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Good morning. I want to thank Lehman Brothers and Bruce Harting for giving me the opportunity to speak this morning amid what can only be described as “interesting times” in the mortgage market.

[Slide 1] Despite the recent market turbulence, today’s trends benefit Freddie Mac in the long run. Our growth is good. Our credit position is relatively strong with limited exposure to the riskiest mortgage products. We’ve made meaningful progress on remediation. We’re demonstrating our mission value in a very visible way. Bottom line, at a time when many of our competitors are weakening, Freddie Mac’s position is growing stronger.

Do the coming quarters hold some big challenges? You bet. But looking around, we like our set of advantages, and believe that Freddie is well positioned to succeed and produce shareholder value in the long term.

Now let me move to specifics.

[Slide 2] Everyone has witnessed the market turmoil recently. The coastal and southwestern states that benefited from tremendous house price growth are now experiencing year over year declines, giving rise to higher delinquencies and defaults. Due largely to our congressionally chartered mission, our sound risk management practices and our ability to add value through our credit guarantee and investment activities, we have benefited from the recent market disruptions in ways that underscore the importance of our mission and will benefit our shareholders over the long run.

In the interest rate markets, subprime market turmoil and reduced liquidity have caused a general aversion to assets with any credit exposure, resulting in a flight to quality in treasury securities and higher implied volatility levels. This result has benefited our funding levels.

In concert with longer-term economic trends, these changes have produced a significant shift in mortgage originations away from ARM products and back

towards traditional fixed rate loans. This has helped improve our total market penetration.

While many analysts anticipated these changes over the past couple years, the time they took to materialize – and the speed with which they finally occurred – has permanently impacted many companies and funds. Not so at Freddie Mac.

In my remaining time, I'll give you an overview of the emerging trends in Freddie Mac's business volumes, guarantee fee pricing, comparative credit risk, investment margin and debt funding advantages that make me confident in our long-run financial success. I think at the end, it will be clear that these factors will produce compelling value for our equity investors over time. Let me focus first on the guarantee business.

Guarantee business

[Slide 3] Our growth in the single-family area is strong. Through the second quarter, Freddie Mac increased the size of our credit guarantee portfolio by 16 percent annualized while total U.S. residential mortgage debt outstanding is on track to grow at about 6 percent for the full year.

As many of you know, this is an about face from the past several years when private label issuers gained significant market share. During the first part of 2007, our improvement has resulted from higher fixed-rate production in the market as a whole, and opportunistic growth through our bulk purchase channel.

Through the second quarter, we were able to increase our total market penetration. While it is difficult to forecast this level precisely, I would expect our total volumes to continue growing throughout 2007 and for our year-end 2007 penetration to be better than last year.

[Slide 4] Illustrates that in addition to growth, Freddie Mac has benefited from some improvement in our guarantee fee pricing. Since mid 2006, credit has obviously re-emerged as a top-of-mind consideration. With it, our pricing power has begun to return. While we are being very deliberate in the credit risk we will take on, I want to be very clear that the current credit market situation presents an opportunity for us.

Throughout this year, we increased our guarantee fees on bulk channel purchases where we can more closely tailor rates to the risks we undertake. Since bulk deals are executed from time to time as originators need liquidity, and often focus on adjustable rate products, the pricing tends to behave more like a spot market for credit risk. Thus, we have been able to benefit from this increase during 2007.

In our more traditional flow channel, where guarantee volumes and terms tend to follow 6 to 12-month contracts, guarantee fee pricing takes longer to adjust – this year we were able to begin increasing credit delivery fees on certain programs and tightening credit terms when possible.

As house prices continue to remain flat to down in much of the U.S., it will become increasingly important for us to find ways to re-price our guarantee fees so that future returns in the business remain attractive through the credit cycle.

[Slide 5] shows that while our total single-family delinquencies are very low, we are seeing some increases in states such as California and Florida where house price appreciation has only recently turned flat to negative.

