FINAL TRANSCRIPT

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FRE - Freddie Mac 2008 Investor/Analyst Conference

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PRESENTATION

Unidentified Company Representative

Ladies and gentlemen, please welcome Freddie Mac's Senior Vice President, Equity Investor Relations, Ed Golding.

Ed Golding - *Freddie Mac - SVP - Equity Investor Relations*

Good morning and welcome to our 2008 Investor/Analyst Day, where we will present "A Transparent View of Freddie Mac". Speaking today will be Freddie Mac's Chairman and CEO, Dick Syron, our Chief Financial Officer, Buddy Piszel, and our Chief Business Officer, Patti Cook, as well as senior leaders from our business, risk management, and finance functions.

Let me begin with two important points. First, we have posted on our website a slide presentation that includes material that we will cover today. For those on the call, you may wish to have these available as the team walks through their presentations. In addition, we have released this morning, additional information on our mortgage insurer and bond insurer counterparty exposure.

Finally, please note that today we will make certain forward-looking statements regarding our business results. These statements are based upon a set of judgments, estimates and assumptions about our key business drivers and other factors. Changes in these factors could cause our actual results to vary materially from our expectation. You will find a complete discussion of these factors in our 2007 Annual Report, which is posted on our website. We strongly encourage you to review these factors carefully. So thanks and now, let me introduce our Chairman and CEO, Dick Syron.

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Dick Syron - *Freddie Mac - Chairman, CEO*

Sorry for the delay, the wonders of technology. My mic I guess wasn't set on vibrate. I want to thank all of you for coming. We are going to work very hard this morning to try what Ed talked about, to help you understand the Company better, to be more transparent and we think -- as we think about the new Freddie going forward.

As I think a lot of you know, this is the first time that we have had an event like this in eight years. That is a long time to go without having a shareholder day; I am talking directly to you shareholders. Now obviously, the world has changed extraordinarily, dramatically since then. If you look at the timing of today's event, I guess you could have in the beginning of it and say, well, we were hardly had any prescience in timing to have an Investor Day in the middle of everything that is going on. But, actually, I think it is probably a good idea because it gives us a chance to have a candid talk with you about all the things that are of interest in us and all of the discussions there are about us.

This conference timing ultimately was driven by our ability last week to release our first timely financial reports in more than a half dozen years. That, believe it or not, seems like a simple thing, but has been a major, major objective as you know for this Company for a very long period of time. So, while much remains to be done, we think we are transitioning from a point of fix it to what we do with it and how do we maximize shareholder value. And I want to be sure we don't lose sight of that.

Now having said that, the fact that we finally delivered timely reports, we delivered the numbers but the numbers were pretty ugly. And we are going to talk a little bit about that. In the past, the complexity of our financial statements has made this certainly an extraordinarily daunting company to try to figure out or to follow.

Our hope this morning is that we are going to talk to you about new approaches that we are taking, some new information that we are providing that should make it a big step towards making us more generally understandable and you are able to look at us the way you are able to look at a more normal straight-forward financial institution.

We want to be very direct with you. Our promise to you is that what you see is what you will get and that's why we are doing this. We face obviously an extraordinary environment in housing finance today and sometimes I think even those of us in it forget how extraordinary it is. It is really about the worst housing market in a century. So it is not incorrect to say that we are in a hundred-year storm in the housing finance industry and we have to treat it as such and we have obviously seen the crisis, that we are having a crisis is the right word in housing finance that's spread around the globe into many other asset classes. The impacts on our own industry have obviously been massive. I want to tell you what we have observed, what we are doing to handle some of the challenges in front of us, but also some of the opportunities quite candidly that come out of this.

We want to walk through our priorities for the year and then I am going to hand you over to the rest of the team to go through two things in more detail; I will come back at the end of the program and we will have the most valuable part, your Q&A.

Clearly, our results have been very, very heavily affected by the economy, but it is important and you will see this later on to recognize that a lot of our results are as much affected by accounting conventions as they are by economic realities. It is a tough environment. What have we done about it? Seems to me that's where we got to start. We've got to start with what have we done about it and then what we are going to do going forward. First thing we did is we took very decisive steps to raise capital at the end of last year. At the end of last year, we looked at our capital need, we said what should we do.

We could have raised -- we could have raised less and gotten by with that, but we decided that wasn't sufficient. We wanted to raise enough capital that we could -- that we thought would give us some opportunity to grow our business and in the absence of a further substantial deterioration in the housing market, would allow us to get through this thing.

We were the first in line and we were followed by lots of other people in our successful capital raise. Maybe going forward what is equally important is we have adjusted our pricing and credit quite substantially to align more closely with risk. We have implemented two big price increases with two more going to take effect this spring. We have grown our volume and market

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share, and you will see some data on that in a minute, in the guarantee business with the wider spreads as a result of improved pricing and prices that are more consistent with risk.

We have made improvements, not only to our financial reporting and getting the numbers out, but also to our financial controls and all of our internal controls. Very importantly, this puts us in a position to be able to begin registering with the SEC shortly and Buddy will discuss that process with you in some detail.

We are trying to deal with the current situation in a way that is both prudent and responsible; responsible in terms of our obligations to the economy as a whole, but very much responsible in terms of our obligations to our shareholders because, at the end of the day, we are a shareholder-owned corporation and we have a legal and fiduciary responsibility to you on that.

We are not pretending the housing downturn has come to a bottom or is anywhere near it. To the contrary, we are assuming that housing prices have fallen only about a third as much of the total peak-to-trough decline we expect. We expect just on a technical note, a peak-to-trough decline of 15%, but that's by a certain measure. There are more measures of housing price changes than you can shake the stick at. The measure we use is the measure that is appropriate for the area we do business in, in other words, the conventional conforming market. It would be a much, much higher number if you were to translate it, for example, to the Case-Shiller index which is for 20 metropolitan areas, largely on the coast of the country.

Having said that we expect that -- that we have seen only about a third of the housing price decline that we expect. In our financials, we have absorbed already a little bit more than half of what we think our ultimate realization will be. Now, this approach may seem pessimistic to you and you know it is -- I will have to admit, it is at least a little cautious. But, I think cautious is where you should, as shareholders, want us to be right now.

Even in this bad time, we feel very strongly about the comparative strength of our book of business. We think it's among the best in the industry. It is a tough book overall but within that book we think we are about the best in the industry. Compared to our competitors, our mortgage portfolio is low in loan-to-value, low in holdings of exotic loans, high in regional diversification and high in credit quality.

Our total single-family delinquency rate is rising, but even with that, it will remain substantially below that of others. The market is coming back to us in both volume and in quality. Let's start with the securitization business. A few years ago, the share of the GSEs during the time of rampant private paper in the market had dropped to 35%. People were saying could the GSEs survive? Was there a role for them any more? Don't hear a lot of that question now. The two GSEs market share is now about 72% -- more than double. We expect that share to remain. Maybe you wanted that exact number, we don't know, but we expect it to remain high throughout '08 and well into '09.

At the same time, across a range of products, much of the irrational, and it was irrational, approach to pricing in credit that plagued the housing industry in recent years is finally being wrung out of the system and you know what, that's good for everyone in the long run. Our price increases have been substantial, but they have been necessary and they were accompanied by a much more risk-based approach to pricing. Let me talk a little about the multifamily industry, which is becoming increasingly important for us and I think will become increasingly important in the housing system in the United States.

We had 55% growth in that business in 2007 on top of a very strong growth in '06, but I want to emphasize to you, this is as a result of market credit, not our chasing credits. What has happened is a lot of the traditional players in that market have backed out. You will see later on what is happening in pricing in that market. We are finding it a very attractive market right now, but we are very, very cautious that multifamily can't expect a free pass from some of the problems that affected single-family and we are being very, very prudent, we think, in how we approach that.

To be candid about it and I know this is maybe controversial -- but, as a nation, I think we may have been a bit over aggressive in pushing particularly single-family home ownership beyond the level which really fit with the economics of the household

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sector. If that's the case, I think it is the case, other observers think it is the case, multifamily will have a much bigger role to play going forward and we will be talking to you a little later about our approach in that sector.

The other thing I think that is very important for us is that as we go forward and we look at all the resources - we have had just enormous resources in our corporation for a substantial period of time that have been devoted to financial remediation. We will be able to turn a lot of those resources into the priority of making ourselves more competitive as the business goes forward. We will be able to redirect our efforts and reinvigorate our capital spending. This means expanding our business capacities, enhancing our products, addressing some of the key questions like 55 days.

So we want to say, after a period in which we have spent so much time focusing on fixing things, we think it is great to be able to finally turn our attention to execution and how we go and deal with things going forward. That's what a regular company does. We think it is very important to turn our focus in that way. No one can predict the future and as we said, we are very, very cautious about the housing outlook. But, we do think there are great opportunities for us, not just this year, but as we go forward. So with that, let me turn things over to Buddy and I will come back to talk to you at the end of the conference.

Buddy Piszel - *Freddie Mac - EVP, Chief Financial Officer*

Good morning and welcome, everybody. Let me start out by letting you know how thrilled I am and everybody is here at Freddie Mac is to engage you all on a day like this. This has been something that a lot of people have worked on for a lot of years, and we are very pleased and proud to be here. Now that our financial reporting is timely and it is going to stay that way, we are in a position to present our business results and our business expectations like other companies do.

Given today's credit markets, this is a very important time for us to be clear as to how we see things, what this means to us, and then give you the opportunity to engage our management team on any concerns that you may have. That's what we are going to try to accomplish today.

Dick started out by discussing the housing market and the high-level prospects for our business. I am going to focus my initial comments on capital, because that's the gateway to all opportunities. And then, I am going to hand it off to Patti and her team, who will go into far greater detail as to the businesses, both their opportunities and their risks.

So, where do we stand on capital? Well, for starters, on January 2nd, after adopting the fair value option, our capital stood at approximately $39 billion with an estimated surplus over the 30% of $4.5 billion.

I might add that this is twice the surplus we had over the 30% starting out in '07, and it is about $12.4 billion over the minimum capital requirement. So we started out the year approximately where we thought we would be and that is really good news given the degree to which declining long-term interests rates hurt our fourth quarter GAAP results.

Now on the year-end call, one of the questions assumed that further reduction of the long rates that had taken place at the beginning of '08 was going to have the similar constraining impact on our GAAP results. Let me clarify, that is not the case.

Based on where the portfolio is positioned, the hedge effect of putting a block of our mortgage portfolio into trading, as well as the yield curve steepening, as of today, right now, we are net positive on our mark-to-market interest rate exposures.

Now, you all know that that could change quickly, but we are also legging in our adoption of hedge accounting with an aim of keeping our exposure to 100 basis point move in the long rate to about the $1 billion range.

Next, the latest concern that has been raised is that we may take a write-down on our approximately $10 billion of deferred tax assets. That concern is way off the mark. Realization of deferred tax assets all depends on our ability past, present and future to

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generate taxable income. We have never in the entire history of the Company had a taxable loss. Best example, even given the losses on a GAAP basis for 2007, we will report huge taxable income in 2007.

Looking forward, even with the cash realization of the credit costs, which is how it works for the tax purposes, we are still projecting taxable income in all future years. So we don't expect taxable losses. Given our taxable income generation, we have huge carry-back and carry-forward capacity and this is just not an issue for us.

So, lower interest rate exposure. Categorically no deferred tax write-offs. And then, you will hear in the next session, we are still very confident in our ABS impairment exposure. You put all that together and you add the actions that we took to reduce the volatility, exposure we had from credit marks, and the net result is that we are in a much better position to manage our capital in 2008 than we were in 2007.

So given this, let me turn to the real question, do we have enough capital? Well, assuming market conditions don't get significantly worse, from our current cautious outlook, we have sufficient capital to continue to grow the guarantee and the multifamily businesses. On the retained portfolio side, we are able to replace the $10 billion to $15 billion of monthly run-off and accordingly benefit from today's wider spreads. So overall, I would say from a defensive position, we feel okay.

So despite the headlines, there is no dilutive capital raise plan. Let me repeat, there is no dilutive capital raise plan. So, how about on the offensive side? Well, we are doing a lot already. We are growing the g-fee and the multifamily businesses. We have committed to help the jumbo market and we have the capital to do that, and all of this is being done in a profitable way. We are actively buying in the retained portfolio at attractive spreads, but nonetheless, liquidity challenges in the mortgage market persists and spreads remain high.

A source of additional capital would be some relief we may get on the 30% and we are working very hard with OFHEO to pursue that relief. So, at this point, we are in an okay position. We are engaging on the 30%, and we will see how this -- how things develop. So, with that, let me turn things over to Patti. I will be back on later in the program to take any questions you may have related to capital. Patti?

Patti Cook - *Freddie Mac - EVP, Chief Business Officer*

Thanks, Buddy. Good morning to everybody. Glad to see a lot of familiar faces in the audience. These are really unbelievable times, aren't they? The severe deterioration in housing prices and residential mortgage credit quality that we've experienced in the last nine months is truly unprecedented. And as you can imagine, as a $2.5 trillion mortgage company, we have clearly been impacted by this trend. Unlike many other companies though, Freddie Mac has the financial strength, access to financing, and risk management practices that will enable us to weather the storm and emerge as a more profitable Company in the future.

Specifically, our strengthened competitive position, significant improvements in the underlying asset quality and the higher pricing on our new business should provide a base for future profitability as we emerge from the current downturn.

While there have been some tough moments in the past several months, the opportunities that are presenting themselves to us continue to keep us enthusiastic about the opportunities to grow shareholder value over the long-term. It is a team effort at Freddie Mac, so today, we thought it would be good for you to hear from the people that run our segments and manage the associated risk on a daily basis. I am going to keep my remarks relatively brief, so we can get to their discussions and Q&A.

In that light, I am going to focus on four themes. First, Freddie Mac's market share in our three business lines has improved and should remain strong for the foreseeable future. Second, Freddie Mac's asset quality is high by industry standards and is improving with our new business volumes. Third, Freddie Mac spreads and pricing on new business is significantly better than it has been in the past. And fourth, Freddie Mac's strong credit, interest rate, and counterparty credit risk management practices should limit our downside.

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Let's talk about market share. As we discussed on our earnings call last month, Freddie Mac continued to gain momentum in the single family and multifamily markets during 2007 and is continuing in 2008. This rebound has resulted from a few main changes. One, sharply lower private label securitization volumes on the single family side; slowed conduit and CMBS volumes on the multifamily side; and reluctance on the part of other financial institutions to portfolio mortgages.

During 2007, as other mortgage investors pulled back from the market, Freddie Mac continued to support our customer's liquidity needs and provided needed stability to the single family and multifamily mortgage markets. As a result, volumes in the multifamily underwriting business increased significantly last year and the growth of the single family business rose to 18%, significantly outpacing the growth of MDO. Single family GSE share also increased, as Dick mentioned to approximately 72% in January of this year from about 40% in 2006. We would expect the GSE share to remain high in 2008.

On the multifamily side, 2007 was a record volume year for our purchases. Our underwriting business volumes were two times the rate of 2004 with most of the increase coming in the fourth quarter following the sharp contraction in the CMBS market. As in the single-family market, Freddie Mac, served as the stabilizing player in the multifamily industry. For the purposes of capital planning in 2008, we have targeted about 10% growth rate in the single-family business and a continuation in the volumes in multifamily that we saw in 2007.

