior embodied in Freddie Mac's standards of conduct under its progressive discipline policy before the first anniversary of her employment date, she is required to repay the full amount of her sign-on cash bonus. Ms. Cook also received a one-time restricted stock unit grant with an aggregate value on the date of grant of \$750,000 on August 2, 2004; a guaranteed initial long-term incentive grant of \$1,500,000, which she received on August 2, 2004; and our executive relocation package. If Ms. Cook's employment with Freddie Mac terminates for any reason (other than disability or death) prior to the lapse of restrictions on her restricted stock unit grant, she forfeits all the units.

The agreement also provides that if we terminate Ms. Cook prior to the second anniversary of her employment date other than for Gross Misconduct (as that term is defined in our officer severance policy) or any other willful or malicious misconduct on her part that is substantially injurious to Freddie Mac, she will receive a lump sum cash severance payment equal to \$3,800,000, minus \$133,333.33 per month for each whole month worked beginning on her employment date and ending the day prior to the second anniversary of her employment date. In the event that we terminate Ms. Cook on or after the second anniversary of her employment date but prior to her sixty-second birthday for any reason other than Gross Misconduct or any other willful or malicious misconduct on her part that is substantially injurious to Freddie Mac, she will receive a lump sum cash severance payment in the amount of \$600,000. The termination benefits of the agreement were approved by the Office of Federal Housing Enterprise Oversight.

### Compensation of Mr. Boyd

Mr. Boyd joined the Company on April 1, 2004 as its Executive Vice President and General Counsel. Under the terms of a letter agreement dated March 3, 2004, Mr. Boyd received an annualized base salary of \$500,000. As indicated in the table above, his base salary will remain \$500,000 for 2005. Under the terms of the agreement, Mr. Boyd received a one-time sign-on cash bonus in the amount of \$125,000. The letter agreement also provided that, assuming continued employment in the specified position, (a) Mr. Boyd would have the opportunity to earn an annual cash bonus targeted at 100% of his base salary received, subject to a maximum of 200% of his target incentive for 2004 and 2005 and (b) the target amount for his discretionary long-term performance based incentive awards would be 200% of his base salary. In February 2005, Mr. Boyd was named as the company's Executive Vice President of Community Relations and Chairman of the Board of Directors of the Freddie Mac Foundation.

### 2005 Base Salaries and Bonus Targets

The CHRC determined the base salaries and bonus targets for 2005 for the company's executive officers in accordance with individual agreements, individual performance, future potential, scope of responsibilities, individual experience and competitive salary practices. Bonus payments for 2005 will be based in part on performance against the company's 2005 objectives, which are:

- **Shareholder value**, which focuses on maximizing shareholder value while maintaining regulatory capital compliance;
- **Mission**, which focuses on meeting the company's increased affordable housing goals;
- **Customers**, which focuses on improving market share and developing new capabilities to further penetrate the mortgage market;
- **Financial reporting**, which focuses on certain milestones in returning to timely financial reporting and registration of the company's common stock with the Securities and Exchange Commission; and
- **Operations**, which focuses on greater integration and efficiency in Freddie Mac's operations.

### Long-Term Incentive Grants

As noted above, long-term incentive grants are made by the CHRC pursuant to the 2004 Stock Compensation Plan.

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Freddie Mac expects to provide additional information about the compensation of certain executive officers in the proxy statement for the annual meeting of stockholders to be held on July 15, 2005.

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Freddie Mac's Information Statement Supplements sometimes contain forward-looking statements pertaining to management's current expectations as to our future business plans, results of operations and/or financial condition. Management's expectations for the company's future necessarily involve a number of assumptions and estimates, and various factors could cause actual results to differ materially from these expectations. These assumptions and factors are discussed in our Information Statement dated September 24, 2004 and Information Statement Supplement dated March 31, 2005, which are available on the Investor Relations page of our Web site at [www.FreddieMac.com/investors](http://www.FreddieMac.com/investors).