Consistent with this recent deterioration, 2006 PC securitizations have exhibited significantly higher early delinquency rates through the first 18 months than we experienced in recent years. This is in part driven by a weaker house price path and higher percentage of loans that have secondary financing.

[Slide 6] Even on this front though, we are relatively well positioned. As slide 6 shows, since 2003 Freddie has exhibited significantly lower single-family delinquencies than the mortgage market as a whole. With our total single-family delinquency rate at 42 basis points, we are an industry leader.

Our advantage here is underscored by the fact that we expect our total credit losses (that is charge-offs plus REO expense) to come in below 3 basis points this year. That compares to our historical average of about 5 basis points. While we do expect that number to go up in 2008, the current relatively low level compared to other companies indicates that our credit risk is well-managed.

[Slide 7] The table behind me shows that on an absolute basis, Freddie Mac has very low exposures to Alt-A and risk layered mortgage products. When taken

together, these represent about 8 percent of our total single-family guarantee portfolio.

On the Alt-A side, as of the end of June, we guaranteed \$120 billion of loans that were either identified by the originator as Alt-A or had reduced levels of documentation. As I discussed earlier, many of these loans were sourced through our bulk channel, and so were priced considering their increased risk.

In addition, for the Alt-A book, we have significant credit enhancement, strong average current LTVs of 71% and FICO scores of 715. These attributes should limit the credit impact from these loans.

As to risk layered products with low FICOs and high LTVs, at the end of the second quarter, we had total guarantees of about \$10 billion, or less than 1 percent of our portfolio. Moreover, 94 percent of these loans had credit enhancements. So while we are not totally immune to these risks, when compared to other participants, I think you'll find them to be very low.

So again, whether you view our overall portfolio, or look to our Alt-A book, layered products, total single-family delinquencies, or charge-offs, we feel our credit position is near the very best in the industry.

Let's turn to the retained portfolio. Here, the current portfolio investment opportunities are the best we've seen in years. While in the near-term, mark-to-market effects will be choppy, the reality is we're adding business today that will be profitable for many years to come.

Retained portfolio

[Slide 8] Through July of this year, Freddie Mac increased the size of our retained portfolio at an annualized rate of 4 percent. Most of this growth followed improvements in OAS margins that presented us with some of the best investment opportunities we have seen in fixed rate assets since mid-2005. As you can see on the chart behind me, at the end of June, the average OAS on our portfolio was approximately 40 basis points, an improvement of about 10 over the end of year level.

As OAS spreads have trended upwards throughout 2007, our net purchase commitments have increased accordingly. As our large commitments from June settle, we will rely upon our restructuring activities to add incremental shareholder value to our portfolio. Over time, we have developed industry-

leading capabilities on this front, and as a result have generated stronger returns even in low growth periods.

Importantly, we were only able to capitalize on this opportunity in 2007 because we reduced the size of our portfolio in 2006, in part to comply with our voluntary temporary growth limit.

While it is important to note that we manage the portfolio primarily based on economic or fair value metrics, since the majority of our recent commitments and growth has focused on fixed rate assets it is likely that GAAP net interest income and NIM will also both benefit from these investments.

Increased purchases of fixed rate assets in our retained portfolio in 2007 are a result of changes in the underlying origination patterns. This reflects the relative widening of fixed rate OASs relative to our debt which makes them an attractive investment for us.

Since July, the story has changed. As you would expect, most of the OAS widening in the past month has occurred in non-agency floating rate securities, often backed by subprime and Alt-A loans. I know that this is an area of focus, so let me make a couple observations.

[Slide 9] First, unlike in the agency market where we frequently buy seasoned securities, we have tended to purchase floating rate non-agency securities almost exclusively through new securitization deals. Between 2004 and 2006, this gave us the best pricing transparency and purchase volumes, as increasing private label issuance produced more and more AAA rated tranches.

