FEDERAL HOME LOAN MORTGAGE CORP
Form 10-12G
July 18, 2008

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As submitted to the Securities and Exchange Commission on July 18, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10

GENERAL FORM FOR REGISTRATION OF SECURITIES
Pursuant to Section 12(b) or (g) of The Securities Exchange Act of 1934

Federal Home Loan Mortgage Corporation
(doing business as Freddie Mac)
(Exact name of registrant as specified in its charter)

Chartered by Congress under the laws of the United States of America
(State or other jurisdiction of incorporation or organization)

52-0904874
(I.R.S. Employer Identification No.)

8200 Jones Branch Drive, McLean, Virginia 22102
(Address of principal executive offices, including zip code)

(703) 903-2000
(Registrant s telephone number, including area code)

Securities to be registered pursuant to Section 12(b) of the Act:

None

Securities to be registered pursuant to Section 12(g) of the Act:

Voting Common Stock, par value $0.21 per share
(Title of class)

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨	Accelerated filer ¨	Non-accelerated filer x (Do not check if a smaller reporting company)	Smaller reporting company ¨

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FORWARD-LOOKING STATEMENTS

We regularly communicate information concerning our business activities to investors, securities analysts, the news media and others as part of our normal operations. Some of these communications, including the BUSINESS, RECENT EVENTS, ANNUAL MD&A and INTERIM MD&A sections of this Registration Statement, contain forward-looking statements pertaining to our current expectations and objectives for financial reporting, remediation efforts, future business plans, capital plans, results of operations, financial condition and market trends and developments. Forward-looking statements are often accompanied by, and identified with, terms such as seek, forecasts, objective, believe, expect, trend, future, intend, could, and similar phrases. These statements historical facts, but rather represent our expectations based on current information, plans, estimates and projections. Forward-looking statements involve known and unknown risks, uncertainties and other factors, some of which are beyond our control. You should be careful about relying on any forward-looking statements and should also consider all risks, uncertainties and other factors described in this Registration Statement in considering any forward-looking statements. Actual results may differ materially from those discussed as a result of various factors, including those factors described in the RISK FACTORS section of this Registration Statement. Factors that could cause actual results to differ materially from the expectations expressed in these and other forward-looking statements by management include, among others:

- changes in applicable legislative or regulatory requirements, including enactment of government-sponsored enterprise, or GSE, oversight legislation, changes to our charter, affordable housing goals, regulatory capital requirements, the exercise or assertion of regulatory or administrative authority beyond historical practice, or regulation of the subprime or non-traditional mortgage market;

- our ability to effectively identify and manage credit risk and/or changes to the credit environment;

- changes in general economic conditions, including the risk of U.S. or global economic recession, regional employment rates, liquidity of the markets and availability of credit in the markets;

- our ability to effectively implement our business strategies and manage the risks in our business, including our efforts to improve the supply and liquidity of, and demand for, our products;

- changes in our assumptions or estimates regarding rates of growth in our business, spreads we expect to earn, required capital levels, the timing and impact of capital transactions;

- changes in pricing or valuation methodologies, models, assumptions, estimates and/or other measurement techniques;

- further adverse rating actions by credit rating agencies in respect of structured credit products, other credit-related exposures, or mortgage or bond insurers;

- our ability to manage and forecast our capital levels;

- our ability to effectively identify and manage interest-rate and other market risks, including the levels and volatilities of interest rates, as well as the shape and slope of the yield curves;

- incomplete or inaccurate information provided by customers and counterparties, or adverse changes in the financial condition of our customers and counterparties;

our ability to effectively identify, assess, evaluate, manage, mitigate or remediate control deficiencies and risks, including material weaknesses and significant deficiencies, in our internal control over financial reporting and disclosure controls and procedures;

our ability to effectively and timely implement the remediation plan undertaken as a result of the restatement of our consolidated financial statements and the consent order entered into with the Office of Federal Housing Enterprise Oversight, or OFHEO, including particular initiatives relating to technical infrastructure and controls over financial reporting;

our ability to effectively manage and implement changes, developments or impacts of accounting or tax standards and interpretations;

changes in the loans available for us to purchase, such as increases or decreases in the conforming loan limits;

the availability of debt financing and equity capital in sufficient quantity and at attractive rates to support growth in our retained portfolio, to refinance maturing debt and to meet regulatory capital requirements;

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the rate of growth in total outstanding U.S. residential mortgage debt, the size of the U.S. residential mortgage market and homeownership rates, supply and demand of available multifamily housing;

direct and indirect impacts of continuing deterioration of subprime and other real estate markets;

the levels and volatility of interest rates, mortgage-to-debt option adjusted spreads, and home prices;

volatility of reported results due to changes in fair value of certain instruments or assets;

the availability of options, interest-rate and currency swaps and other derivative financial instruments of the types and quantities and with acceptable counterparties needed for investment funding and risk management purposes;

changes to our underwriting and disclosure requirements or investment standards for mortgage-related products;

the ability of our financial, accounting, data processing and other operating systems or infrastructure and those of our vendors to process the complexity and volume of our transactions;

preferences of originators in selling into the secondary market and borrower preferences for fixed-rate mortgages or adjustable-rate mortgages, or ARMs;

investor preferences for mortgage loans and mortgage-related and debt securities versus other investments;

the occurrence of a major natural or other disaster in geographic areas that would adversely affect our Total mortgage portfolio holdings;

other factors and assumptions described in this Registration Statement, including in the sections titled BUSINESS, RISK FACTORS, RECENT EVENTS, ANNUAL MD&A and INTERIM MD&A ;

our assumptions and estimates regarding the foregoing and our ability to anticipate the foregoing factors and their impacts; and

market reactions to the foregoing.

We undertake no obligation to update forward-looking statements we make to reflect events or circumstances after the date of this Registration Statement or to reflect the occurrence of unanticipated events.