Let's talk about the asset quality of our portfolio. I am sure that some are asking if this above-trend growth in 2007 into 2008 is a good idea, given the current problems in the market. One strength of Freddie Mac over the long term has been the strong underlying credit quality of the guarantee business and retained portfolios. This trend has continued in 2007 and is only increasing in 2008.

In the single family business, we have provided the market with a listing of our credit attributes on our guarantee portfolio with each of our recent earnings releases, but, the high level point is that due to our relatively low exposure to Alt-A, subprime, low FICO and high LTV loans, our serious delinquency rate, expected default costs, and recent period charge-off amounts have all been the lowest in the industry.

Thus far in 2008, we are beginning to see improvement in the quality of the underlying loans that are being originated and delivered to us in our guarantee business.

Let me give a couple of proof statements here. While the dollar volume of prime conventional loans has remained relatively stable throughout 2007, there have been very significant declines in industry-wide origination volumes of riskier products, such as subprime, Alt-A, and home equity loans. In addition to loan type, the underwriting path has improved, with the dollar amounts of broker and correspondent originated loans falling by about 25% between the third and fourth quarters of 2007.

Finally, inside our own portfolio, we have benefited from the shifts in our own tighter underwriting standards. In January, loans with LTVs greater than 90% declined 13% from their peak; FICO's less than 620 declined 5% from their peak; and low and no doc loans declined 9%.

On the multifamily side, our portfolio has performed really well. However, there are some signs that weaker apartment conditions are emerging. Many markets are showing some deterioration in rental growth and vacancy rates. Our preferred position though, similar to the single family market as a liquidity provider, is allowing us to improve terms as we have increased prices to more than compensate for this emerging risk. So, while we are expecting delinquencies to be a little higher than they have been in the past and cap rates to trend slightly higher, we are confident that our disciplined underwriting will continue to stand the test of time.

In the retained portfolio, the credit quality of our retained portfolio remains very high, with 67% in agency securities and 33% in non-agency securities. These non-agency ABS were critical to our efforts to meet our affordable lending objectives and allowed us to invest in non-prime markets with substantial credit enhancement. Without these funds, it is likely that we would

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have needed to increase the volume of higher risk loans in our credit guarantee business in order to achieve our affordable housing related goals in the past few years.

Despite the continued deterioration of the housing market and increases in non-prime delinquencies, we remain comfortable with our risk position on these assets. Remember, to the end of 2007, we have recorded no credit related impairments on these funds, and we have no CDO exposure. While we remain very comfortable with our asset-backed portfolio, given the lack of new issuance in the private label market, most of our recent purchases in the portfolio have been in agency-guaranteed securities.

Pricing, one of my favorite topics. In my opening remarks, I made the comment that while the credit losses on our existing guarantee book would take some time to be fully recognized, in the near term, we have been successful in implementing significant price increases in our guarantee businesses. These will become fully effective by mid-year. Since last summer, we have taken four individual price actions with our most recent becoming effective for implementation June 1st. The intention of the changes was to address the increase in the riskiest components of our deliveries by introducing risk based pricing and by tightening credit terms. We believe these changes and actions will have a material impact on the returns in the business going forward.

Let me give you a couple of quick examples. We reduced the maximum TLTV to 97% on all standard and affordable products with FICOs less than 700. We eliminated NINA, NIVA, and no ratio loans in October and we increased the minimum FICO to 700 on 80/20 mortgages. This is the first time that Freddie Mac has initiated changes of this magnitude. The combined effect of these price actions should result in g-fees in the low to mid-30s by mid-year on new deliveries. This projected increase is dependent on the mix of business that we receive.

On the multifamily side, our spreads are also significantly wider than a year ago, close to 200 basis points above treasuries or 150 odd basis points above our funding levels.

In the retained portfolio, during 2007, the option adjusted spread on the portfolio increased from 27 basis points to 104 basis points and are wider yet today.

While these wider spreads produced large OAS losses on a fair value basis, they are also presenting us with some of the most attractive investment opportunities we have seen in years.

While it is difficult for us to invest at the very wide ABS spreads in the market due to a lack of available bonds, the opportunity in agency MBS has improved significantly. However, due to our current capital management discipline, I should note that we are currently considering growth in the retained portfolio very opportunistically.

As such, for the foreseeable future, portfolio growth will develop based upon the following: the attractiveness of the returns that are available; the emergence of credit losses; and access to the 30% capital surplus.

Over time, Freddie Mac has succeeded in large part due to the strength of our risk management practices. We have successfully managed interest rate, pre-pay and complexity risk through many market cycles.

We have managed our credit risk relatively well, creating a portfolio that is one of the best in the industry. And while the markets are likely to remain challenging for us over the next few quarters, we remain confident in our ability to manage through it. So, let me close by reiterating the difficulty and challenges posed by the current environment. Losses are certainly larger than one would have predicted a year ago as the housing market has performed much worse.

And yet, as a result of this experience and our current position as the preferred liquidity provider, it has allowed us to raise fees and tighten terms of business. We are able to deploy capital at very attractive returns. So, while we absorb and realize the losses of the existing book of business, we are building a strong book for the future.

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With that I would like to introduce you to my colleagues. The first will be Mike May who will talk to you about our multifamily business. Thank you.

Mike May - *Freddie Mac - SVP - Multifamily Sourcing*

Thank you, Patti. Good morning all. If the mortgage industry has learned anything recently, it is that housing goes well beyond home ownership. After all, no one wins when borrowers cannot repay their mortgage. Today, almost a third of Americans rent rather than own homes, and some do so by choice and some do so by economic necessity, but all deserve a great place to live and that's why Freddie Mac supports rental housing.

When you look at multifamily at Freddie Mac, what you see is a business line that has improved in 2007. We won new customers, we are processing record volumes, and we are delivering strong results. I think it is a good story but there are warning signs on the horizon. Apartment fundamentals are weakening somewhat, and so we are taking a balanced approach to our business to support the market.

Next slide, thank you. This slide summarizes the key points I want to make today. Freddie Mac is becoming a stabilizing force in an unstable market. Competitors have been forced out of the market, making the GSEs one of the few providers of liquidity. As a result, our volumes have increased. We are posting strong results in terms of financial results and admission, and we are currently implementing a plan that will protect our customer gains after competitors return.

Next slide. It all begins with the customer. We are meeting their number one need today and that is liquidity. As you can see from the slide, multifamily volumes have increased dramatically. Last year, we purchased $18 billion in mortgages, and that's a new record for us, up some 55% from the year before and almost double that of 2004. Our mortgage portfolio right now stands at $69 billion. Now, if you told me this a year ago, that is we are going to have a record year, I would have said no way. We didn't think the market was pricing risk appropriately and we thought credit had gone too far, and we would not trade market share for profitability or smart business.

In fact at our annual customer conference, I told customers that and they did -- they took their business elsewhere actually. But, beginning last summer, the market's speculative behavior started to come home to roost. Conduitsthat over-structured business, began to experience credit losses and were pushed out of the market. With fewer investors, the CMBS issue market dried up, spreads widened out considerably, some to historic levels.

For example, in 2007, at the beginning of the year, BBB spreads were in the 100 basis point range over treasures and now they are more than 1,100.

Needless to say, there are few CMBS issuances going on right now and you can feel a general anxiety in the market.

With fewer investors providing liquidity, access to credit has declined. And the GSEs have stepped in to fill the void. Customers have returned to us. We picked up deals dropped by other investors and we expanded our capacity to process this volume. Indeed, if you look at the fourth quarter alone, we purchased a record $12 billion in mortgages. And we did so without sacrificing credit at all. In effect, we have become a stabling force in an unstable market.

We manage our business in a way that when we deliver for the customer, we also deliver for mission and shareholders. On mission, a vast majority of the business that we do supports one or more of Freddie Mac's affordable housing goals. And in recent years, we have stepped up to help the Company achieve its broader HUD goals.

But, our performance during the credit crunch demonstrates that Freddie Mac's mission goes well beyond affordability. It also includes providing liquidity and stability to the marketplace.

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But we can fulfill this mission only if our fundings are priced appropriately. And that's why, as you can see on this slide, we began to raise prices last year.

We had lower prices before the credit crunch and much higher prices after. And higher spreads have helped us earn $400 million in adjusted operating income in 2007. As you can see from this slide, for our business we did in February of 2008, spreads stand at almost 141 basis points relative to debt. And we expect to maintain this position until the environment changes.

These higher spreads reflect several steps we took during the year to raise prices as well as tighten credit.

Our actions were supported by the realities in the marketplace that is Freddie Mac's own higher cost of capital, credit, and funding. Our actions also reflect a somewhat weaker apartment market going forward. According to industry studies, we expect some vacancies to occur and some rental growth to slow. Now, this is not the sharp reversals that we have seen in this single-family world. But enough for us to increase our provision for credit losses to $38 million.

Over time, though, multifamily is a good business to be in. These assets perform more consistently than other forms of commercial real estate and the demographic trends clearly favor rental housing.

And in the current market environment, we are creating value for customers, mission and shareholders alike.

So really the key question for us at Freddie Mac is how do we keep this momentum going? Let me describe our approach for you briefly. First, our pricing and credit changes will make our liquidity sustainable for the current market cycle. As we saw during the housing boom, rational pricing and sound underwriting too often gave way to the view that investors could engineer risk out of the system.

CDOs and SIVs became the rage, but that liquidity was just an illusion and the easy money proved to be unsustainable.

Through our pricing and credit actions, we are encouraging the industry's return to sound business fundamentals and principles, actions that will keep us a reliable outlet for our customers now and in the future.

Next, we are taking steps to build greater scale in this business, while consuming less capital. Now, we will not grow at the expense of managing credit. But, as profitable opportunities arise, we want to capitalize on them.

So, accordingly, at Freddie Mac, we are developing a new capital markets execution where Freddie performs a hybrid transaction that combines the strength of our portfolio bid with securitization capabilities. These executions will offer customers more flexibility and help us better compete against bank conduits when they return.

We have also reorganized our business around centers of excellence. This structure has made our sales staff much more visible to our customers, it has made us much better connected to the market, our underwriting is more focused on the risk of individual deals, and our staff better able -- our operations staff better able to support the larger volumes without sacrificing customer service.

Our third and final area is we are delivering more value to the customers. So, let me be clear here, given the current market environment, we really don't have to do this. The customers are flocking to us, but we know eventually the market will turn and when it does, competitors will come back and we want those customers to stick with us. Accordingly, we are strengthening our customer value proposition now, so we can maintain our competitive position in the future. In this area, we are doing several things. We are performing new and more complex transactions. We are transforming loan processing from a highly manual customized process to a more automated and standardized process.

We are adding new products to help us penetrate new markets and new customers. And we are addressing customers' needs for more flexible execution. So, if you put this all together, sustainable liquidity, greater scale, more value added -- you have a

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game plan for growth. So, to sum it up, we have dramatically improved our position in the market that is attractive to both customers and shareholders.

To keep the momentum going, we are strengthening our customer relationships while our competitors are on the sidelines, we are supporting a more rational view of credit risk throughout the market, and we are building greater scale in our business while managing risk and capital appropriately. I would like to now turn things over to my colleague to Paul Mullings. Thank you.

Paul Mullings - *Freddie Mac - SVP - Single-Family Sourcing*

Thank you, Mike. Let me also say good morning and add my welcome to you. When I joined Freddie Mac in mid 2005, the GSEs were losing relevance. Our market share was declining, the securitization mantle was passing to private-label issuers, and alternate markets were growing. But today, we find a private-label market that's in dramatic decline.

The subprime market has closed down. The jumbo market has frozen up. And lenders have retooled their business to source agency loans and little else. That's a lot of change in two and a half years. Today, our single-family business is more relevant than ever. Customers are depending on us more. We are supporting their needs, while making a more conservative view of credit risk stick in this market.

Of course, house prices remain a key risk. But new business looks very promising. This slide summarizes the key points I would like to make this morning. The mortgage market has come back to the GSEs, and we are demonstrating our staying power. However, house prices are deteriorating and that's depressing the single-family guarantee profitability. To address the greater risks in this market, we have raised prices and tightened credit on the new business, and at the same time, we are working to solidify our gains with our customers for the long run.

This slide illustrates the dramatic gains that Freddie Mac and Fannie Mae have made. As you can see, during the height of the housing boom, when credit was flush, GSEs share fell to as low as 35% of new mortgage originations. But, since then, share has steadily climbed. After the credit crunch set inlast year, competitors left the market and GSE's share really took off. It now stands above 70%. And during this rise, Freddie Mac has held on to our normal share relative to Fannie Mae.

Last year, we purchased over $470 billion in mortgages, our single-family portfolio increased to more than $1.7 trillion -- 18% more than the year before. We stayed in this market because that's our job, that's our mission. And because we did, we helped our customers offset the credit crunch.

I think everyone here knows why the GSEs ever gained prominence. New competitors entered the market during the housing boom. They offered liberal credit terms and layered risk, they assumed that rising house prices would offset any bad decisions. And they structured risk in a way that dramatically understated it.

Then, house prices turned negative -- sharply negative in some areas. Sub-prime and Alt-A loans began to perform between four and 14 times worse than prime loans. Suddenly faced with unexpected losses, the private-label market collapsed.

Indeed, as early as -- as recently as last March, the private-label market issued $105 billion compared to the GSEs issuing only $85 billion. But, in December, private-label volumes fell to just $12 billion, while the GSEs volume increased to $97 billion. We do not see these competitors coming back anytime soon, but as with any market dislocation, there has been a flight to quality, and in the mortgage space, this has meant to the GSEs.

Still, at Freddie Mac, we are not out of the woods, far from it. The reversal in house prices has increased our own default rates. Recent vintage mortgages have performed worse than expected and credit expenses are mounting. Now, our serious delinquencies are two and half times lower than the industry as a whole. But credit expenses still have depressed the single-family

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profitability. Case in point: even though our average guarantee fee held study in 2007 at 18 basis points, we posted a $256 million loss in adjusted operating income. And that was all due to credit.

How we manage credit in this environment is a significant issue and that's why Peter is here to discuss our approach. The credit environment also explains why we have raised prices on new business. As you can see on this slide, we have changed prices four times this year, as Patti and Dick mentioned. The top line impact: a significant increase and they are all in our all-in guarantee fee. On a run-rate basis, we should see all-in g-fee climb into the mid-30s later on this year.

Among the changes, effective last November, we raised fees on affordable loans by 100 basis points. Effective this month, we introduced a sliding scale of additional fees ranging from 75 to 200 basis points, for loans with LTVs above 70%. Also effective this month, we added a market condition fee of 25 basis points for all flow purchases. And effective in June, we are expanding risk-based pricing further to include other FICO and LTV categories with increased fees of 50 to 75 basis points.

Through these changes, we are addressing the riskiest components of our business by introducing risk-based pricing and tightening credits. In single family, we have seen many positive signs. As Patti mentioned, our future book of business is shaping up very well. We are purchasing better quality and more profitable loans. We are responding appropriately to the credit environment, while we are serving our mission. And we are enhancing customer service in ways that will sustain the gains that we have made.

Let me elaborate on this point. We are making our liquidity sustainable for the current environment, and by sustainable, I mean keeping our purchase windows open, but pricing appropriately for the risk. This will allow us to meet customer needs for liquidity, but also protect the firm.