Since the recent spread widening has produced significant illiquidity in the ABS market, there has been an almost complete shut down of new issues. Thus, while spreads appear very attractive, there is limited availability of ABS that are consistent with our charter.

Second, as we disclosed at the end of last month, Freddie Mac holds approximately \$119 billion in AAA rated securities backed by subprime mortgages. None of these securities have any CDO exposure, and we benefit from an average subordination level of approximately 34 percent that protects our equity value from any credit problems on the underlying loans. Among the issues resulting from the recent market turbulence, this is not one that keeps me up at night.

[Slide 10] Today's market conditions underscore another core advantage of Freddie's that is coming to the fore today -- our debt funding advantage. When it comes right down to it, the biggest risk for financial institutions today is their continued ability to fund at attractive rates. As money market spreads have demonstrated in the past month, stressful periods can produce heightened credit risk and illiquidity almost overnight.

While our funding curve was re-shaped a little in the past month, as you can see here, we are still funding at very attractive levels. As recently as last week, we priced \$4 billion of 2- and 5-year Reference Notes securities at prices of 24 and 18 basis points below LIBOR respectively. This constant access to funding is a core advantage of Freddie Mac's, and one that will allow us to continue investing and managing our retained portfolio to promote stability, liquidity and affordability in the U.S. mortgage market while generating attractive long-term shareholder returns through even the most difficult financial markets.

That's it from a revenues perspective. Let's turn our attention to costs and some internal matters. First, administrative expense.

Administrative expense

One thing I've learned in managing financial institutions is that the focus on managing costs increases in tough markets. While this is an ongoing concern, I expect that we will end the year with administration expenses up roughly \$100 million over 2006 levels.

However, considering the growth in our business volumes, year over year, this will make us basically flat at about 9.2 bps as a percentage of our total mortgage portfolio. Make no mistake though, there is leverage in our business model and over time, we believe total administrative expenses will decline on this basis and should also decline on an absolute basis.

You should start seeing some of this in 2008, once we complete some of the financial-remediation efforts and reap the benefits from our new technology investments. This is a clear area of focus for us going forward.

Capital and financial timeline

Finally, let me briefly touch on capital and our financial reporting timeline.

First, capital. As we discussed on our call late last month, during the third quarter, we completed our \$1 billion preferred for common swap by repurchasing \$250 million in common shares, and issuing an additional \$500 million of preferred.

Given the current level of spreads in the market and growth opportunities in both our guarantee and investment areas, we are balancing capital returns with our ability to invest in the business in ways that will provide attractive long-term returns.

While the mark-to-market effects of credit spreads and interest rate moves can potentially impact our retained earnings, it's important to note we have very good ability to source additional capital should we need it to fund profitable growth.

On our timeline, with our release of second quarter results in 61 days, we have accelerated our financial release process. Given this success – and our commitment to keep improving with each release – we're targeting the release of third quarter results by Thanksgiving.

I give Buddy and his team a lot of credit for this success and it gives us increasing confidence in our ability to complete our remediation process and register with the SEC in the middle part of next year.

[Slide 11] Let me make a few closing points before Q&A.

First, as I've discussed, while the current unrest in the financial markets is causing turmoil for many mortgage companies, the underlying trends are benefiting Freddie Mac.

Second, in contrast to the sharp reductions in volumes and changed business plans that many weaker players in the mortgage industry have been forced to address, we are continuing to grow our business, to capitalize on our funding advantage and to maintain our disciplined credit exposure. In this way, we are exploiting our core strengths to strengthen our long-term strategic position.

Finally, the market events of the past two months have pointed out the ongoing role that Freddie and Fannie play in the mortgage market. Far from representing an uneconomic subsidy, the GSEs are required to provide liquidity, stability and affordability to the market. That's what we do – in good times and bad. This serves *both* our mission *and* our shareholders.

Thanks to sound risk management and a high quality book of business, we are playing our vital role once again today -- and we stand ready to do even more.

Thanks, and now let's turn to your questions.