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ITEM 1. BUSINESS

Overview

Freddie Mac is a stockholder-owned company chartered by Congress in 1970 to stabilize the nation s residential mortgage markets and expand opportunities for homeownership and affordable rental housing. Our mission is to provide liquidity, stability and affordability to the U.S. housing market. We fulfill our mission by purchasing residential mortgages and mortgage-related securities in the secondary mortgage market and securitizing them into mortgage-related securities that can be sold to investors. We are one of the largest purchasers of mortgage loans in the U.S. Our purchases of mortgage assets provide lenders with a steady flow of low-cost mortgage fundings. We purchase single-family and multifamily mortgage-related securities for our investments portfolio. We also purchase multifamily residential mortgages in the secondary mortgage market and hold those loans for investment. We finance purchases of our mortgage-related securities and mortgage loans, and manage our interest-rate and other market risks, primarily by issuing a variety of debt instruments and entering into derivative contracts in the capital markets. See ANNUAL MD&A PORTFOLIO BALANCES AND ACTIVITIES Table 44 Total Mortgage Portfolio and Segment Portfolio Composition and INTERIM MD&A PORTFOLIO BALANCES AND ACTIVITIES Table 100 Total Mortgage Portfolio and Segment Portfolio Composition for an overview of our various portfolios.

Though we are chartered by Congress, our business is funded with private capital. We are responsible for making payments on our securities. Neither the U.S. government nor any other agency or instrumentality of the U.S. government is obligated to fund our mortgage purchase or financing activities or to guarantee our securities and other obligations.

Our Charter and Mission

The Federal Home Loan Mortgage Corporation Act, which we refer to as our charter, forms the framework for our business activities, the products we bring to market and the services we provide to the nation s residential housing and mortgage industries. Our charter also determines the types of mortgage loans that we are permitted to purchase, as described in the Single-family Guarantee segment and the Multifamily segment.

Our mission is defined in our charter:

- to provide stability in the secondary market for residential mortgages;
- to respond appropriately to the private capital market;
- to provide ongoing assistance to the secondary market for residential mortgages (including activities relating to mortgages for low-and moderate-income families involving an economic return that may be less than the return earned on other activities); and
- to promote access to mortgage credit throughout the U.S. (including central cities, rural areas and other underserved areas).

Our activities in the secondary mortgage market benefit consumers by providing lenders a steady flow of low-cost mortgage funding. This flow of funds helps moderate cyclical swings in the housing market, equalizes the flow of mortgage funds regionally throughout the U.S. and makes mortgage funds available in a variety of economic conditions. In addition, the supply of cash made available to lenders through this process reduces mortgage rates on

loans within the dollar limits set in accordance with our charter. These lower rates help make homeownership affordable for more families and individuals than would be possible without our participation in the secondary mortgage market.

To facilitate our mission, our charter provides us with special attributes including:

exemption from the registration and reporting requirements of the Securities Act and the Exchange Act. We are, however, subject to the general antifraud provisions of the federal securities laws and have committed to the voluntary registration of our common stock with the SEC under the Exchange Act;

favorable treatment of our securities under various investment laws and other regulations;

discretionary authority of the Secretary of the Treasury to purchase up to $2.25 billion of our securities; and

exemption from state and local taxes, except for taxes on real property that we own.

Market Overview

We conduct business in the U.S. residential mortgage market and the global securities market. Our participation in these markets links America s homebuyers with the world s capital markets. In general terms, the U.S. residential mortgage market consists of a primary mortgage market that links homebuyers and lenders and a secondary mortgage market that links lenders and investors. In the primary market, residential mortgage lenders such as mortgage banking companies, commercial banks, savings institutions, credit unions and other financial institutions originate or provide mortgages to borrowers. They obtain the funds they lend to mortgage borrowers in a variety of ways, including by selling mortgages into the secondary market. Our charter does not permit us to originate loans in the primary mortgage market.

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The secondary market consists of institutions engaged in buying and selling mortgages in the form of whole loans (*i.e.*, mortgages that have not been securitized) and mortgage-related securities. We participate in the secondary mortgage market by purchasing mortgage loans and mortgage-related securities for investment and by issuing guaranteed mortgage-related securities called Mortgage Participation Certificates, or PCs. We do not lend money directly to homeowners. The following diagram illustrates how we create PCs that can be sold to investors or held by us to provide liquidity to the mortgage market:

We guarantee the PCs created in this process in exchange for a combination of management and guarantee fees paid on a monthly basis as a percentage of the underlying unpaid principal balance of the loans and initial upfront cash payments referred to as credit or delivery fees. Our guarantee increases the marketability of the PCs, providing liquidity to the mortgage market. Various other participants also play significant roles in the residential mortgage market. Mortgage brokers advise prospective borrowers about mortgage products and lending rates, and they connect borrowers with lenders. Mortgage servicers administer mortgage loans by collecting payments of principal and interest from borrowers as well as amounts related to property taxes and insurance. They remit the principal and interest payments to us, less a servicing fee, and we pass these payments through to mortgage investors, less a fee we charge to provide our guarantee (*i.e.*, the management and guarantee fee). In addition, private mortgage insurance companies and other financial institutions sometimes provide third-party insurance for mortgage loans or pools of loans. Our charter requires third-party insurance or other credit protections on some loans that we purchase.

With the exceptions noted below, our charter also prohibits us from purchasing first-lien conventional (not guaranteed or insured by any agency or instrumentality of the U.S. government) single-family mortgages if the outstanding principal balance at the time of purchase exceeds 80 percent of the value of the property securing the mortgage unless we have one or more of the following credit protections:

- mortgage insurance from an approved mortgage insurer;
- a seller s agreement to repurchase or replace (for periods and under conditions as we may determine) any mortgage that has defaulted; or
- retention by the seller of at least a 10 percent participation interest in the mortgages.

This requirement does not apply to multifamily mortgages or to mortgages insured by the Federal Housing Administration, or FHA, or partially guaranteed by the Department of Veterans Affairs, or VA.

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Under our charter, so far as practicable, we may only purchase mortgages that are of a quality, type and class that generally meet the purchase standards of private institutional mortgage investors. This means the mortgages we purchase must be readily marketable to institutional mortgage investors.