We are also implementing a conforming jumbo program. Our program will focus on bulk purchases initially, issue securities in a non-TBA market, protect the firm from the higher credit risk of these loans, but still get this market lending again and on better terms for the consumers. And we are launching our formal program today.

Another focus -- area of focus for us is providing more customized service to our top-selling customers. Roughly 30 lenders source about 90% of the GSE-eligible loans. And so, we are reallocating resources to work even more closely with them. This represents an integrated view of the single family business along with investment business. For example, last year, we provided holistic solutions that helped our top customers achieve their capital market objectives, manage their balance sheet positions and provide liquidity for their core business.

A more concentrated effort in our top selling segment should yield even more effective solutions across the board. Of course, we value all our customers. And so, we are making it easier for every customer to work with us. Lenders routinely give us high scores in customer satisfaction. Our most recent survey continues to put Freddie Mac within the top 10% of financial institutions operating in North America. To solidify our gains, we are standardizing and enhancing our operating processes -- from how we contract, to how we set terms of business, to the effectiveness of our technology.

Lastly, throughout our business, we are maintaining an affordable focus. Not simply because we have HUD goals, which we do, but also because demographics indicate that affordable is a growth market. We want to help our customers succeed here with responsible lending and source goal-rich loans for Freddie Mac.

Let me sum up. Freddie Mac has become much more relevant in this market, but we are not out of the woods yet. House prices remain a key risk for our business, but new loans coming in the door look promising. And we have taken action to lift profitability, protect the firm and support our customers. If we can help our customers get through these difficult times through sustainable liquidity, stronger relationships and operational improvements, then we can solidify our gains for the long run. Now, let me hand things over to Peter, and thank you.

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Peter Federico - *Freddie Mac - SVP - Asset & Liability Management*

Good morning. Clearly, mortgage credit is on the top of everyone's minds, and it's certainly on the top of all our minds at Freddie Mac. This morning, I will spend a few minutes discussing our credit profile and our credit guarantee business. Specifically, I will address four areas. First, I will spend a few minutes discussing how our credit profile is beginning to show signs of improvement. Second, how our estimate of expected default costs has changed. Third, the fair value of our guarantee obligation, and fourth our current level of our loan loss reserve.

So, with that, I will go to slide one. Let me begin with our current credit profile. On a positive note, our credit profile is beginning to show signs of improvement. Over the last several months, we have seen improvement in many of the key credit risk variables. This is certainly a positive development and a direct result of the positive and proactive steps we have taken to manage through this difficult credit cycle.

Some of the improvement can be seen on this slide. Without question, the overall credit quality of our 2007 book was worse than the deliveries we received in 2006. We believe, however, that this trend peaked in October. And since then, we have begun to see improvement, specifically as you could see from this slide, we are seeing a meaningful improvement in the credit quality of the worst quintile of our deliveries. We focus on this quintile because it is the most significant driver of our credit losses. In January, for example, as Patti mentioned, loans in this quintile with FICO scores less than 620, declined 5%. Similarly, loans with loan to value ratios greater than 90% declined 13%. Reduced documentation loans declined 9% and loans with secondary financing declined 14%

It is worth noting that although the slide references data in January, this trend continues to be the case in February. This is the beginning of a positive trend and as I said is the result of several important management actions. Let me recap a few of the credit ones that Patti mentioned. Over the last several months, we have reduced the maximum loan-to-value ratio on all products with FICO scores less than 700. We eliminated certain reduced documentation loans, namely NINA and NIVA loans. We have tightened underwriting standards on loans with secondary financing, and importantly, we have reinforced our soft market policy. So that provides a brief recap of how our credit profile is beginning to show signs of change. In short, we are in the very early stages of the transition, but we are optimistic.

Let me turn to house prices. Clearly, mortgage credit performance is influenced by many factors. Chief among them is the underlying value of the collateral. House prices have long been the predominant driver of mortgage defaults. During periods of rising house prices, defaults tend to be low, and conversely as you know, as house prices fall and stagnate as they are today, defaults rise. The current house price environment, however, differs from historical experience both in severity and in terms of geographic distribution. As Dick said, in the end, this housing downturn would likely be the most severe in 70 years and will affect nearly every state.

In response to the current environment, we have changed our house price view from a peak-to-trough decline of 10% to a peak-to-trough decline of 15%. And also, as Dick pointed out, this view is consistent with our portfolio of conforming mortgages. We have posted on our website an 18-page paper detailing our house price forecast and how it compares to other market benchmarks. In response to our declining outlook, our expectations for default cost have increased, so we will turn to that next.

Clearly, the declining house prices in the fourth quarter of 2007 had a significant impact on mortgage credit. Although the relationship between house prices and defaults is clear, the forecast for expected default cost is much less precise. This is particularly true in this environment as the rate of decline nationally is without precedent. I should also note that the current lack of correlation between house prices and unemployment is also unusual.

So, having said that and recognizing the inherent challenges in forecasting default costs over the life of a portfolio, our best estimate at the moment is that the present value of the total expected default cost of our portfolio will range between $12 billion and $15 billion over the life. This estimate is up from our prior guidance in the third quarter of $10 billion to $12 billion

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dollars and is the result of portfolio growth, lower realized house prices in the fourth quarter and our lower expectation for future house prices.

To better understand this projection, it is helpful to have some historical context. To realize default cost of this magnitude, you would need default rates in the 3% to 4% range and severity rates between 25% and 35%. To put that in historical context, our worst book in the early '90s experienced a default rate of about 2.5%. I should also note that our current delinquency rates at the end of the year stood at 65 basis points.

Let me turn to the guarantee obligation, having covered house prices and expected default cost, I want to briefly discuss the drivers of the recent decline in fair value of our guarantee obligation. Clearly, the market value of our guarantee portfolio was adversely affected in the fourth quarter by falling house prices, rising delinquency and transition rates, and importantly widening credit spreads. As shown on the slide, the fair value of our guarantee obligation increased from $17 billion in the third quarter to $30 billion in the fourth quarter. In price terms, the fair value of our guarantee obligation relative to our total portfolio increased from 102 basis points to 173 basis points.

Directionally, this widening is very consistent with the widening we saw in most asset classes in the fourth quarter. Again, some historical context is helpful in understanding this value change. As some of you may remember, back in the fourth quarter of 2005, we moved to third party pricing for this portfolio and as a result, began taking up risk premium for our guarantee obligation in much the same way as we pick up spread changes on our investment portfolio.

Now, clearly, the market has become less liquid over time, but nonetheless we continue to seek third party marks in this process. Said in another way, if our expectations for default costs that is the $12 billion to $15 billion is ultimately realized, the portion of the guarantee obligation that is attributable to risk premium will come back to us over the life of the portfolio in fair value. In dollar terms, based on our estimate of default costs, we estimate the risk premium to be between $13 billion and $16 billion currently.

Lastly, I want to talk about our loan loss reserve and our expectation for 2008 charge-offs. With regard to our loan loss reserve, there are three important points to make. First, our loan loss reserve covers only the charge-off component of $12 billion to $15 billion expected default cost. The other components, namely REO expense and lost interest are not covered by the loan loss reserve. Second, the loan loss reserve covers charge-offs for only those loans that have incurred a loss event. And third, as you can see, the loan loss reserve currently stands at 1.6 times our estimate of 2008 charge-offs of $1.7 billion.

To conclude, I will make the follow summary points. First, we have tightened credit and are beginning to see signs of improvement. Second, we have meaningfully increased prices, and lastly, we are monitoring carefully our credit portfolio and our expected default cost. Clearly, we are operating in a tough credit environment, and there will continue to be headwinds. Having said that, we are managing the business prudently, and are positioning the Company for strong results in the future. So, with that, I will turn it back over to Patti and the rest of the team to begin to field your questions.

Patti Cook - *Freddie Mac - EVP, Chief Business Officer*

Thanks Peter, Mike and Paul. We will open it up now for maybe about 10 minutes of questions.

QUESTIONS AND ANSWERS

Unidentified Audience Member

You talked about improving pricing trends and spreads.

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Patti Cook - *Freddie Mac - EVP, Chief Business Officer*

Where are you? Raise your hand -- Okay, good, thanks.

Unidentified Audience Member

You talked about the improvement in spreads and pricing trends, how quickly does your portfolio roll over so that you can -- we can see from an improving characteristics going forward? And kind of a follow on to that, as we look longer term, as we get back to a more normal real estate environment, how much of this improvement in pricing in spreads and picking up market share do you expect to hold on to or do you expect to lose it all?

Patti Cook - *Freddie Mac - EVP, Chief Business Officer*

Great, thank you. So, on the first question, you can imagine that this is one environment where we would actually like to see pre-pays speed up and see the turnover in the portfolio be a little quicker. As of right now, I will look at the portfolio and say that roughly its got a four-year average life. So, rough estimate would be, roughly a quarter of the portfolio a year, depending on rates, is going to slow down or is going to speed up. I think on the second, the answer to the question is, we certainly hope to hang on to these price increases and I think the reason for our optimism on that point stems primarily from the fact that these prices reflect a move to risk-based pricing.

And if you look at what has happened in the mortgage market overall over the last several years, as credit expanded, the appropriateness, of I am going to say just an average G-fee, for that entire book of business became a little less relevant. And the right -- the right approach, the right way to both mitigate the risk and continue to provide with stability and the need of liquidity in the mortgage market I think is to stick with risk-based pricing. So, we remain optimistic that the way we have increased prices is sustainable and durable in the future. Another question?

Unidentified Audience Member

Hi, do you want us to save questions for Buddy for later or --?

Patti Cook - *Freddie Mac - EVP, Chief Business Officer*

Yes.

Unidentified Audience Member

Okay. So then, I will just ask this question for you. Based on your year-end estimate of OAS spreads and even assuming the current OFHEO surcharge, I come up with ROEs on each incremental dollar of investment portfolio growth of 35%, and based on OAS on Friday and assuming your funding cost as of Friday, I am coming up with OAS on each incremental dollar of 50% to 55%. Why isn't that a compelling reason to raise capital offensively, not defensively, because you didn't have the capital, but offensively to grow the portfolio in this period of a 100-year storm?

Patti Cook - *Freddie Mac - EVP, Chief Business Officer*

Great, thanks for the question. First of all, the run-off in the portfolio is giving us a great opportunity and as I think Buddy mentioned in his opening remarks to reposition the portfolio over time. And as I mentioned, we remain disciplined in the way we are balancing three initiatives. One are the opportunities that you have described, two is the emergence of credit losses,

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and three will be the roll back of 30%. When Dick, Buddy and I join at the end, maybe we can take some further questions on capital. Yes, how about another question?

Unidentified Audience Member

I had the same question on the retained portfolios, so I would look forward to more on that. The second though is on the emergence of credit losses, are you expecting significant credit losses in that retained portfolio because you obviously have large mark-to-market losses there, and how long will it take that portfolio to run off to the point where you are I guess more comfortable buying more securities?

Patti Cook - *Freddie Mac - EVP, Chief Business Officer*

To the latter part of your question, there really isn't much being originated. So, if you look at AAA ABSs, I mean that market has really come to a standstill. One of things we did with the paper and Gary is going to talk about it in more detail, and I am going to leave the questions to the second half, is to try and give the market the same transparency and therefore the same confidence that we have in the way we are looking at the ABS portfolio. So the white paper was meant to give you a view into the way we look at that portfolio and support how we have come to that conclusion. Gary will summarize that in a couple of minutes and you can ask him some even more detailed questions. Yes, I feel like I am dodging them all. Just a couple, okay?

Unidentified Audience Member

Thanks. I have two questions, one for Peter. Could you just talk about how changes in buyer behavior affecting loss raise or maybe you talked about the worst quintile, but I think that was more of a mix issue. Could you talk about what kind of credit deterioration you are seeing or the rate of change in those worst types of assets over the last few months. Is there any improvement? And I think my initial question was really what can you do about lender or borrower fraud and how much are you seeing that as a problem and how much flexibility do you have to put loans back to lenders, lenders who are still in business?

Peter Federico - *Freddie Mac - SVP - Asset & Liability Management*

Okay. Bunch of questions there and some of them actually I may let Ray answer when he comes up next, so he will be following up. Just first off on the rate of change in the worst quintile, we have seen a very rapid change there because of the credit fee changes that we made were really focused on reducing that high risk component of the portfolio, cutting off the tail risk as quickly as possible. So we did see that continue through 2007. But, as those changes took effect, as the price changes took effect, we have seen meaningful improvement in the quintile. And go ahead, you want to tell them.

Unidentified Audience Member

In terms of I guess I am thinking about delinquencies - if you look at the book of business, what we see is aggregate delinquencies are there underlying trends there? I mean if you look at the sub 620 FICOs, the delinquency rate went up obviously from September to December, which is all we have. We don't have the aggregate numbers for January or February, we are still better than the industry, but how much is that accelerating in January or February?

Peter Federico - *Freddie Mac - SVP - Asset & Liability Management*

Well, I can't give the January or February numbers yet, because obviously we haven't put those out yet. We will have all that data in our first quarter release, but we expect them to continue to increase. We expect our overall delinquency rates to continue to rise and we expect that delinquency rate to rise in those sub categories as well. So, it's consistent with our expectations at

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this point. The increase that we have seen are consistent with our expectations given the house price path that we are going down.

Unidentified Audience Member

And then just for Patti, yes.

Patti Cook - *Freddie Mac - EVP, Chief Business Officer*

I was going to say on repurchases, you are right. I mean the level of repurchases that we are looking at has accelerated quite a bit given the current market environment so that is an active activity with our customers.

Unidentified Audience Member

Can you give some sense of how big that could be in terms of reducing your loss?

Patti Cook - *Freddie Mac - EVP, Chief Business Officer*

I am not sure -- increasing the losses, I am not sure I understand.

Unidentified Audience Member

Well, your losses are going up. Some portion of that is attributable to fraud that you could put back.

Patti Cook - *Freddie Mac - EVP, Chief Business Officer*

When we give you our expected default cost, we are already considering the success, if you will, of repurchases. And so, the numbers that we are giving you on delinquencies or on defaults is already contemplating the expectations on repurchases.

Peter Federico - *Freddie Mac - SVP - Asset & Liability Management*

And I would just add on that, our repurchase rate has materially increased. We expect it to continue to increase. We have done significant changes both from a QC perspective and from a modification perspective. On the QC side, we have plans put in place already, significant increases, [snapping] to review all defaulted loans in the first two years to increase our sample of QC of loans, as well as increase our modification efforts aggressively to address that. I think that very borrower behavior problem I think you are identifying.

Unidentified Audience Member

Okay. And then I wonder, Patti, could you made some comment about the Fed's action yesterday and how significant that is for the liquidity and pricing?

Patti Cook - *Freddie Mac - EVP, Chief Business Officer*

The Fed certainly took action that is helpful to the market in terms of providing some liquidity and funding for the short run. But, I think the larger term issue remains, which means that some of the mortgages I would say are in recant and ultimately

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need to transition to a buyer that is interested in holding those securities for a longer period of time. So, I think the actions to finance agency securities is helpful in the short run, but I think the longer term issue is where do those mortgages ultimately end up, because many of the institutions that are holding them now are ultimately going to have to sell them. So, I think it's a short-term help, but it doesn't solve the long-term problem. Yes?

Unidentified Audience Member

(inaudible question - microphone inaccessible) that's different from lender to lender and I think you got that...

