



We make home possible<sup>SM</sup>

**Supplement dated October 3, 2006 to  
Information Statement dated June 28, 2006**

## **RECENT EVENTS**

### ***FREDDIE MAC PROVIDES MARKET UPDATE***

***Estimated Net Income for First Half of 2006 of \$2.7 Billion  
Company Maintains Strong Capital Position and Continued Solid Risk Management  
Performance***

**McLean, VA** – Freddie Mac (NYSE:FRE) today provided an update on the company’s year-to-date business performance and on management’s estimates of financial results for the first half of 2006, including the second quarter.

“In the midst of a changing economy and housing market, Freddie Mac continued to meet our mission and build momentum in our business,” said Richard F. Syron, Freddie Mac chairman and CEO. “We are managing credit and interest-rate risks prudently, achieving low funding costs, maintaining our strong capital base and building close ties with our business partners – all of which strengthens our franchise.”

“We remain sharply focused on delivering long-term shareholder value,” Syron added. “Through the summer, we continued to execute our plan to repurchase up to \$2 billion in common stock and issued \$1 billion of non-cumulative perpetual preferred stock. And, as our preliminary financial results for the first half of 2006 demonstrate today, we remain committed to delivering durable, long-term fair value returns.”

“Demonstration of success in our mission and our business is dependent on improving our internal controls and systems and returning to timely financial reporting,” said Eugene M. McQuade, Freddie Mac president and chief operating officer. “To meet these goals, we developed and are now executing a comprehensive plan for remediating our controls and systems. Our approach includes fixing control issues; strengthening our financial close process; implementing critical systems initiatives; and reviewing our business process transaction controls from beginning-to-end. The result will be a stronger Freddie Mac.”

## **YEAR-TO-DATE 2006 BUSINESS RESULTS**

### ***Business Volumes***

The company continues to deliver on its charter responsibility to be a provider of secondary mortgage market liquidity through both securitization and investment activities. Through August 2006, the company’s credit guarantee portfolio grew to approximately \$1.4 trillion, an annualized growth rate of approximately 11 percent. Management estimates that the company’s

share of government-sponsored enterprise mortgage securitizations was approximately 43 percent through August, compared to about 45 percent through August 2005 and about 41 percent in 2004.

Through August 2006, the company's \$707 billion retained portfolio decreased at an annualized rate of approximately 1 percent as there was an absence of financially attractive buying opportunities during the first half of the year.

### ***Debt Funding***

During the first three quarters of 2006, the company's average funding levels remained significantly below LIBOR rates, with spreads relative to LIBOR improving by more than three basis points for its Reference Notes<sup>®</sup> securities. Global fixed-income investors continue to comprise a significant portion of Freddie Mac's investor base across its funding curve, including longer-term debt such as five- and ten-year agency securities. Taking advantage of relatively attractive funding spreads, the company locked in more longer-term financing for its retained portfolio and reduced the balance of short-term debt securities to approximately 20 percent of total outstanding debt as of August 31, 2006, from approximately 24 percent at the beginning of the year. This relative reduction also helped improve the funding level on short-term debt securities, as investor demand remained strong.

In addition, the company continued to issue callable debt as an important source of financing for the retained portfolio and a tool for managing its risks, since the call option obtained through this funding helps offset optionality embedded in the mortgages held in the portfolio. The company increased its callable debt outstanding to more than \$300 billion over the past three years. This growth in the callable debt balance has allowed the company to fund more than 70 percent of its fixed-rate mortgage portfolio, and cover more than 50 percent of its convexity risk.

### ***Interest-Rate Risk Management***

Managing the company's interest-rate risk is essential to maintaining a strong and durable capital base and uninterrupted access to debt and equity markets. Consistent with its longstanding record, the company's interest-rate risk remains low. For 2005 and the first eight months of 2006, portfolio market value sensitivity ("PMVS") and duration gap have averaged one percent and zero months, respectively.

### ***Credit-Risk Management***

The company's mortgage credit risk, as measured by the current loan-to-value ("LTV") ratio of its credit guarantee portfolio and other credit characteristics, also remains low. The LTV ratio of mortgages guaranteed remains approximately 55 percent and the company's credit guarantee portfolio remains well diversified nationally. Long-term, fixed-rate mortgages continue to comprise more than 80 percent of the credit guarantee portfolio, despite the recent increase in the purchase of floating-rate and non-traditional mortgage products. Through July 2006, interest-only mortgages comprised 14 percent of year-to-date purchases, and were three percent of the

total credit guarantee portfolio. Mortgages with optional payment terms (“option ARMs”) comprised three percent of year-to-date purchases and were two percent of the total credit guarantee portfolio.