Residential Mortgage Debt Market

We compete in the large and growing U.S. residential mortgage debt market. This market consists of a primary mortgage market in which lenders originate mortgage loans for homebuyers and a secondary mortgage market in which the mortgage loans are resold. At March 31, 2008, our total mortgage portfolio, which includes our retained portfolio and credit guarantee portfolio, was $2.1 trillion, while the total U.S. residential mortgage debt outstanding, which includes single-family and multifamily loans, was approximately $12 trillion. See PORTFOLIO BALANCES AND ACTIVITIES in both ANNUAL MD&A and INTERIM MD&A for further information on the composition of our mortgage portfolios.

Growth in the U.S. residential mortgage debt market is affected by several factors, including changes in interest rates, employment rates in various regions of the country, homeownership rates, home price appreciation, lender preferences regarding credit risk and borrower preferences regarding mortgage debt. The amount of residential mortgage debt available for us to purchase and the mix of available loan products are also affected by several factors, including the volume of single-family mortgages meeting the requirements of our charter and the mortgage purchase and securitization activity of other financial institutions. See RISK FACTORS for additional information.

Table 1 provides important indicators for the U.S. residential mortgage market.

Table 1 Mortgage Market Indicators

	Year Ended December 31,		
	2007	**2006**	**2005**
Home sale units (in thousands)[1]	5,713	6,728	7,463
House price appreciation[2]	(0.3)%	4.1%	9.6%
Single-family originations (in billions)[3]	$ 2,430	$ 2,980	$ 3,120
Adjustable-rate mortgage share[4]	10%	22%	30%
Refinance share[5]	45%	41%	44%
U.S. single-family mortgage debt outstanding (in billions)[6]	$ 11,158	$ 10,452	$ 9,379
U.S. multifamily mortgage debt outstanding (in billions)[6]	$ 837	$ 741	$ 688

(1) Includes sales of new and existing homes in the U.S. and excludes condos/co-ops. Source: National Association of Realtors news release dated February 25, 2008 (sales of existing homes) and U.S. Census Bureau news release dated January 28, 2008 (sales of new homes).

(2) Source: Office of Federal Housing Enterprise Oversight s 4Q 2007 House Price Index Report dated February 26, 2008 (purchase-only U.S. index).

(3) Source: Inside Mortgage Finance estimates of originations of single-family first-and second liens dated February 8, 2008.

(4) Adjustable-rate mortgage share of the number of conventional one-family mortgages for home purchase. Data for 2007 and 2006 are annual averages of monthly figures and 2005 is an annual composite. Source: Federal Housing Finance Board s Monthly Interest Rate Survey release dated January 24, 2008.

(5) Refinance share of the number of conventional mortgage applications. Source: Mortgage Bankers Association s Mortgage Applications Survey. Data reflect annual averages of weekly figures.

(6) Source: Federal Reserve Flow of Funds Accounts of the United States dated June 5, 2008.

Our Customers

Our customers are predominantly lenders in the primary mortgage market that originate mortgages for homeowners and apartment owners. These lenders include mortgage banking companies, commercial banks, savings banks, community banks, credit unions, state and local housing finance agencies and savings and loan associations.

We acquire a significant portion of our mortgages from several large lenders. These lenders are among the largest mortgage loan originators in the U.S. We have contracts with a number of mortgage lenders that include a commitment by the lender to sell us a minimum percentage or dollar amount of its mortgage origination volume. These contracts typically last for one year. If a mortgage lender fails to meet its contractual commitment, we have a variety of contractual remedies, including the right to assess certain fees. Our mortgage purchase contracts contain no penalty or liquidated damages clauses based on our inability to take delivery of presented mortgage loans. However, if we were to fail to meet our contractual commitment, we could be deemed to be in breach of our contract and could be liable for damages in a lawsuit. As the mortgage industry has been consolidating, we, as well as our competitors, have been seeking increased business from a decreasing number of key lenders. For the year ended December 31, 2007, and for the three months ended March 31, 2008, three mortgage lenders each accounted for more than 10% of our single-family mortgage purchase volume. These three lenders collectively accounted for approximately 45% and 42%, of total volume for the year ended December 31, 2007, and the three months ended March 31, 2008, respectively and our top ten lenders represented approximately 79% of our single-family mortgage purchase volume for the same two periods. Further, our top three multifamily lenders collectively represented approximately 44% of our multifamily purchase volume and our top ten multifamily lenders represented approximately 80% of our multifamily purchase volume for the year ended December 31, 2007, and the three months ended March 31, 2008. See RISK FACTORS Competitive and Market Risks for additional information.

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Our Business Segments

We manage our business through three reportable segments:

Single-family Guarantee;

Investments; and

Multifamily.

Certain activities that are not part of a segment are included in the All Other category. For a summary and description of our financial performance and financial condition on a consolidated as well as segment basis, see MD&A and FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA and the accompanying notes to our consolidated financial statements.

Single-family Guarantee Segment

In our Single-family guarantee segment, we purchase single-family mortgages originated by our lender customers in the primary mortgage market. We securitize certain of the mortgages we have purchased and issue mortgage-related securities that can be sold to investors or held by us, in our Investments segment. We guarantee the payment of principal and interest on these mortgage-related securities in exchange for a combination of management and guarantee fees paid on a monthly basis as a percentage of the underlying unpaid principal balance of the loans and initial upfront cash payments referred to as credit or delivery fees.

Earnings for this segment consist primarily of guarantee fee revenues, including amortization of upfront payments, less related credit costs and operating expenses.

Loan and Security Purchases

Our charter establishes requirements for and limitations on the mortgages and mortgage-related securities we may purchase, as described below. In the Single-family Guarantee segment, we purchase and securitize single-family mortgages, which are mortgages that are secured by one- to four-family properties. The primary types of single-family mortgages we purchase are 40-year, 30-year, 20-year, 15-year and 10-year fixed-rate mortgages, interest-only mortgages, adjustable rate mortgages or ARMs, and balloon/reset mortgages.