Patti Cook - *Freddie Mac - EVP, Chief Business Officer*

Yes.

Unidentified Audience Member

And then, do you have any more detail on how exactly you arrive at the expected future losses? When you went from $10 billion to $12 billion, to $12 billion to $15 billion, given where defaults -- the big gap between where defaults are today and the fact that you said that you would need to get to 3% to 4% default and severity, I think 30 to 35, what are the calculations that go into that from a more granular perspective to get from point A to point B, and are those the same factors that are used to have increased the GO from 17 to 30?

Patti Cook - *Freddie Mac - EVP, Chief Business Officer*

Great. I will go first and then maybe you want to add. Price increase, similar to the question that was answered earlier, I think that fundamental change in the way we think about pricing is to move from an average fee date or something that is more risk based pricing. And as a result, I think the appropriateness of that should stand the test of time. So, we are optimistic that even as the market environment improves and to some degree liquidity returns to the mortgage market that the way we structured these fee increases are likely to persist. When you look at how we look at our expected default cost, the important thing is to ground everybody and I am going to say to some degree the lack of precision in that approach.

Let's remember what we do. We talked about immediate house price tab, with a peak-to-trough decline of 15%. We then look at a Monte Carlo simulation of house prices around that and we use a model to try and connect that house price outlook with expected default costs. It is based on history. It is a good model. But, remember, it is just an estimate. So, as our median house price tab worsens from minus $10 billion or $11 billion peak-to-trough, to minus 15, we were looking at higher expected default costs over the life of that book of business, and that is the $15 billion.

The difference between us and the $30 billion that's in the GO is when we actually go to the market and ask them to price that g-fee business, they are not only looking at the credit quality of the underlying portfolio, but they are looking at where secondary mortgages are trading and as a result, the same widening that we see in agencies in AAAs and in credit across the board is being captured in the mark on the GO. So, when we look at it, as Peter referred to, if you got a $30 billion GO relative to our expectations on a PV basis of about 15, that difference is largely attributed to that risk premium that we would see in the market today in a verity of asset classes. Anybody want to add anything?

Unidentified Audience Member

Just a question for Peter.. You showed a slide that said that there was significant improvement by January from the October peak and number of risk metrics. But, I guess that means that as the private label market declined essentially and the GSEs got

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somewhat adversely selected in the second half. Would you expect the second half of 2007 performance to actually be worse than first half performance?

Peter Federico - *Freddie Mac - SVP - Asset & Liability Management*

That's a hard question. Generally speaking, I think the answer to that would be yes. I think that we would say that the credit quality of second half of 2007 book would be worse, yes, than the first half.

Unidentified Audience Member

Thank you.

Patti Cook - *Freddie Mac - EVP, Chief Business Officer*

I also think the observation is accurate in the sense that as the private label mortgage market did dry up, the volumes alone that were coming to the GSEs looked slightly different in complexion, which was why it was so important for us to tighten terms and raise prices. One interesting observation about that is in the bulk channel, which acts almost like a spot bid for loans, we can respond very quickly to the tightening of terms and to the raising of fees,. In our g-fee business, because of the nature of the contracts, it operates with a lag. So, we introduced some risk-based pricing in August with some tightening of terms, but it wasn't effective until the fall.

In the Fall, we announced two more initiatives. They were effective March 1, and the recent actions are effective on June 1. That's why it was so important for us to see what was happening as we ended the year and came into this year as our originators began to get geared up for that change, and that's why we take some comfort in the decline that we have seen over the last few months in terms of the riskier component of the portfolio.

Unidentified Audience Member

I have two questions. One, there is an article in the Journal last -- two Saturdays ago about Fannie Mae providing unsecured lines of credit to delinquent borrowers to allow them to maintain their conforming mortgages as performing. Are you are also considering this or is that just a Fannie Mae initiative? And the second question I had, when you are looking at allocating new capital, how do you viewallocating capital to the retained portfolio versus guaranteeing new mortgages?

Patti Cook - *Freddie Mac - EVP, Chief Business Officer*

Okay, first question, we don't -- can't really comment on our competitor's initiatives, but what I would tell you is in modifications, we are anxious to appropriately evaluate the tradeoff between, I will say, being aggressive on modifications relative to the loss of not being aggressive. So, whether it is extending term, whether it is lowering the rate, whether it is ultimately contemplating, which we haven't done yet, some forgiveness on the underlying loan, I think those are all issues to be considered in light of the ultimate expectations. So, clearly, modifications for us are another area of importance we are gearing up both in terms of staff and trying to be creative in terms of the solutions.

And the second question, capital deployment, I think as we have all made and said in our remarks, we are comfortable with the capital that we are contemplating deploying in both the single-family and the multifamily businesses. As I said in my comments and I think it has been echoed elsewhere, on the retained portfolio, it's a little bit more challenging because those purchases tend to be sort of requiring a fair amount of regulatory capital. So, we will continue to balance the opportunity, the emergence of credit losses, and the potential rollback of the 30% as we look at opportunities in the retained portfolio. Yes, Brad -- I don't know whether I'm speaking here -- go ahead. All right.

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Unidentified Audience Member

Okay. On the things about high LTV loans, obviously in that case, it is not just your underwriting standards, but the underwriting standards of the mortgage insurers that would influence your flow of business. Have their underwriting standards to date reduced your volume of high LTV loans and considering their problems and potential further tightening, do you think that might further tighten your flow of high LTV loans

Patti Cook - *Freddie Mac - EVP, Chief Business Officer*

Well, let my colleague talk about the MIs when he joins us, which is Ray, but I think the MIs have come out with some tighter guidelines for themselves, as well as pricing. But, at this point, we don't view any constrictions on the part of MIs as impacting that component of our business. I think we are done. I was watching the clock, I wasn't sure. Okay, so we will go -- I think we are going to take a break, no, no break, okay sorry. We will go to the next section on credit, so Ray Romano.

PRESENTATION

Ray Romano - *Freddie Mac - SVP - Enterprise Risk Oversight*

Good morning, and thank you Patti. I want to provide my prepared comments today on our exposures to the mortgage insurers and the bond insurers, and I want to start of by acknowledging the importance of mortgage insurance companies in particular, as they are our largest source of credit enhancement that we have against our credit risk position. Obviously, the continued help of the mortgage insurance industry as well as the bond insurance companies are not only important for our financial results, but also our long-term business activity.

In the past several months, we received a lot of questions from investors, as well as other external parties, as to our comfort level with these companies. So, to assist today, we have released a supplemental package on our website regarding our exposures to the mortgage insurers, I encourage you to read that. Some of the high level takeaways that are going to be included in our slide deck that I will walk you through, so let me give you some of the key points that I would like to cover.

First, I want to provide you with a quick overview of where our insured exposures reside in our portfolio. Second, I will provide you with an overview of how we assess the risk to the mortgage insurers and the bond insurers, and third, I want to acknowledge that still difficult times remain ahead for the mortgage industry and counterparty risk will remain an important and critical function for Freddie Mac. And fourth, I will briefly discuss how Freddie Mac has been and will continue to be proactive in managing these risk positions. So, let me just describe the mortgage and bond insurer exposures from a geography perspective.

This particular slide shows that as of December 31, 2007, the mortgage insurance companies provide Freddie Mac with loss coverage on approximately $300 billion of notional UPB. This is broken out into two different types of mortgage insurance policies: traditional mortgage insurance, which accounts for approximately $210 billion; and pool policies, which account for about $90 billion in UPB. These policies against this UPB provide Freddie Mac with maximum risk in force coverage of approximately $56 billion. This slide also demonstrates our exposure to the bond insurers and I will come back to this in the next couple of minutes.

So, let me give you some more -- so with this background with the mortgage insurers, let me give you some information as to how we get comfortable with our current risk position. We, of course, run a variety of analysis as well as stress tests to understand the mortgage insurance company's ability to withstand these risks. Based on our results of our severe stress test that we run, which effectively assumes a 15% frequency of foreclosure claims at a 100% severity, each of our counterparties should be able to maintain sufficient capital as well as other sources and uses to meet their overall obligations.

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Now, this is not to say that you cannot draw up a scenario that can expose the mortgage insurance companies to even higher defaults. To address this particular issue, we also perform additional analysis to determine our maximum peak exposure to each individual counterparty. We do this by performing calculations that are intended to derive the point at which claims paid versus premiums received are at their widest level. This will generally occur after three years. Under this extreme scenario, if you assume we only receive 50% to 75% of the claims in excess of the premiums received, we could realize estimated losses of $1.3 billion to $2.6 billion.

It is also important to recognize that in assessing this risk position, strict quantitative processes like stress test are only one step in our analysis. In the course of preparing our final assessment, Freddie Mac draws heavily on our day-to-day interaction with the mortgage insurance companies, our use of credit rating agency analytics, periodic on site and operational due diligence visits and reviews, and we also engage the executive management teams of the mortgage firms regarding their specific challenges and their remediation plans.

In fact, as market conditions change and credit risk increases, these more qualitative assessments of the companies are often times more important than the hard data analysis that can be backwards rather than forward looking. So, what's the bottom line? We are comfortable with our current list of mortgage insurance counterparties and that they will have adequate capital to meet our current and future claims, even given the difficult market conditions ahead. It is probable, however, that one or more of these companies will be downgraded below the AA minus level that we set as our desired eligibility target. As a result, we have taken proactive steps to modify our eligibility requirements to improve the premium retention at the mortgage insurance company level.

Let me elaborate. Last month, Freddie Mac announced that effective June 1, 2008, private mortgage insurance companies may no longer cede new risk to lender captive reinsurance programs if the gross premium ceded is greater than 25%. This is down from 40%. We also announced temporary suspension of certain other requirements within our counterparty eligibility standards, in the event that a mortgage insurance company is downgraded. This is intended to help understand the specific challenges those companies are facing and to give them an opportunity to provide us with a credible remediation plan that returns them to our desired minimum eligibility requirement.

By taking these steps, we feel that we are taking prudent actions to ensure that mortgage insurance companies are retaining capital and providing them with sufficient flexibility to allow them to continue operating in this very difficult environment. Additionally, we are also tightening underwriting standards on our new business. We are managing the placement of our bulk pool policies, and we are coordinating with the mortgage insurance companies to improve our loss mitigation activity, which has the effect of potentially lowering claims and improving homeowner retention. These actions taken as a whole are all designed to improve our credit risk position as well as our counterparty risks.

Let me turn to the bond insurers quickly. While these exposures are significantly lower, as described in the prior chart, we monitor them just as closely. As of the end of 2007, we had an aggregate UPB balance of approximately $17.9 billion, with $11.7 billion of that UPB exposure residing in primary and secondary wraps in our mortgage asset backed portfolio, with the balance of these UPB exposures really residing in three other segments of our portfolio.

First, our short term non-mortgage asset backed securities within our liquidity portfolio, coverage on our mortgage revenue bond programs, and third, our military housing exposures. Our internal view of our bond insurance exposures is that, given the diversification of the collateral insured, including the products, the seasoning, the risk characteristics, as well as the overall credit enhancements and the performance to date of the underlying new investments, we believe we will not see significant credit losses on our portfolio even under stressful conditions.

Having said that, I will tell you that estimating the aggregate worst-case exposure for bond insurers is difficult, and given this, we continue to take a very cautious view in assessing the overall risk of these counterparties. While we continue to be comfortable with the level of our bond insurers' exposure, it is clear that this industry credit risk trends in RMBS / HELOC, and CDOs will to a great extent determine the health of the bond insurance industry going forward.

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As a result of this continued pressure, we have seen our AAA rated counterparties resort to capital issuances to preserve their ratings, and we have stepped up our counterparty actions and due diligence to continue effectively monitor this risk. In particular, we are maintaining frequent communication with the rating agencies, we have ceased purchasing any wrapped bonds, and we have also increased our stress testing on our bond insurers in light of these market conditions.

To wrap up, I want to reiterate that Freddie Mac has a long-term interest in managing the mortgage insurers and bond insurers credit risk exposures in a way that both provides continued access to viable counterparties and limits the potential adverse impact to our shareholders. Please keep in mind that the mortgage insurance companies are structured to withstand prolonged periods of severe stress. Even if one of these companies were positioned to run off, they will continue paying claims, and the balance of the industry should be able to maintain capacity for our future business needs.

Our exposures to the bond insurers on the other hand are well protected against losses as a result of the diversification of the assets, the structures, and the underlying strength of the investments insured. With that, I will turn it over to Gary Kain.

Gary Kain - *Freddie Mac - SVP - Investments & Capital Markets*

Thanks, Ray, and good morning. Given all the well publicized subprime related write-downs, it is not surprising that Freddie Mac's ABS portfolio has been the focus for many company observers. In response, in late February, with our earnings release, Freddie Mac published a white paper analyzing the Company's ABS portfolio and giving both quantitative and qualitative information related to the Company's exposure to both subprime and the other sectors represented in the portfolio. The 32-page paper is available on our website and I encourage you to read it.

This morning, I am going to walk you through some selected topics covered in the paper, but in the interest of time, I will focus predominantly on the subprime portfolio. To this end, we will review the credit enhancements that we have in place to protect the portfolio and several stress tests that we ran to assess our exposure to even -- to very adverse default scenarios. Before I do that, I want to answer a question that may be on a lot of people's minds. Why do we have this portfolio in the first place? I get that question a lot.

First, our affordable housing goals mandate that a high percentage of our purchases are targeted toward borrowers represented in the non prime sector. Secondly, we were not comfortable with the risk of buying or guaranteeing these loans outright. Lastly, we believe that purchasing securities backed by these loans at the AAA level with substantial credit enhancements would produce reasonable returns in the least risky way possible.

Let me say this another way, we had two choices: we could buy AAA ABS or we could have bought and guaranteed more affordable rich whole loans, and taken the majority of the credit risk. Had we guaranteed loans, we would have less ABS exposure, but we would have a much larger whole loan exposure comprised of Alt-A, CRA, or subprime loans.

With that in mind, let's take a look at an overview of the ABS portfolio. As you can see in this slide, Freddie Mac single-family ABS portfolio is comprised of three main asset classes. Subprime backed ABS is the largest component and totals about $100 billion, $25 billion of Alt-A backed ABS, and approximately $21 billion of securities backed by MTA ARMs. The remainder is comprised of pools backed by HELOCs, manufactured housing loans, closed end second liens, and FHA/VA loans.

Now, let me pause for a moment to talk about a few important points about the ABS portfolio. As others have mentioned earlier today, Freddie Mac has no CDO exposure, which is a key distinction relative to other participants that have taken substantial write-downs. All of Freddie Mac's ABS holdings are senior pass-through securities backed by whole mortgage loans. At the time of purchase, approximately 99.8% of Freddie Mac's ABS portfolio was originally rated AAA. As of our earnings release, 85.7% was rated AAA, while just under 30% was on negative watch.

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Second, as discussed in more detail in the white paper, our subprime securities are considerably shorter than those backing the ABX index and therefore materially safer. Third, essentially all of Freddie Mac's ABS securities are classified "as available for sale." This is another key distinction. As a result, changes in the mark-to-market values do not impact GAAP net income or regulatory capital unless we deem these securities to be "other than temporarily impaired." Freddie Mac has not recorded any impairment on its portfolio of ABS securities in 2007.