Management continues to expect near-term credit losses to remain low by historical standards. As of July 31, 2006, the total single-family delinquency rate was 52 basis points, compared to 69 basis points as of December 31, 2005 and 73 basis points as of December 2004. Management estimates that net charge-offs were \$95 million through the end of August, representing approximately one basis point of our credit guarantee portfolio, versus \$68 million through August of the previous year, representing approximately 0.8 of a basis point.

### ***Affordable Housing Goals***

Management believes the company is making progress toward achieving its 2006 regulatory affordable housing goals and subgoals. The subgoals, which are higher this year, are particularly challenging because increased home prices and higher interest rates have reduced the affordability of the average home. Management is focused on initiatives to achieve these increasingly difficult goals and subgoals but cannot be certain of their success at this time.

### **PRELIMINARY FINANCIAL RESULTS AND CAPITAL POSITION FOR FIRST HALF AND SECOND QUARTER OF 2006**

In accordance with the company’s monthly minimum capital reporting requirements, the company submitted its June 30, 2006 capital report to the Office of Federal Housing Enterprise Oversight (“OFHEO”) at the end of July. At that time, the company estimated regulatory core capital at June 30, 2006 of \$37.1 billion. Management’s current estimate of net income for the first half of the year is approximately \$2.7 billion. The estimate includes approximately \$300 million in positive adjustments to net income the company recorded subsequent to its capital report submissions. (The primary adjustments were approximately \$200 million recorded in finalizing the closing process relating to guarantee-related assets and obligations and approximately \$100 million related to a favorable U.S. Tax Court ruling in July.) Also included in the \$2.7 billion is the company’s current estimate of net income for the second quarter of approximately \$1.2 billion.

Management expects to report the company’s net income for the first half to have benefited significantly from mark-to-market gains recorded for its guarantee asset and derivatives, as interest rates increased during the first half of the year. Management continues to expect the company’s net income to remain volatile from period to period in response to movements in interest rates. Given the reversal of interest rates of around 50 basis points since June 30, management expects to report a significant reversal of these mark-to-market gains in the company’s third quarter results.

The company currently estimates that the return on the average fair value of net assets attributable to common stockholders for the first half of 2006 was approximately \$2.3 billion, an annualized fair value return of 17 percent, and for the second quarter was approximately \$1.4

billion, an annualized fair value return of 20 percent. The estimated fair value returns for the second quarter exceeded management's long-term expectations, benefiting from strong underlying returns as well as a significant increase in the fair value of the credit guarantee portfolio caused by higher interest rates – an increase that, as previously mentioned, has reversed course in the third quarter in response to the recent decline in interest rates. Estimated second quarter results also benefited from a slight tightening of the retained portfolio's mortgage-to-debt option-adjusted spread ("OAS"), which management estimates improved fair value by approximately \$0.1 billion. For the first half of 2006, the estimated net widening in mortgage-to-debt OAS decreased fair value results by approximately \$0.5 billion.

Management continues to believe the company will achieve long-term returns, before capital transactions, on the average fair value of net assets attributable to common stockholders in the low- to mid-teens, although period-to-period returns may fluctuate substantially due to market conditions.

Management's preliminary estimates of net income and fair value results for the second quarter of 2006 and the first half of the year may change materially as the company completes the process of closing its books for 2006.

#### **CAPITAL TRANSACTIONS UPDATE**

In June 2006, the company initiated the repurchase of common stock in accordance with its previously announced Board authorizations. As of June 30, 2006, the company had repurchased approximately \$500 million in common stock (approximately 8.6 million shares) at an average price of \$58.05. Year-to-date, the company has repurchased approximately \$1.5 billion of common stock (approximately 25.5 million shares) at an average price of \$58.82. In July, the company issued \$1.0 billion of non-cumulative perpetual preferred stock. Management expects to complete the remaining repurchase and issuance activities under these authorizations from time to time depending on market conditions.