Our charter places a dollar amount cap, called the conforming loan limit, on the original principal balance of single-family mortgage loans we purchase. This limit is determined annually each October using a methodology based on changes in the national average price of a one-family residence, as surveyed by the Federal Housing Finance Board. For 2006 to 2008, the conforming loan limit for a one-family residence was set at $417,000. Higher limits apply to two-to four-family residences. The conforming loan limits are 50% higher for mortgages secured by properties in Alaska, Guam, Hawaii and the U.S. Virgin Islands. No comparable limits apply to our purchases of multifamily mortgages. As part of the Economic Stimulus Act of 2008, these conforming loan limits were temporarily increased. See Regulation and Supervision *Legislation Temporary Increase in Conforming Loan Limits*.

Loan and Credit Quality

Our charter requires that we obtain additional credit protection if the unpaid principal balance of a conventional single-family mortgage that we purchase exceeds 80% of the value of the property securing the mortgage. See CREDIT RISKS Mortgage Credit Risk *Underwriting Requirements and Quality Control Standards* for additional

information.

Guarantees

In our Single-family Guarantee segment, we guarantee the payment of principal and interest on single-family mortgage-related securities, including those held in our retained portfolio, in exchange for a combination of management and guarantee fees paid on a monthly basis as a percentage of the underlying unpaid principal balance of the loans, and initial upfront cash payments referred to as credit or delivery fees. Earnings for this segment consist primarily of guarantee fee revenues, including amortization of upfront payments, less related credit costs and operating expenses. Also included is the interest earned on assets held in the Investments segment related to single-family guarantee activities, net of allocated funding costs and amounts related to net float benefits.

Through our Single-family Guarantee segment, we seek to issue guarantees with fee terms that we believe offer attractive long-term returns relative to anticipated credit costs. In addition, we seek to improve our share of the total residential mortgage securitization market by improving customer service, expanding our customer base, and expanding the types of mortgages we guarantee and the products we offer. We may make trade-offs in our pricing and our risk profile in order to maintain market share, support liquidity in various segments of the residential mortgage market, support the price performance of our PCs and acquire business in pursuit of our affordable housing goals and subgoals.

We provide guarantees to many of our larger customers through contracts that require them to sell or securitize a specified minimum share of their eligible loan originations to us, subject to certain conditions and exclusions. The purchase and securitization of mortgage loans from customers under these longer-term contracts have fixed pricing schedules for our

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management and guarantee fees that are negotiated at the outset of the contract. We call these transactions flow activity and they represent the majority of our purchase volumes. The remainder of our purchases and securitizations of mortgage loans occurs in bulk transactions for which purchase prices and management and guarantee fees are negotiated on an individual transaction basis. Mortgage purchase volumes from individual customers can fluctuate significantly.

Securitization Activities

We securitize substantially all of the newly or recently originated single-family mortgages we have purchased and issue mortgage-related securities called PCs that can be sold to investors or held by us. We guarantee the payment of principal and interest on these mortgage-related securities in exchange for compensation, which we refer to as management and guarantee fees. We generally hold PCs instead of single-family mortgage loans for investment purposes primarily to provide flexibility in determining what to sell or hold and to allow for cost effective interest-rate risk management.

The compensation we receive in exchange for our guarantee activities includes a combination of management and guarantee fees paid on a monthly basis as a percentage of the underlying unpaid principal balance of the loans and initial upfront cash payments referred to as credit or delivery fees. We recognize the fair value of the right to receive ongoing management and guarantee fees as a guarantee asset at the inception of a guarantee. We subsequently account for the guarantee asset like a debt security, which performs similar to an interest-only security, classified as trading and reflect changes in the fair value of the guarantee asset in earnings. We recognize a guarantee obligation at inception equal to the fair value of the compensation received, including any upfront credit or delivery fees, less upfront payments paid by us to buy-up the monthly management and guarantee fee, plus any upfront payments received by us to buy-down the monthly management and guarantee fee rate, plus any seller provided credit enhancements. The guarantee obligation represents deferred revenue that is amortized into earnings as we are relieved from risk under the guarantee.

The guarantee we provide increases the marketability of our mortgage-related securities, providing additional liquidity to the mortgage market. The types of mortgage-related securities we guarantee include the following:

PCs we issue;

single-class and multi-class Structured Securities (including Structured Transactions) we issue; and

securities related to tax-exempt multifamily housing revenue bonds (see Multifamily segment).

PCs

Our PCs are pass-through securities that represent undivided beneficial interests in trusts that own pools of mortgages we have purchased. For our fixed-rate PCs, we guarantee the timely payment of interest and the timely payment of principal. For our ARM PCs, we guarantee the timely payment of the weighted average coupon interest rate for the underlying mortgage loans. We do not guarantee the timely payment of principal for ARM PCs; however, we do guarantee the full and final payment of principal. In exchange for providing this guarantee, we receive a contractual management and guarantee fee and other up-front credit-related fees. We issue most of our PCs in transactions in which our customers exchange mortgage loans for PCs. We refer to these transactions as Guarantor Swaps. The following diagram illustrates a Guarantor Swap transaction:

Guarantor Swap

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We also issue PCs in exchange for cash. The following diagram illustrates an exchange for cash in a cash auction of PCs:

Cash Auction of PCs

Other investors purchase our PCs, including pension funds, insurance companies, securities dealers, money managers, commercial banks, foreign central banks and other fixed-income investors. PCs differ from U.S. Treasury securities and other fixed-income investments in two ways. First, they can be prepaid at any time because homeowners can pay off the underlying mortgages at any time prior to a loan s maturity. Because homeowners have the right to prepay their mortgage, the securities implicitly have a call option that significantly reduces the average life of the security as compared to the contractual loan maturity. Consequently, mortgage-backed securities generally provide a higher nominal yield than certain other fixed-income products. Second, PCs are not backed by the full faith and credit of the United States, as are U.S. Treasury securities. However, we guarantee the payment of interest and principal on all our PCs, as discussed above.