We do not identify any individual securities in the portfolio where principal losses or interest shortfalls were probable. Since the Company has both the intent and the ability to hold these securities until maturity, impairments were not required. Said another way, we believe that unrealized losses on the ABS portfolio as of December 31, 2007, are principally the result of significant increases in market risk premiums and diminished liquidity.

So, let's take a closer look at the subprime portfolio. AAA securities backed by subprime loans are structured with substantial credit enhancements in order to be able to withstand losses even in extremely poor credit environments.

Generally, the enhancements come from three main features: the initial subordination, which includes subordinate tranches and over-collateralization; excess interest within the trust, which can materially enhance the amount of cash flow available to absorb losses over time; and prepayments, which return principal to our tranches reducing the risk of principal losses and increasing the percentage of credit enhancement available to cover future losses.

Now, this table gives a high level breakdown of our subprime portfolio by purchase year, displays the average credit enhancement information as well as the changes since inception. It also depicts the average percentage of loans that are 60 or more days delinquent. The numbers are the averages for the cohorts shown and it is important to note that the CE and delinquency statistics of the individual securities can differ materially from the averages.

Now, let's focus on the average CE column in the middle of the table. Look for a second at the $22.5 billion of 2005 purchases, which had an average CE of 53% as of year-end 2007. Also notice that this has almost doubled since inception, with CE increasing by 25%. So, what does that mean? If we assume a 50% severity and every loan backing those defaulted, we would have 50% losses. We have 53% credit enhancements and those losses would be covered. Given this, we believe there is negligible exposure on the 2005 and earlier books.

Now, let's look at the 2006 book. Average credit enhancement levels were 29% at year-end. Additionally, CE has increased since inception even on the 2006 book by 8%. Again, this demonstrates the positive impact excess interest and pre-payments can have even on a weaker performing book. Now, if we assume a 50% severity, the 29% CE would absorb all losses even if 58% of the outstanding loans defaulted tomorrow.

Realistically, given the relatively long timelines for default and given that only 25% of the loans were 60 plus days delinquent at year-end, it would take a number of years to -- for losses to flow through to the trusts. Over that time, excess interest should have increased credit support by a material amount. Let's use 8% for example. In that case, the CE would have improved from 29% plus 8% to 37%. We could then absorb 74% defaults, again assuming the 50% severity.

For this reason, we feel the bulk of the 2006 book is also well positioned to withstand further deterioration in market conditions. In the interest of time, I want to point you to the aggregate 60 plus delinquency number on the bottom of the page. The 21% at year-end, that implies that just under 80% of the loans were either current or less than 60 days delinquent. Even for the 2006 book, 60 plus delinquencies were around 25%. Again, that means that 75% of the loans backing these deals were either current or less than 60 days delinquent.

Now, let's turn to the next slide and I will show you what happens when we stress test the portfolio. In an effort to stress test our ABS portfolio, Freddie Mac tested every security in the portfolio as of December 31, 2007. The results of these tests show low levels of projected losses in all of the scenarios. The base scenario ran every security using a default rate of 50% of the total existing collateral as of 12/31 and a severity of 50%. This scenario should be considered against the backdrop of the 21%

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delinquency number that we just talked about. The 50% severity assumption is also higher than the recent experience for first lien subprime loans.

Under this scenario, less than $1 million in total net present value losses were projected. While we ran the 50% average -- while we believe the 50% average severity is reasonable, we also ran a more stressful scenario where we assumed a 60% severity. While some types of loans probably will have severities at or above 60%, there will be a reasonable quantity of loans, which will have much lower severities, which should help to contain the average.

Even under this scenario, net present value losses were $22 million or 0.02% of the portfolio. We also stressed the defaults assumptions. We used a 60% default rate, which is almost three times the 60 plus delinquency number. This scenario produced just under $100 million in net present value losses.

Lastly, we decided to shock both the default and the severity numbers together. We ran every individual security -- every individual security in the pool -- in the portfolio using a 60% default rate and a 60% severity. While we believe this scenario is more appropriate as a stress test for some of the weaker components of the portfolio, we still applied it to every security. This more extreme scenario generated net present value losses of just over approximately $1.1 billion or just over 1% of the portfolio.

Let's put this in prospective. That still means that we would recover almost 99% of the par value of the portfolio even if six out of 10 loans defaulted at a 60% severity. Now, these stress tests run on every individual security in the portfolio, reinforce the earlier conclusion from the previous slide about the effectiveness of the credit enhancements. With respect to impairments, a loss under one of these stress scenarios would have to become probable for us to impair an individual security.

Losses that are merely possible do not trigger impairments.

So, in closing, despite the continued deterioration of the housing market and increases in non-prime delinquencies for the reasons discussed, we remain comfortable with our exposure to these assets., And again, the white paper I mentioned earlier reveals this information in greater detail and also discusses the other major components of the portfolio including Alt-A and MTA ARMs. With that Ray, Patti, and I would be happy to answer questions.

QUESTIONS AND ANSWERS

Patti Cook - *Freddie Mac - EVP, Chief Business Officer*

Great, thanks.

Unidentified Audience Member

I have got a question, well, on the topic of impairments. Can you talk a little bit about the process that you would go through in discussing potential impairments with your auditors, because you might say well we don't think it's probable, but somebody else might have a different opinion and we do know that Fannie Mae I guess a few years ago had some discussions with OFHEO about their process for taking impairments on aircraft leases and other securities.

So, if there is a disagreement or a question about whether the cash flow modeling does result in probable or possible losses, can you talk about rating downgrades in market pricing securities and time periods and how those would enter into the discussions with the auditor?

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Ray Romano - *Freddie Mac - SVP - Enterprise Risk Oversight*

Yes, let me take the question if I can get miced. This process starts out when you do look at where rating agencies are going, you look at where market prices are going, and that's how you focus on the things that have a potential for it. So, that's where you start from. And then you say, well, now you have to evaluate wherever you think you are going to lose money. And so, we have been -- we don't just do our impairment test or loans under stress. We could have for every security in the portfolio.

If you go through the analysis that Gary just walked through and then we engage, we sat down with our auditors on every single security to walk them through why we believe based on what's happened so far CE is where the delinquencies are and the defaults have been so far, the remaining coverage and the build up of coverage that there is nothing imminent. And there were no points of contention, none. Now, as you go further and further into the defaults getting closer to your CE, at some point, you could reach a conclusion that there is probability. For at least at this point of time, we are so far away from that. There were just no close, there were no close calls.

Unidentified Audience Member

So, just to clarify, the discussion with the auditors is a discussion around default statistics and projections in models, and market prices and rating agency actions may be interesting, but those are not triggers that force impairments?

Ray Romano - *Freddie Mac - SVP - Enterprise Risk Oversight*

No, what they do is they are targeting mechanisms. Well, that says to the auditors, you know what, prove to us on this pool, these groups of securities, they have a higher threshold to demonstrate to us. Okay, you demonstrated, it's okay. That's the way it works and there were no points of contention.

Unidentified Audience Member

Thank you. First of all, Gary, I did read your white paper and I thought it was the best explanation of the confluence of structure, cash flow, and defaults that I have seen and it was extremely helpful. I am just wondering if you could help us understand, you have explained a little bit structurally why you don't expect losses to break through the subordination levels that you have. Can you talk maybe a little bit about collateral characteristics and how your collateral may be superior to that reflected in the ABX and why that gives you greater confidence you won't pierce the subordination levels? Thanks.

Gary Kain - *Freddie Mac - SVP - Investments & Capital Markets*

Sure. So, first off, I mean there are two points, you referenced collateral as being a key difference between our securities and that of the ABX index, and that's one component. Let me start actually a step further back and just - the structural differences between the securities we own and those backing the ABX index, and I will try to keep this at a pretty high level. The bottom line is the securities backing the ABX index have relatively long lockouts. Under most scenarios, they are not going to receive cash flows for four or five years or maybe more.

Our securities are pass-through securities that do not have lockouts. They are getting back principal on a basically -- on a monthly basis. To give you an idea, the factor on our 2005, 2006, 2007 book, the average factor is about 60%. In other words, 40% of those pools of what we had are already paid down. The factors for instance on the ABX index are more like -- are basically one, because of this lockout feature. So, why is that important? That's important because, if we are getting back our principal, clearly it reduces our exposure.

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Second of all, it is important because, when you look at the average life of our securities, they are much shorter. So, therefore, larger spread moves, spread widening, will drop the price of the ABX index securities further than they will drop the price of a shorter instrument. And so, those are really, those are the two key structural issues.

Now, when you go to the collateral issue, there is one other point that we made in the white paper and that is our securities, by definition, are backed by the conforming balance loans or a lot of the conforming balance loans are directed to our securities. Conforming balance loans will prepay or have been prepaying faster than jumbo subprime loans and that's true for obvious reasons. There are alternatives for weaker credit borrowers to refinance the other GSEs. Those alternatives really haven't been there or aren't there on the jumbo side. Now, there is going to be some improvement in that over the next six or nine months. But, realistically, the faster prepayments on our group versus the other group can also be a help, I mean, a significant benefit.

Patti Cook - *Freddie Mac - EVP, Chief Business Officer*

In the back.

Unidentified Audience Member

Basically just coming back just on the question of most of the subprime securities being classified as AFS. Are there any other specific triggers that would result in them being classified as credit securities, just coming back to rating downgrades or certain prices or anything like that?

Ray Romano - *Freddie Mac - SVP - Enterprise Risk Oversight*

No, they will not transfer out of AFS to trading. Again, there are no triggers that would create that.

Unidentified Audience Member

So, I mean, on what basis would that transfer actually occur? I mean how would you decide whether some securities are going to be reclassified or not?

Ray Romano - *Freddie Mac - SVP - Enterprise Risk Oversight*

Well, again, they would not be reclassified from AFS to trading. Where you could take a mark-to-market hit on the ABS portfolio or on some individual securities within the ABS portfolio would be if they we are deemed to be impaired, and so it is only via this impairment process that a mark on one of those securities would end up flowing through to income.

Buddy Piszel - *Freddie Mac - EVP, Chief Financial Officer*

Okay. And just to add a thought to that, we would not move any of these securities to trading, because we don't intend to sell any of them. We have the ability and liquidity to hold these securities until they mature. So that's our approach, there would be absolutely no reason to move these into trading and take a mark on them. And quite frankly, when they move a bunch of securities, mortgage securities into trading, we were mindful not to move securities where you would have accelerated marks that you don't think are real. So, there is no risk.

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Unidentified Audience Member

Thanks. Gary, you mentioned that we should -- you showed a note that the statistics you provided were averages and that there is material difference from one security to the next. So, I was wondering if you could provide some more information about the statistics that are provided with respect to the -- it is okay -- with respect to perhaps the worst 10 percentile of the portfolio, in order for us to have more comfort that these same kind of trends are going on with the worst part of the ABs portfolio That's my first question. And second part of the -- second question is, I am wondering how Freddie Mac can meet its mission, given the drying up of the subprime ABS market?

Gary Kain - *Freddie Mac - SVP - Investments & Capital Markets*

Let me start on the -- let me definitely start on the first question, the ABS white paper, which we referred to again actually has breakdowns almost exactly along the lines that you are asking for. I don't have all the numbers to go through here, but we what we did in that paper was we broke out each of the years of originations into quartile information with the lowest quartile representing all of the securities with the lowest amounts of credit enhancements.

So, you can look at for our 2006 book, the components with the least credit enhancements and then not only that, we took that one step further and we broke it out in terms of each individual quarter in 2006 and 2007 so that you have quartile information for each quarter and so I think that should give you a pretty good feel for where -- how, what the weaker components of the portfolio look like and how they may react relative to the averages, but that information is out there and is available.

Patti Cook - *Freddie Mac - EVP, Chief Business Officer*

And on the mission -- go ahead.

Dick Syron - *Freddie Mac - Chairman, CEO*

The reason I am standing up, on the mission thing, I think it's very important to recognize what is the mission of Freddie Mac or the GSE. The mission is to provide stability, liquidity and affordability, alright? If there was ever a time, I think you would agree where this market needed stability and liquidity, it is now. It does not mean that we don't have an affordability issue that we still need to deal with in this country.

But, I do think that a reality that we all have to face is too aggressively pursuing a goal of getting everyone in the United States, of people that really can't afford to be home owners rather than renters is perverse rather than good public policy. I mean it is not good public policy to have mission goals then encourage the GSE to put people in homes that they end up losing.

I don't think that's where we are going to end up and that's why I am not so concerned about the issue that you raised with Gary about what ABS issuance having dried up, how do we meet our mission, how do we meet our mission goals. Now, we have to face, given that we have a public policy responsibility as a private corporation that we have to do things that make sense and that will help the economy of the United States, and not hurt it in the interests of following what could be unrealistic goals.

Unidentified Audience Member

Just a follow-up on that. Does that mean you are going to stop buying subprime securities and then you didn't -- Gary, you didn't address 2007 in your slide, so could just talk about 2007 and your comfort with that?

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Gary Kain - *Freddie Mac - SVP - Investments & Capital Markets*

Okay. Well, first on the first point, there aren't a lot of subprime securities available to purchase. We would look, as we do at other -- any available instrument that comes out in terms of -- if securities were to become available either in liquidation or via some other avenues. So, we would consider buying securities backed by subprime, but we have announced a number of standards that we will abide by around the origination practices for newer subprime securities.

With respect to the 2007 book, the 2007 book and the 2006 book are relatively similar with the exception of the 2007 book has lower delinquencies currently, because it's been out there longer and because -- sorry, it's been out there shorter and because it hasn't been out there as long, the credit enhancement levels on the 2007 book have yet to build the way they have built on the 2006 book. So, we don't see major differences between the two books. We are comfortable with the 2007 book. All of our stress tests are applied to the 2007 book, as well as the 2006 book. So, I don't think the conclusions are that different. The one difference would be that the 2007 book is likely to see slower prepayments than some components of especially the earlier 2006 book.

Patti Cook - *Freddie Mac - EVP, Chief Business Officer*

I think we have time for one more.

Unidentified Audience Member

I assume the Fed action yesterday and any further, let's say, they double the size of that $200 billion, but included in that were non-agency private label AAA, I assume that included Alt-A AAA, as well as subprime Alt-A collateral is now accepted in that book?

Dick Syron - *Freddie Mac - Chairman, CEO*

Right.

Unidentified Audience Member

Okay. In the morning yesterday, that had a several basis points tightening effect, if I am not correct?

Gary Kain - *Freddie Mac - SVP - Investments & Capital Markets*

Yes, that definitely helped the market somewhat and I think it's a step in the right direction in terms of what the Fed is doing to promote liquidity. In terms just quickly for our portfolio, unlike most other investors, our portfolio is basically funded with long-term debt; we have excellent access to short-term debt. Our portfolio is not pledged or whether it's the agency component of the portfolio or the non-agency component of the portfolio, while in theory we could indirectly get access to that, it's not necessary for us given our strong debt funding. So, those liquidity advantages aren't specific to Freddie Mac, but they are beneficial to the market as a whole.

Unidentified Audience Member

And then, on page -- well it is not -- in the last section or preceding section, there was a slide where you showed the credit profiles beginning to show signs of improvement. And from October 2007 to January 2008, the loans that you bought that had TLTVs are greater than 91 from 39% to 26% that is all getting MI of course. And is the percentage -- what you are seeing out there in terms of percentage in the marketplace of loans that are above 80% LTV?