#### **INTERNAL CONTROLS AND FINANCIAL REPORTING UPDATE**

The company continues to work on a series of initiatives to improve its financial reporting infrastructure and remediate material weaknesses and other deficiencies in its internal controls. These activities are part of Freddie Mac's comprehensive plan for returning to quarterly financial reporting following the release of full year 2006 results. The comprehensive plan includes mitigation and remediation of identified control issues; strengthening of our financial close process; implementing critical systems initiatives; and completion of a review of the company's system of internal controls related to the processing and recording of the company's financial transactions. Management recently updated the Board and its regulator, OFHEO, on the elements of the plan and is executing and monitoring the critical path elements of the plan to enable the company to resolve these long-standing issues. Management will continue to update the market on the company's progress toward these objectives.

As part of this plan, the company recently implemented a new investments accounting platform for its liquidity and contingency portfolio. Management expects to implement this same platform for its retained portfolio prior to the end of the year. These systems enhancements will provide Freddie Mac with industry standard processes for the principal assets in its investment portfolio. On a related front, in September, Freddie Mac implemented an arrangement with JPMorgan Worldwide Securities Services to provide the company with industry standard transaction processing and record-keeping services for its retained portfolio. In addition, JPMorgan yesterday began providing the company with custodial services for its liquidity and contingency portfolio. Collectively, these efforts are providing significant improvements in the efficiency and controls relating to these critical processes.

### ***Additional Information***

Additional information about Freddie Mac and its business is also set forth in the company's Information Statement dated June 28, 2006 and related Information Statement Supplements, available on the Investor Relations page of the company's Web site at [www.FreddieMac.com/investors](http://www.FreddieMac.com/investors). Freddie Mac encourages all investors and interested members of the public to review these materials for a more complete understanding of the company's financial results and related company disclosures.

### ***Announcement of Conference Call and Webcast***

Management will host a conference call discussing today's announcement at 8:30 a.m. Eastern Time today. Domestic investors should call 1-888-639-6205 and international investors can access the call at 703-925-2608. The conference call will be webcast live on the company's Web site. A telephone recording of this conference call will be available continuously beginning at approximately 12:00 p.m. Eastern Time on October 3, 2006 until 11:59 p.m. on October 17, 2006. To access this recording in the United States, call 1-800-475-6701 and use access code 843414. Outside of the United States, call 320-365-3844 and use access code 843414.

\* \* \* \*

This Information Statement Supplement contains forward-looking statements. Statements that are not historical facts are forward-looking statements, including statements about our beliefs, expectations and estimates as to our future business plans and timelines, duration of the voluntary, temporary growth limit, results of operations, financial condition or outlook. These statements involve known and unknown risks, uncertainties, assumptions, estimates, and other factors and can often be identified by the words "will," "current," "estimate," "long-term," "could," "remain," "progress," "focused," "depending," "expect," "continue," "believe," "may," "initiative," "objective," "preliminary," and other expressions which are predictions of or indicate future events and trends. Various factors could cause actual results to differ materially from these expectations, including: actions by governmental entities, securities agencies or others that adversely affect the supply or cost of equity capital or debt financing available to us; our ability to identify, manage, mitigate and remediate internal control weaknesses and deficiencies and other risks; our ability to effectively implement our business strategies and

**Supplement dated October 3, 2006 to  
Information Statement dated June 28, 2006  
Page 6**

manage the risks in our business; our ability to implement changes, developments or impacts of accounting standards and interpretations; changes in estimates, methodologies or models we use; adjustments to reserves for taxes and other contingencies; the outcome of pending legal proceedings; general business, economic, market and political conditions, including changes in levels and volatilities of interest rates and other market factors, changes in mortgage-to-debt option-adjusted spreads, prepayment behavior, housing prices and employment rates; our ability to complete additional capital transactions; competitive developments in the mortgage market; the rate of growth in total outstanding U.S. residential mortgage debt; changes in applicable legislative or regulatory requirements or changes in interpretations of such requirements; the other factors discussed in this Information Statement Supplement; and the reactions of the marketplace to the foregoing. Additional assumptions and factors are also discussed in the company's Information Statement dated June 28, 2006, and subsequent information Statement Supplements, which are available on the Investor Relations page of the company's Web site at [www.FreddieMac.com/investors](http://www.FreddieMac.com/investors). We undertake no obligation to publicly update forward-looking statements we make in light of new information or future events.