Our PCs provide investors with many benefits. The U.S. mortgage-backed securities market makes up more than one-quarter of the U.S. fixed-income securities market, the largest in size in terms of volume of outstanding securities. As part of this market, Freddie Mac s mortgage-backed securities are among the most liquid and widely held in the world. Freddie Mac securities offer transparency by providing loan-level disclosure on our mortgage-backed securities. This allows investors the ability to further analyze our securities over time, including being able to better compare the prepayment behavior of the loans backing our securities. PCs are a valuable fixed-income investment for a broad range of both domestic and foreign investors, offering attractive yields, high liquidity, improving price performance and opportunities to use PCs to obtain financing through dollar roll or other financing transactions.

Structured Securities

Our Structured Securities represent beneficial interests in pools of PCs and certain other types of mortgage-related assets. We create Structured Securities primarily by using PCs or previously issued Structured Securities as collateral. Similar to our PCs, we guarantee the payment of principal and interest to the holders of all tranches of our Structured Securities. By issuing Structured Securities, we seek to provide liquidity to alternative sectors of the mortgage market. We do not charge a management and guarantee fee for Structured Securities, other than Structured Transactions discussed below, because the

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underlying collateral is already guaranteed, so there is no incremental credit risk to guarantee. The following diagram illustrates how we create a Structured Security:

Structured Security

We issue single-class Structured Securities and multi-class Structured Securities. Because the collateral underlying Structured Securities consists of other guaranteed mortgage-related security, there are no concentrations of credit risk in any of the classes of Structured Securities that are issued, and there are no economic residual interests in the underlying securitization trust.

Single-class Structured Securities involve the straight pass through all of the cash flows of the underlying collateral. Multi-class Structured Securities divide all of the cash flows of the underlying mortgage-related assets into two or more classes designed to meet the investment criteria and portfolio needs of different investors by creating classes of securities with varying maturities, payment priorities and coupons, each of which represents a beneficial ownership interest in a separate portion of the cash flows of the underlying collateral. Usually, the cash flows are divided to modify the relative exposure of different classes to interest-rate risk, or to create various coupon structures. The simplest division of cash flows is into principal-only and interest-only classes. Other securities we issue can involve the creation of sequential and planned or targeted amortization classes. In a sequential payment class structure, one or more classes receive all or a disproportionate percentage of the principal payments on the underlying mortgage assets for a period of time until that class or classes is retired, following which the principal payments are directed to other classes. Planned or targeted amortization classes involve the creation of classes that have relatively more predictable amortization schedules across different prepayment scenarios, thus reducing prepayment risk, extension risk, or both.

Our principal multi-class Structured Securities qualify for tax treatment as Real Estate Mortgage Investment Conduits, or REMICs. We issue many of our Structured Securities in transactions in which securities dealers or investors sell us the mortgage-related assets underlying the Structured Securities in exchange for the Structured Securities. For Structured Securities that we issue to third parties in exchange for guaranteed mortgage-related securities, we receive a transaction fee. This transaction fee is compensation for facilitating the transaction, as well as future administrative responsibilities. We do not receive a management and guarantee fee for these transactions because the underlying collateral consists of guaranteed securities, and therefore there is no incremental guarantee obligation. We also sell Structured Securities to securities dealers in exchange for cash.

Structured Transactions

We also issue Structured Securities to third parties in exchange for non-Freddie Mac mortgage-related securities. We refer to these as Structured Transactions. The non-Freddie Mac mortgage-related securities are transferred to trusts that were

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specifically created for the purpose of issuing the Structured Transactions. The following diagram illustrates a Structured Transaction:

Structured Transactions

Structured Transactions can generally be segregated into two different types. In the most common type, we purchase only the senior tranches from a non-Freddie Mac senior-subordinated securitization, place these senior tranches into a securitization trust, provide a guarantee of the principal and interest of the senior tranches, and issue the Structured Transaction. For all other Structured Transactions, we purchase single class pass through securities, place them in a securitization trust, guarantee the principal and interest, and issue the Structured Transaction. In exchange for providing our guarantee, we may receive a management and guarantee fee.

Although Structured Transactions generally have underlying mortgage loans with varying risk characteristics, we do not issue tranches that have concentrations of credit risk, as all cash flows of the underlying collateral are passed through to the holders of the securities and there are no economic residual interests in the securitization trusts. Further, the senior tranches we purchase as collateral for the Structured Transactions benefit from credit protections from the related subordinated tranches, which we do not purchase. Additionally, there are other credit enhancements and structural features retained by the seller, such as excess interest or overcollateralization, that provide credit protection to our interests, and reduce the likelihood that we will have to perform under our guarantee. Structured Transactions backed by single class pass through securities do not benefit from structural or other credit enhancement protections.

During 2007, we entered into long-term standby commitments for mortgage assets held by third parties that require us to purchase loans from lenders when the loans subject to these commitments meet certain delinquency criteria. During the first half of 2008, a majority of the long-term standby commitments were converted to PCs or Structured Transactions.

For information about the relative size of our of our securitization products, refer to Table 46 Guaranteed PCs and Structured Securities and Table 47 Single-Class and Multi-Class PCs and Structured Securities in ANNUAL MD&A PORTFOLIO BALANCES AND ACTIVITIES and Table 102 Guaranteed PCs and Structured Securities in INTERIM MD&A PORTFOLIO BALANCES AND ACTIVITIES. For information about the relative performance of these securities, refer to our CREDIT RISKS sections under both ANNUAL MD&A and INTERIM MD&A.

PC Trust Documents

In December 2007, we introduced trusts into our security issuance process. Under our PC master trust agreement, we established trusts for all of our PCs issued both prior and subsequent to December 2007. In addition, each PC trust, regardless of the date of its formation, is governed by a pool supplement documenting the formation of the PC trust and the

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issuance of the related PCs by that trust. The PC master trust agreement, along with the pool supplement, offering circular, any offering circular supplement, and any amendments, are the PC trust documents that govern each individual PC trust.

In accordance with the terms of our PC trust documents, we have the option, and in some instances the requirement, to purchase specified mortgage loans from the trust. We purchase these mortgages at an amount equal to the current unpaid principal balance, less any outstanding advances of principal on the mortgage that have been paid to the PC holder.