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I know the MI industry is gaining share because alternative mechanisms have gone away, but is the percentage of loans that require greater than -- that are above the 80% LTV also increasing and what are you seeing out there in terms of refi loans that you are buying? Do you have that percentage, because we are hearing and reading that some of the programs that were put in place like the teaser freeze and others, servicers were having a hard time getting return phone calls from a lot of these people that they are reaching out to just don't care, they are not -- just are defaulting. So, I don't know if that's a later part in your program, but any comment on that refi component and any help to those types of things?

Ray Romano - *Freddie Mac - SVP - Enterprise Risk Oversight*

So I will take that one and I will just speak generally to the trends. The trends in LTVs over the course of mid-2007 to the early part of 2008 have been higher. Those trends also reflect the lenders refinancing as well as engaging in purchase activities and we did -- all those loans of course are covered by the appropriate level of credit enhancement that is required by our charter.

While those trends are higher, we did set, and Peter mentioned this, we did set out to also provide direction to our customers about the importance of reviewing the high loan to value loans, particularly in declining markets. So, we are starting to see a little bit of decline in the tail of the distribution of the LTVs, which we think is prudent given these conditions that are out there.

On the refinance question, to the extent that you have a Freddie Mac loan, there are lots of opportunities for us to smooth that process through, to bring it in and re-price it under current pricing mechanisms given the fact that we already have that particular risk exposure. So, we are trying to be very proactive to assist our customers, to be able to manage the reset risks, as well as the borrower's requests for improvement in their terms to which they currently have, so that we can do this in an effective way where we are not increasing our credit exposure as well.

Patti Cook - *Freddie Mac - EVP, Chief Business Officer*

I think that's it for this session. We are going to take a break. How long, 10 minutes?

Unidentified Company Representative

Ladies and gentleman, we will now take a 15 minute break. Our meeting will resume at 10.50. Thank you.

(BREAK)

PRESENTATION

Unidentified Company Representative

Ladies and gentlemen, please welcome Freddie Mac's Chief Financial Officer, Buddy Piszel.

Buddy Piszel - *Freddie Mac - EVP, Chief Financial Officer*

I thought we were going to get a break from the jackhammer but it just started as I walked back up on the stage. This part of the program will focus on our new accounting policies and our Adjusted operating income, and then I will close on some higher-level expectations for 2008. But before I introduce our speakers, let me make a couple of comments on finance priorities. First, I think we got a lot done in 2007. We improved our accounting; we greatly expanded our disclosures, a lot of what we talked about today; we have sunset the bulk of our control issues; and we are timely again and are going to stay that way. And

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because of all that, I sleep a lot better, and I would bet that Dick does too. But these are not events. What these are, are steps in the right direction and what we have to do is continue that in 2008.

For 2008, we will continue to shorten our reporting timelines. So we were 60 days at the end of '07, we have got to get that to 45 days in the first quarter, 40 days thereafter, and we will be able to do that. We will complete our controls work. We got a lot done, there is the tail of it that should be done in the first half of the year. That is on track. And we are going to become an SEC registrant, and we are still on track to do that by mid-year. And our objective, I already said this on our conference call, is to be as well-run from a finance standpoint as any financial institution out there, and you will have our commitment on that.

So, let's get on to this section of the program. We introduced an awful lot of change in the fourth quarter in our basic GAAP accounting, and then we introduced our new operating metric, Adjusted operating income. Next up is Ed Golding and David Kellermann who will give you a lot more color on what we did. First up will be Ed.

Ed Golding - *Freddie Mac - SVP - Equity Investor Relations*

Thanks, Buddy. One of the challenges over the past several years has been the difficulty you have had understanding our financial results. While our previous accounting policies were completely consistent with GAAP, most investors did not find them to be that helpful in understanding how we did or, much less, how we were going to do in the future. For this reason, we took two steps, beginning a little over a year ago.

First, on the accounting policy side, we implemented changes aimed at our guarantee business. These changes accomplished three objectives. One, is they allowed us to present the guarantee revenues and the corrective expenses on our single-family business more concurrently with one another. Two, they allowed us to group together the guarantee fees on the PCs owned by the third parties with those held in our retained portfolio, g-fees were not showing -- are no longer showing up in two places on our income statement.

And three, on the credit side, our changes resulted in the PCs in our portfolio having the same credit provision just like third-party PCs, instead of being marked-to-market through that PC residual. So again, credit losses were more in one unified place with these changes in accounting policies. By taking these steps, we were able to make our GAAP financial results more comparable to those of other companies. That was the first thing we did on the accounting side.

Second, Buddy and the finance division, working in cooperation with Patti and her team, began working on ways to disclose our results on a non-GAAP basis, but really closer to how we view the business. This process was comprehensive and we considered quite a few alternatives and ultimately, we chose Adjusted operated income or AOI, a measure that is both reconciled back to GAAP and conveys our results well from period to period. Note that AOI is meant to provide supplemental information, and it is not to meant to replace or be a substitute for GAAP.

The main advantage of AOI is it enables us to simply present our financial results in business segments which we -- in which we operate. And rather than attempting to estimate the change in value in our business over the entire life of the assets, debt and derivatives due to changes in short-term market conditions, AOI is meant more to provide a focus on how the business is performing right now. More of an accrual method. We believe this is appropriate as we tend to be a buy and hold investor.

In addition, AOI facilitates a more business oriented approach to presentation, in so far as we group the revenues and expenses in segments, and thus better present to investors with a picture of how we manage and evaluate those business segments.

I should pause for a moment and mention about fair value. We believe fair value is a useful measure for evaluating the business over a longer time period. But in today's market, when spread volatility can dwarf the economic spread that emerges in the business, we find it less useful and we find that focusing on AOI will be a helpful supplement to evaluating the business.

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For purposes of AOI, we broke it into three segments: the investment segment, single-family segment, and multi-family. Now with that as background, let me walk through the high-level components of AOI for each of these segments.

First, the investment segment. Our investment segment reflects the results of investing, funding and hedging activities, primarily related to the retained portfolio. This integrated view on the returns in our investment segment differs from GAAP, which presents net income and hedging costs in multiple locations on our income statement and is also a mixture of mark-to-market and an accrual model.

Over time, Freddie Mac has earned good returns in both stable and volatile markets on our business -- investment business because we carry little interest rate risk and earn a relatively stable net interest margin over the lives of the underlying assets.

Second, most of these activities are based in agency guaranteed or other highly rated securities. So we tend not to incur significant credit expenses in this segment. While AOI investment income recognizes earnings on the assets and costs of funding and hedging over time, it will vary due to changes in the yield curve and in growth rates in the business. During 2007, Freddie Mac earned $2 billion of AOI in our investment segment with a net interest margin up 51 basis points.

The single-family segment. Our single-family segment reflects the results of our single-family credit guarantee activities. This is the main customer-facing business of the company that Paul Mullings talked about earlier, in which we securitize and guarantee timely repayment of principal and interest on pools of residential mortgages that are originated by our customers. In exchange for guaranteeing these loans, we are paid a monthly guarantee fee, as well as one-time delivery fees based on the credit quality of the underlying loans.

In the past several years, this fee has averaged about 18 basis points. And during 2007, we generated $2.9 billion in guarantee revenues in this segment. As you would expect, our main expense here is credits, and in 2007, our credit provision increased significantly to $3 billion. This reflects the incurred losses on a provision basis on all single-family assets whether they are guaranteed securities or whole loans.

Now, the multi-family segment. Our multi-family segment reflects the results of our multi-family investment and guarantee activities, as well as the tax advantage returns we get from investing in lower-income housing tax credit partnerships. While multi-family is the smallest of the segments, it is an important source of affordable housing goal qualifying mortgages. One consideration to remember in looking at the multi-family results is that prepayment fees on whole loans can cost net interest income to increase significantly in certain periods. As with the single-family segments, the main risk here is credit and during 2007, we recorded a provision under AOI of $38 million.

All other. Finally, we have included certain expenses in another category that is not a formal segment but is a -- rather the classification of certain corporate level expenses such as for remediation or restructuring, and other items such as tax and legal matters. And for 2007, this category had a net loss of approximately $100 million. While our preliminary conversation with many of you have indicated that AOI is a relatively easy metric to understand, we recognize that many of you over time will want to drill down on the results. For just a little more detail today, I will turn it over to my colleague, David Kellermann, to begin the discussion of how AOI works and how it compares with our GAAP disclosures. David?

David Kellermann - *Freddie Mac - SVP - Finance/Business Area Controller*

Thank you, Ed. Good morning, everyone. For starters, I can assure you that while the big picture of AOI makes sense, the details matter. And we think we have constructed a metric that will stand up to the test of time. But since our time today is limited, I will be brief and take you through four main points. First, I will take you through a more granular description of the assets and liabilities in our single-family and investment segments. Second, I will compare net interest income and NIM on GAAP and AOI. Third, I will discuss minor differences between GAAP and AOI, and our guarantee fee rates. And finally, I will explain how provision expense differs between GAAP and AOI.

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As Buddy mentioned on our earnings call, the near-term focus on capital makes GAAP results extremely important. That said, AOI is very useful in conveying period-to-period returns on our investment and guarantee businesses, and how they relate to the risks that we manage.

In addition to grouping these items together, AOI displays the earnings emergence of our businesses on a long-term horizon over the life of the asset. In addition, this is appropriate for our Company as we are a long-term guarantor and investor, rather than a short-term trader.

As Ed discussed, the investment segment includes returns from all of our retained portfolio and other "funded" asset positions. These include investments in PCs and single-family whole loans, investments in Fannie Mae and other agency MBS, as well as private label ABS and CMBS bonds.

These assets are funded with the portfolio of agency debt ranging from overnight to 30 years of maturity. And accordingly, we earn net interest margin over the life of our net position.

In addition to bullet debt, we fund with a significant amount of callable debt, which helps us manage the interest rate risk in a portfolio better than most mortgage investors. The slide behind me refers to the difference in GAAP and AOI on an after-tax basis. There are three main differences between net interest income on GAAP and on an investment segment basis. First, under our segment presentation, we allocate the free-funding benefit on capital utilized in each of our businesses to the single-family and multi-family segments.

Second, unlike GAAP, which only includes amortization expense from AOCI account on our balance sheet, Adjusted operating income recognizes all realized gains and losses, and swaption premium amounts, including the realized amounts contained in -AOCI, as components of net interest income. This was a big improvement in conveying the results in a way that more closely resembled how we run this business. AOCI amortization amounts reflect the combination of historical mark-to-market and realized losses and closed cash flow hedge accounting relationship. As such, this amount does not reflect our ongoing hedging cost.

In contrast, the derivative-related items in Adjusted operating income reflect real gains and losses that we incur on an ongoing basis on our day-to-day hedging activities. You can see each of these items on line four, five and six on the slide.

The other significant difference between AOI and GAAP net interest income is the inclusion of deferred gains and losses on debt repurchases and asset sales.

Under GAAP, these items are recognized immediately as components of other non-interest income. Under AOI, we defer and amortize the amounts. We do this because as a buy-and-hold investor, our profitability emerges over the life of our portfolio and we believe that representing these amounts through net interest income is consistent with our management of the business.

Let me give you a simple example. Under GAAP, we repurchase outstanding debt at a discount to its historical cost and we record a gain in non-interest income.

As a result of that purchase, our net interest income and NIM will be lower going forward since old lower coupon debt was replaced by new, higher coupon funding. By deferring and amortizing the gain on this type of transaction in AOI, it presents the effective cost of our funding over the life of our debt portfolio. During 2007, this resulted in a lower NIM for AOI of about six basis points compared to that of GAAP.

Turning to our single-family segment, you can see that revenues and costs with that business are reflected in one location. The AOI guarantee fee rate is essentially what we have been showing you in our investor slides over the last couple of quarters. The differences between the two guarantee fees is that unlike GAAP, AOI reflects all the deferred fees and net buy-ups and buy-downs

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as components of one effective guarantee fee rate. In addition, all deferred fees and revenues are recorded on a flat, static yield basis, whereas under GAAP, the amortization depends on when the mortgage was guaranteed.

On the cost side, as you can see, AOI provision is about $200 million above the GAAP provision. This is because under Adjusted operating income, our provision for credit losses includes amounts which we -- which are reflected in multiple other lines under GAAP, including mark-to-market losses on loan purchased out of securities. I should note that under our GAAP provision, we have increased our credit reserves to a level that covers more than 1.5 times our expected cash charge-offs for 2008. The differences between these two measures is not that significant.

I would like to conclude today by saying that we have invested a lot of time and effort in the developing AOI and we will emphasize it in our presentations going forward. Given the fact that GAAP results drive our capital levels, we will continue to provide bridges between the two, so our investors can gain a complete understanding of our results and our financial condition.

While investor use of AOI will likely evolve over time, it is important to note that Freddie Mac has constructed the measure to ensure accurate, consistent presentation and since AOI is calculated in our general ledger and is part of our monthly calls process, the entries and adjustments are transparent and auditable. With that, let me turn it back to Buddy for his insights on 2008. Thank you.

Buddy Piszel - *Freddie Mac - EVP, Chief Financial Officer*

Okay, so I will close out this section with a discussion of what we would expect for 2008 results. I will focus primarily on GAAP, but a lot of the guidance that I give you would also apply to Adjusted operating income. So first, on our GAAP mark-to-market exposure, which killed us in 2007, we should be -- they should be a lot less harmful in 2008. We have taken a lot of actions; I talked about that earlier. We still have work to do on the Day 1 difference but, overall, we are in a much better position.

Secondly, on the retained portfolio side, for GAAP, NIM should grow nicely from reduced amortization of AOCI and the fatter margins of new business. Given today's margins, portfolio growth, if any, could significantly improve NIM. And consistent with everything that we have told you, we are not expecting ABS impairments in 2008.

For the guarantee book, we are assuming 10% growth in the business, plus, given new business coming on at 35 basis points in the second half of the year, we should get the overall effect of g-fee in the book to increase around two basis points. That will improve certainly in 2009.

On credit costs, if the default costs are consistent with the forward-looking information that we provided you for '08 and '09, we would expect the credit provision to be in the $3.5 billion to $4 billion range. We will get a lot of visibility into credit costs as we go through 2008 but, based on how we are looking at things now, 2008 should be the peak provision year. Multi-family results should grow nicely at greater than a 15% clip.

And lastly, on the admin side, absolute admin cost in '08 will be lower than they were in 2007. How much lower will depend on the timing of the completion of our control efforts, as well as the speed to which we benefit from new technology. Two points to make: One, we will invest in what's needed to manage credit dispositions to the best outcome. So, all the questions that were raised about loan modification and our ability to deal with mounting defaults, we will be spending money there and I think that that's money well spent. The other point I want to make is that we will not take operating risk to try to accelerate cost reductions. Right, we are going to be prudent in the way we approach this.

Our long-term target, for admin, as the percentage of the total mortgage portfolio, is six to seven basis points. In '07, we were in the mid-8s. We should be better than the mid-7s in '08 and in the mid-6s for '09.

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So, overall, this is not going to be very precise but, for GAAP, '08 results should be better than '07's results and by a good margin. The profit margins on the '08 business will be substantially better than prior years, but that will leg into our results slowly over time.