In accordance with the terms of our PC trust documents, we have the right, but are not required, to purchase a mortgage loan from a PC trust under a variety of circumstances. Generally, we elect to purchase mortgages that back our PCs and Structured Securities from the underlying loan pools when they are significantly past due. Through November 2007, our general practice was to purchase the mortgage loans out of PCs after the loans became 120 days delinquent. In December 2007, we changed our practice to purchase mortgages that are 120 days or more delinquent from pools underlying our PCs when:

- the mortgages have been modified;
- a foreclosure sale occurs;
- the mortgages are delinquent for 24 months; or
- the cost of guarantee payments to PC holders, including advances of interest at the security coupon rate, exceeds the cost of holding the nonperforming loans in our portfolio.

In accordance with the terms of our PC trust documents, we are required to purchase a mortgage loan from a PC trust in the following situations:

- if a court of competent jurisdiction or a federal government agency, duly authorized to oversee or regulate our mortgage purchase business, determines that our purchase of the mortgage was unauthorized and a cure is not practicable without unreasonable effort or expense, or if such a court or government agency requires us to repurchase the mortgage;
- if a borrower exercises its option to convert the interest rate from an adjustable rate to a fixed rate on a convertible ARM; and
- in the case of balloon loans, shortly before the mortgage reaches its scheduled balloon repayment date.

The To Be Announced Market

Because our PCs are homogeneous, issued in high volume and highly liquid, they trade on a generic basis by PC coupon rate, also referred to as trading in the To Be Announced, or TBA, market. A TBA trade in Freddie Mac securities represents a contract for the purchase or sale of PCs to be delivered at a future date; however, the specific PCs that will be delivered to fulfill the trade obligation, and thus the specific characteristics of the mortgages underlying those PCs, are not known (*i.e.*, announced) at the time of the trade, but only shortly before the trade is settled. The use of the TBA market increases the liquidity of mortgage investments and improves the distribution of investment capital available for residential mortgage financing, thereby helping us to accomplish our statutory mission.

The Securities Industry and Financial Markets Association publishes guidelines pertaining to the types of mortgages that are eligible for TBA trades. On February 15, 2008, the Securities Industry and Financial Markets Association announced that the higher loan balances, which are now eligible for purchase by the Federal Housing Administration, or FHA, or the government-sponsored entities, or GSEs (*i.e.*, Freddie Mac and the Federal National Mortgage Association, or Fannie Mae) under the temporary increase to conforming loan limits in the Economic Stimulus Act of 2008, described in Regulation and Supervision *Legislation Temporary Increase in Conforming Loan Limits*, will not be eligible for inclusion in TBA pools. By segregating these mortgages with higher loan balances from TBA eligible securities, we minimize any impact to the existing TBA market for our securities.

Credit Risk

Our Single-family Guarantee segment is responsible for pricing and managing credit risk related to single-family loans, including and single-family loans underlying our PCs. For more information regarding credit risk, see CREDIT RISKS under both ANNUAL MD&A and INTERIM MD&A and NOTE 5: MORTGAGE LOANS AND LOAN LOSS RESERVES to both our audited and unaudited consolidated financial statements.

Investments Segment

Our Investments business is responsible for investment activity in mortgages and mortgage-related securities, other investments, debt financing, and for managing our interest-rate risk, liquidity and capital positions. We invest principally in mortgage-related securities and single-family mortgages through our mortgage-related investment portfolio.

We seek to generate attractive returns on our portfolio of mortgage-related investment portfolio while maintaining a disciplined approach to interest-rate risk and capital management. We seek to accomplish this objective through opportunistic purchases, sales and restructuring of mortgage assets or repurchase of liabilities. Although we are primarily a buy and hold

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investor in mortgage assets, we may sell assets to reduce risk, to respond to capital constraints, to provide liquidity or to structure certain transactions that improve our returns. We estimate our expected investment returns using an option-adjusted spread, or OAS, approach. However, our Investments segment activities may include the purchase of mortgages and mortgage-related securities with less attractive investment returns and with incremental risk in order to achieve our affordable housing goals and subgoals. We also maintain a cash and non-mortgage-related securities investment portfolio in this segment to help manage our liquidity needs.

Debt Financing

We fund our investment activities in our Investments and Multifamily segments by issuing short-term and long-term debt. Competition for funding can vary with economic and financial market conditions and regulatory environments. See LIQUIDITY AND CAPITAL RESOURCES under both ANNUAL MD&A and INTERIM MD&A for a description of our funding activities.

Risk Management

Our Investment segment has responsibility for managing our interest rate and liquidity risk. We use derivatives to: (a) regularly adjust or rebalance our funding mix in order to more closely match changes in the interest-rate characteristics of our mortgage-related assets; (b) economically hedge forecasted issuances of debt and synthetically create callable and non-callable funding; and (c) economically hedge foreign-currency exposure. For more information regarding our derivatives, see QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK under both ANNUAL MD&A and INTERIM MD&A and NOTE 11: DERIVATIVES to our audite consolidated financial statements and NOTE 10: DERIVATIVES to our unaudited consolidated financial statements.

PC and Structured Securities Support Activities

We support the liquidity and depth of the market for PCs through a variety of activities, including educating dealers and investors about the merits of trading and investing in PCs, enhancing disclosure related to the collateral underlying our securities and introducing new mortgage-related securities products and initiatives. We support the price performance of our PCs through a variety of strategies, including the purchase and sale by our retained portfolio of PCs and other agency securities, including securities issued by Fannie Mae, a similarly chartered GSE, as well as through the issuance of Structured Securities. Purchases and sales by our retained portfolio influence the relative supply and demand for securities, and the issuance of Structured Securities increases demand for PCs. Increasing demand for our PCs helps support the price performance of our PCs.

While some purchases of PCs may result in expected returns that are below our normal thresholds, this strategy is not expected to have a material effect on our long-term economic returns. Depending upon market conditions, including the relative prices, supply of and demand for PCs and comparable Fannie Mae securities, as well as other factors, there may be substantial variability in any period in the total amount of securities we purchase or sell for our retained portfolio in accordance with this strategy. We may increase, reduce or discontinue these or other related activities at any time, which could affect the liquidity and depth of the market for PCs.

Multifamily Segment

Our Multifamily segment activities include purchases of multifamily mortgages for investment and guarantees of payments of principal and interest on multifamily mortgage-related securities and mortgages underlying multifamily housing revenue bonds. The assets of the Multifamily segment include mortgages that finance multifamily rental apartments. We seek to generate attractive investment returns on our multifamily mortgage loans while fulfilling our mission to supply affordable rental housing. We also issue guarantees that we believe offer attractive long-term

returns relative to anticipated credit costs.

Multifamily mortgages are secured by properties with five or more residential rental units, including apartment communities. These are generally structured as balloon mortgages with terms ranging from five to ten years with a thirty year amortization schedule. Our multifamily mortgage products, services and initiatives are designed to finance affordable rental housing for low-and moderate-income families.

We do not typically securitize multifamily mortgages, because our multifamily loans are typically large, customized, non-homogenous loans, that are not as conducive to securitization and the market for private-label multifamily securitizations is currently relatively illiquid. Accordingly, we typically hold multifamily loans for investment purposes. We also buy senior classes of commercial mortgage-backed securities, or CMBS, backed by pools of multifamily mortgages, which are held in our Investments segment. The vast majority of the apartment units we finance are affordable to low- and moderate-income families.

The multifamily property market is affected by employment strength, the relative affordability of single-family home prices, and construction cycles, all of which influence the supply and demand for apartments and pricing for rentals. Our multifamily loan purchases are largely through established institutional channels where we are generally providing either post or mid-construction financing to large apartment project operators with established track records. Property location and

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leasing cash flows provide support to capitalization values on multifamily properties, on which investors base lending decisions.

Our Multifamily segment also includes certain equity investments in various limited partnerships that sponsor low-and moderate-income multifamily rental apartments, which benefit from low-income housing tax credits, or LIHTC. These activities support our mission to supply financing for affordable rental housing. We guarantee the payment of principal and interest on multifamily mortgage loans and securities that are originated and held by state and municipal housing finance agencies to support tax-exempt and taxable multifamily housing revenue bonds. By engaging in these activities, we provide liquidity to this sector of the mortgage market.

Our Competition

Our principal competitors are Fannie Mae, the Federal Home Loan Banks, other financial institutions that retain or securitize mortgages, such as commercial and investment banks, dealers, thrift institutions, and insurance companies. We compete on the basis of price, products, structure and service.

Employees

At June 30, 2008, we had 5,085 full-time and 104 part-time employees. Our principal offices are located in McLean, Virginia.

Available Information

While we are exempt from Exchange Act registration and reporting requirements, we have committed to register our common stock under the Exchange Act. Once this process is complete, we will be subject to the financial reporting requirements applicable to registrants under the Exchange Act, including the requirement to file with the SEC annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K. In addition, OFHEO issued a supplemental disclosure regulation under which we will file proxy statements and our officers and directors will file insider transaction reports to the SEC in accordance with rules promulgated under the Exchange Act.

Our financial disclosure documents are available free of charge on our website at www.freddiemac.com. (We do not intend this internet address to be an active link and are not using references to this internet address here or elsewhere in this Registration Statement to incorporate additional information into this Registration Statement.) When our Registration Statement becomes effective, we will make available free of charge through our website our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all other SEC reports and amendments to those reports as soon as reasonably practicable after we electronically file the material with, or furnish it to, the SEC. In addition, our Forms 10-K, 10-Q and 8-K, and other information filed with the SEC, will be available for review and copying free of charge at the SEC s Public Reference Room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet site (www.sec.gov) that contains reports, proxy and information statements, and other information regarding companies that file electronically with the SEC. Our corporate governance guidelines, codes of conduct for employees and members of the board of directors (and any amendments or waivers that would be required to be disclosed) and the charters of the board s five standing committees (Audit; Finance and Capital Deployment; Mission, Sourcing and Technology; Governance, Nominating and Risk Oversight; and Compensation and Human Resources Committees) are also available on our website at www.freddiemac.com. Printed copies of these documents may be obtained upon request from our Investor Relations department.

Regulation and Supervision

In addition to the limitations on our business activities described above in BUSINESS Our Charter and Mission, we are subject to regulation and oversight by HUD and OFHEO under our charter and the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, or the GSE Act. We are also subject to certain regulation by other government agencies.

Department of Housing and Urban Development

HUD has general regulatory authority over Freddie Mac, including authority over new programs, affordable housing goals and fair lending. HUD periodically conducts reviews of our activities to ensure conformity with our charter and other regulatory obligations.

Housing Goals and Home Purchase Subgoals

HUD establishes annual affordable housing goals, which are set forth below in Table 2. The goals, which are set as a percentage of the total number of dwelling units underlying our total mortgage purchases, have risen steadily since they became permanent in 1995. The goals are intended to expand housing opportunities for low- and moderate-income families, low-income families living in low-income areas, very low-income families and families living in HUD-defined underserved areas. The goal relating to low-income families living in low-income areas and very low-income families is referred to as the special affordable housing goal. This special affordable housing goal also includes a multifamily subgoal that sets an

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annual minimum dollar volume of qualifying multifamily mortgage purchases. In addition, HUD has established three subgoals that are expressed as percentages of the total number of mortgages we purchased that finance the purchase of single-family, owner-occupied properties located in metropolitan areas.

Table 2 Housing Goals and Home Purchase Subgoals for 2007 and 2008(1)

	Housing Goals	
	2008	**2007**
Low- and moderate-income goal	56%	55%
Underserved areas goal	39	38
Special affordable goal	27	25
Multifamily special affordable volume target (in billions)	$ 3.92	$ 3.92

	Home Purchase Subgoals	
	2008	**2007**
Low- and moderate-income subgoal	47%	47%
Underserved areas subgoal	34	33
Special affordable subgoal	18	18

(1) An individual mortgage may qualify for more than one of the goals or subgoals. Each of the goal and subgoal percentages will be determined independently and cannot be aggregated to determine a percentage of total purchases that qualifies for these goals or subgoals.