We have sufficient capital to execute our plan. We will see as the year unfolds, if any capital actions are warranted. With that, what we are going to do? I will ask Dick to come up and Patti to come up and then Dick will make some closing comments and then we will take your Q&A. So, thanks guys.

Dick Syron - *Freddie Mac - Chairman, CEO*

Thanks, Buddy. We thought we would finish this this way rather than having more and more Q&A sessions. We hope -- this is only a beginning for us after eight years. We hope this event is useful, and we want to get to your questions. But first I have a couple of points that I want to make about the general environment in which we operate, and the particular kind of institution we have. If there is any silver lining for our shareholders in this historic housing downturn, it is this: it has become pretty hard to deny the relevance and the importance of having GSEs. I don't see people talking about that very much at all today. Four years ago, that was all the rage.

This situation has a number of practical consequences for us, and I will focus on three of them. First, in our investment portfolio, we are very pleased that from a signaling effect, OFHEO has removed the cap on our portfolio. There are other challenges but from a signaling effect. We hope that that indicates our progress, and we believe this will give us some flexibility to pursue opportunities, although no one thing is a panacea. Second, on the 30% capital surplus target, OFHEO has also announced that they will be working with us towards the goal of gradually decreasing the 30% capital surplus requirement.

We have good daily communications with OFHEO on market developments and also we are having communications with them on this issue of capital. I think there is an important point that has to be remembered when we look at why do we have these things and what are they supposed to do, and what are the economic realities given the way that they are structured. I think it sort of goes like this: first, you have to decide if you want GSEs or not. I would submit that in the current situation we have decided as a country that we want GSEs.

Second, you have to decide if you want the GSEs to be privately funded entities with shareholders, with that shareholder capital that is very substantial, serving as a buffer between the taxpayers or do you want to have them to be part of the government. Okay? If you decide that you want to have them held by shareholders, there are laws of economics that you can't repeal, and it means that there are trade-offs.

If we are going to be shareholder-held, and I think we will be, we, as the management of the Company, have as our first responsibility a responsibility to you to over time to deliver an adequate return on equity. That return on equity, in our case, is the result of a pretty simple formula. It is return -- ROE. The return, in our case, is heavily driven by price. Right? We have increased prices substantially. That was necessary. Why? It is the appropriate thing to do.

But one has to factor in the denominator of the equation, if you want to make the equation work and you want to have these big privately funded entities. The more you raise that ROE -- the more you raise equity -- the more you have got to raise price, because price is primarily what defines what our return is going to be. Now that may not be a popular equation, but it is reality. Neither I nor anyone else should try to repeal the laws of economics or ignore the realities of arithmetic. It is just something that is there and we have got to work -- work this out. I am confident we will be able to work it out.

Finally, one comment on the conforming loan limit increase. To show the importance of the GSEs, it is interesting to note that both the administration and the Congress, in a very short period of time, passed the stimulus package that increased the conforming loan limits. The list of eligible areas for both GSEs was just published. This increase is the right thing for our mission,

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and it is the right thing for the country. As a matter of fact, we will be sending a communication out to our originators today; it may have already gone. See Mike Perlman nodding his head, telling them exactly how we are going to work with this increase.

So let me just sum this up before we get to what is more important: your Qs &As. We are confident in the strength of this franchise. We have been through some tough times, there is no question about it, and so have a lot of other people in the financial industry. But we are confident we are going to work through these times. We think we made some progress -- a lot of progress -- particularly in the accounting and controls areas.

As far as we concern -- as we are concerned, the more you and other people can understand us -- and that is one of the reasons for the AOI metric that our people just walked through, the better off we think we are going to be because we are convinced in the long run, we are just not going to survive this current environment, we are going to get through that but over the long run, we are going to really thrive. We expect to thrive to the benefit of our shareholders, and also for the benefit of the country. Having said that, I just want to say again that we appreciate your interest and your patience with Freddie Mac, and we would be happy to take any questions you have relating to the entire presentation. Thank you.

QUESTIONS AND ANSWERS

Dick Syron - *Freddie Mac - Chairman, CEO*

Sir?

Unidentified Audience Member

Okay. Okay. So, I have got one question for Dick and a quick one for Buddy.

Dick Syron - *Freddie Mac - Chairman, CEO*

Could someone raise the hand -- it was the jackhammer behind us, inside this.

Unidentified Audience Member

Hi. So, Mr. Bernanke and Mr. Paulson have suggested that you guys raise capital. And the Wall Street Journal has determined that, in fact, you will raise capital.

Dick Syron - *Freddie Mac - Chairman, CEO*

I am not quite sure on how they determined that.

Unidentified Audience Member

Well, I am not sure either, but I read it so, but I want to make sure I understand the laws of the economics and the laws of the laws of economics. So, if you have a regulatory surplus, then Bernanke, Paulson, and not even OFEHO has any legal authority to direct you to raise capital. And furthermore, you operate as managers under a fiduciary duty, a legal standard, to existing shareholders and not the government and not prospective shareholders. So, I just want to make sure that is-- in other words, you would not raise capital unless you thought it would benefit existing shareholders. I just want to make sure I have got that right.

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Dick Syron - *Freddie Mac - Chairman, CEO*

You got it right. Okay?

Unidentified Audience Member

Thank you.

Dick Syron - *Freddie Mac - Chairman, CEO*

To do something that you are not supposed to do and give a short answer, you got it right.

Unidentified Audience Member

Okay, perfect.

Dick Syron - *Freddie Mac - Chairman, CEO*

And I would say, that this Company will bow to no one in the appropriate intensity, some communications we have had with the bodies that you mentioned, on our responsibility to the shareholders. Now, if you don't want us to have that responsibility to shareholders, you can do a debt for equity swap or something else and have this become like TVA or something else. But as long as we are what we are, it is clear what our fiduciary responsibility is.

Unidentified Audience Member

Thank you, that's very helpful. So now for Buddy, a more technical question. Your comments on the interest-rate marks and very helpful. I know the PC residual is gone. But, I am a little bit concerned about losses on certain guarantee contracts heading into the first quarter with ABX prices widening, and you guys haven't raised the g-fees yet in the first quarter, I am concerned that this line item is going to be real doozy in the first quarter results.

Buddy Piszel - *Freddie Mac - EVP, Chief Financial Officer*

Yes, Ken, you have noticed I mentioned, so this is that day one difference thing and it reacts like the GO. So, as credit spreads blow out, the way we were looking at valuing on the credit exposure on new issuances, we were looking to the GO and using that to evaluate whether we have a loss. And in the fourth quarter, some 70% or 80% of all new business would qualify because the mark that we were getting assumed a 45% return was necessary to take credits.

Now, we know what we are pricing for. it is not a 45% return. And that price actually got wider in the first quarter, so what we are looking at -- we are looking at this seriously, is does it make sense to look to a market that there is nothing going on out there. The only thing that goes on is what Freddie and Fannie are doing. And looking to a market to try to get insight as to where our prime conforming credit plus should be may not be the most appropriate way to look at.

So we are looking at the accounting and we are looking at the valuation. But your point is fair. If we continue doing what we are doing, it is not going to be good for first quarter results and we are working on it diligently. And we are working on it not because we wanted to be better, because we don't think it maybe right.

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Unidentified Audience Member

Thanks, I just wanted to get back to the issue of the derivative -- or the interest rate impacts on the capital base and Brad and I and Edward, discussing this at the break. I just want to make sure I understand because it seems like there is at least three pieces of it, but, maybe more. I just want to make sure that my understanding is fair. Because, obviously, it is not in, as Brad pointed out, it is not intuitive in a declining rate environment that you are -- that your derivative position would be becoming less negative, nor is it intuitive with the duration gap of zero or one month that yield curve steepening would have a major effect.

So, it seems to me that there is, I guess, the first effect would be because the FAS 159 reclass that there would be a positive impact on that series of assets. Right, so that's one of the piece of it. And then, specifically on the swaps portfolio, not the swaptions portfolio, but the swaps portfolio, on that portion, is what your saying that the decline in long rates having simply been less quarter-to-date than what we have seen over prior periods, that would mitigate the impact of the decline on the valuation of that particular series of off-balance sheet liabilities. Is that correct?

Patti Cook - *Freddie Mac - EVP, Chief Business Officer*

Yes, your question again?

Unidentified Audience Member

Yes.

Patti Cook - *Freddie Mac - EVP, Chief Business Officer*

You mean isolated by itself?

Unidentified Audience Member

Yes.

Patti Cook - *Freddie Mac - EVP, Chief Business Officer*

Not less. Peter?

Unidentified Audience Member

Yes.

Buddy Piszel - *Freddie Mac - EVP, Chief Financial Officer*

Well, you got my comment, Peter.

Dick Syron - *Freddie Mac - Chairman, CEO*

On this -- on a swap portfolio and you have to take into account two factors. One is that as interest rates decline, the composition of the swap portfolio itself will change as we rebalance to maintain a zero or low-duration gap, we will be putting out receipt fixed swaps, so that will go on in the direction, if you will, of the -- of the market move. So, overall, the swap portfolio will change

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its composition as interest rates -- as interest rates decline. So, we have the GO -- the GA, excuse me, moving. We have the assets and we have the swaps, a combination of those three factors.

Unidentified Audience Member

And then --

Dick Syron - *Freddie Mac - Chairman, CEO*

What's the third part?

Unidentified Audience Member

And the third part would just be the swaptions portfolio. And, we have seen that on the swaptions portfolio, your call swaptions would not necessarily be getting like lower in value but your put swaption would be rising in value. So, there is an asymmetric benefit that moves in your favor. Is that correct?

Ed Golding - *Freddie Mac - SVP - Equity Investor Relations*

As interest rates decline, the call swaption portfolio, which from a notional perspective, we have many more calls swaptions and put swaptions will incrementally gain value more rapidly particularly as they go into the money. So, the value of the call swaptions will ramp up rather significantly as interest rates decline. The other point I want to make about the swap portfolio, as Buddy mentioned, is that as we enter into hedge accounting, in effect what that does is it reduces some of the pay-fixed swaps that are being marked-to-market. So, the combination of rebalancing the portfolio as interest rates decline coupled with the hedge accounting, will reduce our overall swap portfolio sensitivity to downward interest rates.

Buddy Piszel - *Freddie Mac - EVP, Chief Financial Officer*

And Eric, let me add two things. We have already started to implement hedge accounting. So, this is not something we are going to do. We have done it and we are going to continue to do more of it until we get this to about $1 billion of sensitivity. And so far, it is working. One question that I will take even if it is not asked, we got some -- somebody said when you are putting a bunch of your mortgages into trading, now that you have OAS exposure on the trading portfolio, quite frankly, it is offset by some of the OAS exposure we had in the GA. And so, well, we have introduced some OAS exposure to GAAP, it is actually a lot less than the exposure we had previously.

Unidentified Audience Member

Perhaps another question, but it's a lot less complicated. In the Adjusted operating income, I didn't quite capture where the amortization of the terminated options is flowing through?

Buddy Piszel - *Freddie Mac - EVP, Chief Financial Officer*

It is flowing through -- for any terminated options, any terminated derivatives, gain or loss on that is amortized over the remaining life of the instrument as if you didn't take it off.

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Unidentified Audience Member

Okay, great. Thanks.

Unidentified Audience Member

Thank you for holding this conference.

Patti Cook - *Freddie Mac - EVP, Chief Business Officer*

Where are you?

Unidentified Audience Member

Patti?

Patti Cook - *Freddie Mac - EVP, Chief Business Officer*

Yes. Okay, good.

Unidentified Audience Member

Patti mentioned the need to find more patient money for some of the paper out there. I wondered if you could give us your thoughts as to where that might be, and on the front page of today's Financial Times, it states that the initiative taken by the Federal Reserve is a step closer to buying agency paper. Have there been any discussions on that front? And what is the current [status] of the GSE legislation?

Patti Cook - *Freddie Mac - EVP, Chief Business Officer*

I will take the first part of your question related to where the mortgages ultimately go. I think we are going to do our part to the degree that we can to buy mortgages and provide liquidity, and when you see our commitments over the last several weeks, it will be a sort of a proof statement about that. But, as I mentioned earlier, we are going to have to do that in the context of reinvesting run-offs, being prudent and diligent about how we look at growth against the background of how our credit losses emerge, what the relief is, potentially on the 30%, and then ultimately the opportunities. I mean, to go to the point of where they go, I will refer to Dick if you want to say anything else about further regulatory actions.

Dick Syron - *Freddie Mac - Chairman, CEO*

First of all, I am going to answer the second part of your question. I have no -- I am not going to speculate on where they might go --- loads of intrigue and speculation, but I am not going to speculate on that. With respect to the second part of the question which was, what happens to GSE legislation, we have said that we are in favor of GSE's legislation in the form that came out of Mr. Frank's bill out of the house with a couple of caveats. The primary caveat has to do with this, I think, irrefutable equation that I just mentioned.

I mean if we are going to be, we can't kid ourselves, if we are going to be private companies responsible to shareholders like you, we have to be sure in your interest and not fiduciary interest that this language in that statute that would suggest how capital would be determined and that capital would be consistent with, first of all, our being able to satisfy our mission, but

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second with having a market competitive rate of return for our shareholders given the kind of institution we got. The second part of this is, the legislation as it came out, Mr. Frank's Committee and the Treasury endorsed it, and we said we support it.

I think it is very, very important and a big part of this legislation I think going forward, is in the interest of OFHEO, which has been doing good job trying to deal with these situations, and in the interest of the country, I think it's essential that you will not go into the future with an organization that only regulates two companies, Freddie Mac, and Fannie Mae. I know there has been some recent controversy about including the home loan banks in it. I think it is absolutely silly to have one set of housing specific institutions supposedly regulated by one regulator and another regulated by another regulator. So an important consideration for us in looking at this is that those regulatory entities would be combined.

Patti Cook - *Freddie Mac - EVP, Chief Business Officer*

Yes.

Unidentified Audience Member

Thanks. This is for Buddy, in terms of the structure of the capital that you currently have. If for some reason, you did decide to go and raise capital either to take advantage of opportunities for investments or because market conditions deteriorate, God forbid, even further. Could you talk about your capacity for preferred versus common, and how you think about the current capital structure that you have?

Buddy Piszel - *Freddie Mac - EVP, Chief Financial Officer*

Yes, we raised our last capital raise, put $6 billion more preferred on the books. That put us at over 35% preferred in our capital structure which is higher than typically we would want to be. That said, could we go a little higher than that? We think we have some room and we would have to probe that, now, if we ever concluded to raise capital.

The other thing that is I think interesting is, if you look at our capital structure, right now, there is only two things that qualify, right, common and straight DRD. I think that there is opportunities to have discussions with our regulators of broadening what qualifies as capital to be much more like other financial institutions, that again are untapped markets as far as thinking about our capital structure overall. So, I think we have got a lot of flexibility and anything what we do, we would make sure that it is friendly as it can be to our existing shareholders.

Unidentified Audience Member

Thanks. Dick, given is that part of the mission is the stability and the orderly function of mortgage market. If I was a Democrat in D.C. and had never had a philosophical issue with the retained portfolio. Why shouldn't I be pushing Fannie and Freddie to issue capital, or to expand the balance sheet? People are talking about Treasury or the Fed or others in the government buying securities to stabilize the market. It seems like a one-policy response so people could push pretty strongly forward, is letting the experts buying mortgage securities, i.e., the GSEs, take that over and push you guys pretty strongly to raise more capital whether it is preferred or more likely common in order to do that?

Dick Syron - *Freddie Mac - Chairman, CEO*

Well, look, I don't know what is going to happen, no one knows what is going to happen, but that would be a reasonable approach for people to take and we have talked about how we are looking at capital now and how we think we have enough. If something were to change, right, in a way you could be certain that you raised at a certain clout, and I don't know what kind of circumstances, but you could generate highly accretive returns, accretive in the broad sense of the word, for your shareholders,

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would you have the say never, ever -- everything? No, but any institution would be silly to say I am foreclosing any possibilities depending on changing circumstances.

I don't think that those are the circumstances we are looking at right now, but they are the circumstances that have to be addressed. I mean we have to address as a country. What do you want these institutions to do, and how are they going to be capitalized, and how are you going treat their shareholders, because you can't dance around it and we have got to get it resolved. Sorry, if I seem to a little sensitive

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Unidentified Audience Member

This is for Buddy. There is a lot of discussion in the annual filing about the GO obligation and some effective yield catch up that may occur in Q1 '08. So, can you explain what that is and how that might impact the GAAP financial statements and fair value as well?

Buddy Piszel - *Freddie Mac - EVP, Chief Financial Officer*

Sure. It is really only a GAAP phenomenon. We defer when we put new business on the books, we establish this GO and then we amortize -- in effect it is deferred income. We amortize it into the P&L. We used to amortize that into the P&L on a UPB basis, which was a fairly slow way of amortization. What we have changed in part of our accounting is to amortize it more as we relieve a credit risk. Okay. So, as losses start to materialize, you are digesting a lot of credit, which means you will be pulling more deferred income into your P&L faster.

So, again, when you think about year-over-year, a positive going year-over-year is we would expect given what our credit expectations are, that you would a higher amortization of the GO into the P&L and it is pretty substantial. And that will continue as credit curves change. And it won't be every -- and the other point to make, it is not every quarter. Things have to move pretty significantly before you would trigger it. And we would expect things that we think that move from year-end through the first quarter, that may be sufficient to trigger it. Looks like a team catch up.

Unidentified Company Speaker

Bruce?

Unidentified Audience Member

In terms of the FHA programs and initiatives and the jumbo, the increase in loan limits. How do you see Freddie Mac competing for the higher LTV loans compared to FHA? Where will you sort of stop, where do you cut off and where do they begin? And then, given the -- I guess, you will be SEC compliant by the summer and -- or sometime between now and then, and in terms of discussions with your regulator, and you made a very strong argument today, Buddy, about the defending the deferred tax asset, and you said that you have had taxable income and now AOI is also in your annual report, maybe in your 10-K, and it seems like quite defensible that, indeed these alternative methods of accounting are showing that your capital is stronger than some of these other methods. So, will those be -- will those be taken seriously in terms of the negotiations to perhaps get the 30% excess down? Thanks.

Dick Syron - *Freddie Mac - Chairman, CEO*

Can we split this, Bruce, answer into two parts? The first part is about FHA. I think it is a good thing that these activities promoting greater involvement by FHA happened. And I think it comes back to what we were talking about, about how you resolve this whole issue about various responsibilities, missions, shareholders, et cetera, right? I think that FHA to take the higher LTV kinds

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of properties or -- and lend against them and somewhat riskier product, in some cases, is probably advantageous to the G -- to the two GSEs over time, because they are -- they don't have any shareholders. They are a direct agency to government. And if you want to look at subsidizing those high-end properties, that's the way you should do it. You might be. Buddy?

Buddy Piszel - *Freddie Mac - EVP, Chief Financial Officer*

So let me make two points. One is clearly becoming an SEC registrant is a -- I think a significant factor in trying to close the argument that you are different. And we don't want to be different. I think once we become an SEC registrant, we will abide by all of those rules, sort of we are trying to close the chapter on that there's concerns about our ability to report our concerns about our ability to comply, and we think that that is a very, very important data point in discussions around closing the chapter as to why this 30% was put on in the first place.

As to the other point about, now that you are looking at AOI, how was the regulator thinking about that. Do you spend a lot of time with OFHEO to walk them through what AOI does, how we chose it, why we think it's appropriate. I think we have gotten in a reasonable reactions. Are they as comfortable? It is new; it is going to take them a little time. I think it makes -- we have made it clear that from our stand point it is a much clearer presentation as to what's going on in the business, and what you look at today in GAAP, where you look at in fair value, I think that will take a little bit of time frame, but it can't hurt.

Unidentified Audience Member

I was wondering if you could give us a little more detail on the inputs into the estimate for the home price decline peak-to-trough, and the resultant calculation of the credit default costs over the coming years that results from that.

Patti Cook - *Freddie Mac - EVP, Chief Business Officer*

You know it's interesting, I have only been at Freddie Mac for four years, but even if you look beyond that, we went to relatively stable periods of house prices where the adjustments to the model, in terms of the median expectation were relatively rare. What we have had to embark on over the last several quarters is sort of a governance process, whereby we consume, I will call it, recent information in terms of what house prices are actually doing to try and refine our best assessment of where house prices are going to go. So, there is a lot of judgment. The reason we changed the house price forecast after the fourth quarter was, frankly, the surprise in the numbers for the fourth quarter. The index that we use, that is a reflection of our own portfolio, was down 3.4% in the fourth quarter. Case-Shiller was down also a large amount.

Based on that, based on the propensity for house prices to follow, they are on a more recent trajectory. We decided to take the median house price path down further. But, a lot of judgment on the part of the business team as well as management teams. Once we have agreed on a median house price path, we then run a Monte Carlo simulation. I think there are 300 additional paths that we ran that come out with, I will call it, an average expectation on what all those paths mean for default, severities, and therefore an EDC number. So, the thing I would stress in that discussion is that this is -- this is a model. It is an estimate. And, the range of expectation around that estimate, frankly, is pretty wide, but that's the process.

Buddy Piszel - *Freddie Mac - EVP, Chief Financial Officer*

But, it is granular and it starts with a state-by-state assumption as to where they were. Where things are and what does that mean to where things are going to head.

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Unidentified Audience Member

Yes. I mean, as a follow-up, is there any particular degree of comments on that number relative to the number that would be a little bit above or a little bit below that?

Dick Syron - *Freddie Mac - Chairman, CEO*

This is a number that was a arrived at after a lot of discussion, after examination, as Buddy said, and a lot of data on a state-by-state basis. That's how it is built up and then weighted on a dollar basis, the weights being, what our portfolio is to look at that and you look at developments in those individual states. Having said all of that and having been a model builder at one time, I can assure you that there is no, zero, no good econometric model for forecasting house price. So at the end of the day, it was looking at the data, looking at our previous estimates and deciding what we thought, on the conservative side, was appropriate on this.

Buddy Piszel - *Freddie Mac - EVP, Chief Financial Officer*

But, let me just add one other point. '08 is going to be a very critical year because we are very, very early still and we are projecting into a lot of unknown. And as we get through quarter-by-quarter of '08, the realities of where house prices are going, the realities of what actions are or are not being taken to mute the impact of the housing market, and what that means to the flows, whether -- what we are seeing is early behavior versus extensive behavior would become clearer and clearer as we go through the year.

Patti Cook - *Freddie Mac - EVP, Chief Business Officer*

The one thing I was going to say about it is, just talking to Dick, is when you look at a part of that, what we are hoping is helpful about the disclosure, is by giving you the number and by telling you that underlying that EDC number, is a default rate of 3.5% to 4.5% and severities of 25 to 35, is to allow others to make some assessment about the likelihood, the probability of that number as opposed to us just relying, sort of, on our own black box. So the disclosure is meant to, basically, give you more information so that you yourself can formulate some opinion on the PV of EDC.

Dick Syron - *Freddie Mac - Chairman, CEO*

One last comment on this, because we ran a lot of simulations and it seems like this is going to be a seminar on housing prices. But, we have run simulations of substantially worse than that. We can survive. All right? But I emphasize the word survive. Some of the simulations that we have run showing that we can survive have a degree of destruction of household net worth that I would have very, very, very, severe concern about how lots of parts of this economy could survive, but we would.

Patti Cook - *Freddie Mac - EVP, Chief Business Officer*

Question down here.

Unidentified Audience Member

There was a rumor last week at the Department of Treasury was going to come in and guarantee the debt of Fannie and Freddie. Obviously, it was a false rumor, but it does show you the perilous state of the credit markets. What kind of questions are you getting from the debt investors in terms of exploring this notion of implied government guarantee? How many of them are buying purely based on your financial strength, how many of them look into the government guarantee, and are you getting increasing level of concern on the part of debt and mortgage investors, and how do you get them comfortable?

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Dick Syron - *Freddie Mac - Chairman, CEO*

Well, I think as a policy matter, we think it would be the wrong thing for the U.S. treasury to commit to guarantee our debt. We think our debt is strong on its own bottom, obviously spreads generally have blown out in the market as a whole, not just on our debt but everywhere, you may it seen yesterday that defaults, premium costs are higher now on treasuries than they are on the [bonds]. So this has been an interesting period, but we think our debt trades well on its own bottom.

Patti Cook - *Freddie Mac - EVP, Chief Business Officer*

I would just add to that. I think one of the distinguishing characteristics of the GSEs right now is our ability to finance. And while the steepness of our curve, discount notes LIBOR less 60, two-year notes LIBOR less 20, 10-year notes LIBOR plus maybe 10 to 15, show some widening relative to where it has been. It is still incredible debt spreads are there and that we can access the capital markets on the kind of size that we can. I mean, we are in the market today with a two and a five-year, roughly, I think, $3 billion each. And I think our investors remain confident about investing in Freddie Mac.

Dick Syron - *Freddie Mac - Chairman, CEO*

Sir. Maybe we will take three more questions; yours being number one.

Unidentified Audience Member

Just one more question on the credit. The focus now in determining how bad defaults will be -- seems to be on home prices. Now, I remember a few years ago, old mortgage credit would say, well, there are four reasons you will default, none of which are HPA and the most important which was unemployment.

So, if you could just address that topic and how you think about unemployment relative to defaults in your credit guarantee book, and also, I guess, related to that, there is the -- sort of the growing fear or particularly from people who are extremely embarrassed about housing, that there has been a changing homeowner psychology where they will just walk away at that negative equity which -- and also a bit curious on your opinion on that and if you think, what we are seeing now is speculative of the people who shouldn't be in the house in the first place walking away and that the people who -- but there hasn't been a change in sort of the guys with the families that have been in the house for ten years or so.

Dick Syron - *Freddie Mac - Chairman, CEO*

I will try to make this short. But, the term that used for people walking away when they are caught up upside down, more frequently used in autos than it is in homes, is ruthlessness. Right? And we are seeing an increase in ruthlessness and I think, it is probably not just speculators or investors, but it think it is a different period and the changes -- a changes we have seen an enormous amount but has the potential for changing consumer behavior. What it used to be that the old rules for people defaulting and walking away were health to bullish unemployment as I recall them. There was no way to test HPA because we have never had a period since the great depression in which housing prices declined on a nationwide level.

I think that we are in a challenging period for the economy and I think one reason that we changed our forecast to a more pessimistic one in terms of what happens to housing prices was the concern about what are all the factors that might come into play in doing this. Now having said this, let's not just forget one thing about -- for most people in the United States, housing is still their greatest asset. All right? If -- there's $20 trillion of household wealth in United States, we have a GDP, which in current terms is about $14 trillion, right? So you start to talk about a 25% decline in household wealth -- I mean, excuse me, in housing prices, you can -- that's $5 trillion in destruction.

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I am not saying it absolutely can happen, but there would have to be all kinds of macroeconomic programs, because if you get into that situation, where you are destroying the equivalent to more than one-third of one year's GDP and wealth, the effect -- I said our numbers were ugly in the last quarter, the effect on the GDP numbers, I can tell you, would be every bit as ugly.

Patti Cook - *Freddie Mac - EVP, Chief Business Officer*

Maybe a small, sort of a nip compared to the overall question would be, one of the issues you raised that emerges on modifications is actually being able to get a hold of the borrower. And it sounds ridiculous, right? You can't get the person on the phone and you have got your -- their best interest in wanting to try and modify the loan, and that's really where we're upping our efforts. We want to be aggressive in the loans that are in our PCs, and modify close to the benefit of the borrower, and to the benefit of ourselves in terms of the ultimate resolution in the situation, and we are upping our efforts to try and make that contact. Hopefully, that would stem the tide of what is being referred to in the press as walk-aways.

Unidentified Audience Member

Thanks. Dick, on your third quarter conference call, you said that you made the conscious decision not to pursue a fortress ready strategy, but instead to take a longer-term view, raise capital, and continue to play the role that you played in the marketplace. I am curious, do you have the option to shrink your retained portfolio if push comes to shove, at least not replace liquidating portfolio investments. And do policymakers recognize that you have that ability, if you do, it may not be politically palatable, but do they recognize that and do they consider that when thinking about the appropriate capital measures, especially noting the fact that you have $12.5 billion of capital above the current statutory minimum requirements?

Dick Syron - *Freddie Mac - Chairman, CEO*

Yes, I mean, the answer to your question is, we have substantial roll-up each month. We could do that, right? I submit that wouldn't be good for either our shareholders or for the country right now. If you got into a case of extremist and you couldn't solve this equation I talked about before, the simplified -- ROE equals ROE, you might have to consider all kinds of things. But, hopefully, we don't come to that point of view because I think there is an increasing awareness by policymakers across the spectrum. But, this is a 100-year flood, and in 100-year floods, you may have to do something different than what you did when a water pipe blew up last week.

Unidentified Audience Member

Just to follow up, after the Fed's announcement yesterday, would you expect that to actually translate into lower mortgage coupons for borrowers, to the extent it lowers TBA funding costs, would it then be transferred on to borrowers in lower pricing?

Dick Syron - *Freddie Mac - Chairman, CEO*

Yes. To do something you never supposed to do, yes.

Unidentified Audience Member

Great, thank you.

Dick Syron - *Freddie Mac - Chairman, CEO*

So, we take one more question.

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Unidentified Audience Member

Just to beat the capital issue, again, the obvious solution is becoming SEC registrant and then we don't need the 30% surplus. There's plenty of capital. It's not right for the treasury or the Fed to bully a company into raising capital when we are inches away from not even needing that penalty to begin with. Especially when three year ago, they said that the GSEs don't lower housing cost and we don't need them and all these other things.

So, I know you have said you are going to put the shareholders first, and to me, you would have plenty of capital when you are an SEC registrant and there's no reason whatsoever for a 30% penalty, not one that I can think of, there may be arbitrariness out there, but there doesn't seem to be a reason for that.

Dick Syron - *Freddie Mac - Chairman, CEO*

I think that was a statement more that a question and I think I better let it stand.

Buddy Piszel - *Freddie Mac - EVP, Chief Financial Officer*

Okay, it's ending on a high note, so thank you for the question.

Unidentified Audience Member

Okay, thanks.

Dick Syron - *Freddie Mac - Chairman, CEO*

Thank you all very much for coming. If I can just emphasize one thing, it is this: the more you know about us, the better we think it is for us and for you, and for all of our shareholders, generally. Not that you would be, as this obviously reflects, but don't be afraid to communicate with us and to ask us what's going on, and to even tell us how we can do -- do a better job of communicating with you. Thank you all very much for coming.

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