Our performance with respect to the goals and subgoals is summarized in Table 3. HUD ultimately determined that we met the goals and subgoals for 2006. In March 2008, we reported to the U.S. Department of Housing and Urban Development, or HUD, that we did not achieve two home purchase subgoals (the low-and moderate-income subgoal and the special affordable housing subgoal) for 2007. We believe that achievement of these two home purchase subgoals was infeasible in 2007 under the terms of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, or the GSE Act, and accordingly submitted an infeasibility analysis to HUD. In April 2008, HUD notified us that it had determined that, given the declining affordability of the primary market since 2005, the scope of market turmoil in 2007, and the collapse of the non-agency, or private label, secondary mortgage market, the availability of subgoal-qualifying home purchase loans was reduced significantly and therefore achievement of these subgoals was infeasible. Consequently, we will not submit a housing plan to HUD. In 2008, we expect that the market conditions discussed above and the tightened credit and underwriting environment will continue to make achieving our affordable housing goals and subgoals challenging.

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Table 3 Housing Goals and Home Purchase Subgoals and Reported Results(1)

Housing Goals and Actual Results

	Year Ended December 31,			
	2006		2005	
	Goal	Result	Goal	Result
Low- and moderate-income goal	53%	55.9%	52%	54.0%
Underserved areas goal	38	42.7	37	42.3
Special affordable goal	23	26.4	22	24.3
Multifamily special affordable volume target (in billions)	$ 3.92	$ 13.58	$ 3.92	$ 12.35

Home Purchase Subgoals and Actual Results

	Year Ended December 31,			
	2006		2005	
	Subgoal	Result	Subgoal	Result
Low- and moderate-income subgoal	46%	47.0%	45%	46.8%
Underserved areas subgoal	33	33.6	32	35.5
Special affordable subgoal	17	17.0	17	17.7

(1) An individual mortgage may qualify for more than one of the goals or subgoals. Each of the goal and subgoal percentages and each of our percentage results is determined independently and cannot be aggregated to determine a percentage of total purchases that qualifies for these goals or subgoals.

From time to time, we make significant adjustments to our mortgage loan sourcing and purchase strategies in an effort to meet the increased housing goals and subgoals. These strategies include entering into some purchase and securitization transactions with lower expected economic returns than our typical transactions. At times, we also relax some of our underwriting criteria to obtain goals-qualifying mortgage loans and may make additional investments in higher-risk mortgage loan products that are more likely to serve the borrowers targeted by HUD s goals and subgoals. Efforts to meet the goals and subgoals could further increase our credit losses. We continue to evaluate the cost of these activities.

Declining market conditions and regulatory changes during 2007 made meeting our affordable housing goals and subgoals more challenging than in previous years. The increased difficulty we are experiencing has been driven by a combination of factors, including:

the decreased affordability of single-family homes that began in 2005;

deteriorating conditions in the mortgage credit markets, which have resulted in significant decreases in the number of originations of subprime mortgages; and

increases in the levels of the goals and subgoals.

We anticipate that these market conditions will continue to affect our affordable housing activities in 2008. See also RISK FACTORS Legal and Regulatory Risks. However, we view the purchase of mortgage loans that are eligible to

count toward our affordable housing goals to be a principal part of our mission and business and we are committed to facilitating the financing of affordable housing for low- and moderate-income families.

If the Secretary of HUD finds that we failed to meet a housing goal established under section 1332, 1333, or 1334 of the GSE Act and that achievement of the housing goal was feasible, the GSE Act states that the Secretary shall require the submission of a housing plan with respect to the housing goal for approval by the Secretary. The housing plan must describe the actions we would take to achieve the unmet goal in the future. HUD has the authority to take enforcement actions against us, including issuing a cease and desist order or assessing civil money penalties, if we: (a) fail to submit a required housing plan or fail to make a good faith effort to comply with a plan approved by HUD; or (b) fail to submit certain data relating to our mortgage purchases, information or reports as required by law. See RISK FACTORS Legal and Regulatory Risks. While the GSE Act is silent on this issue, HUD has indicated that it has authority under the GSE Act to establish and enforce a separate specific subgoal within the special affordable housing goal.

New Program Approval

We are required under our charter and the GSE Act to obtain the approval of the Secretary of HUD for any new program for purchasing, servicing, selling, lending on the security of, or otherwise dealing in, conventional mortgages that is significantly different from:

- programs that HUD has approved;
- programs that HUD had approved or we had engaged in before the date of enactment of the GSE Act; or
- programs that represent an expansion of programs above limits expressly contained in any prior approval regarding the dollar volume or number of mortgages or securities involved.

HUD must approve any such new program unless the Secretary determines that the new program is not authorized under our charter or that the program is not in the public interest.

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Fair Lending

Our mortgage purchase activities are subject to federal anti-discrimination laws. In addition, the GSE Act prohibits discriminatory practices in our mortgage purchase activities, requires us to submit data to HUD to assist in its fair lending investigations of primary market lenders and requires us to undertake remedial actions against lenders found to have engaged in discriminatory lending practices. In addition, HUD periodically reviews and comments on our underwriting and appraisal guidelines for consistency with the Fair Housing Act and the GSE Act.

Anti-Predatory Lending

Predatory lending practices are in direct opposition to our mission, our goals and our practices. We have instituted anti-predatory lending policies intended to prevent the purchase or assignment of mortgage loans with unacceptable terms or conditions or resulting from unacceptable practices. In addition to the purchase policies we have instituted, we promote consumer education and financial literacy efforts to help borrowers avoid abusive lending practices and we provide competitive mortgage products to reputable mortgage originators so that borrowers have a greater choice of financing options.

Office of Federal Housing Enterprise Oversight

OFHEO is the safety and soundness regulator for Freddie Mac and Fannie Mae. The GSE Act established OFHEO as a separate office within HUD, substantially independent of the HUD Secretary. The Director who heads OFHEO is appointed by the President and confirmed by the Senate. The OFHEO Director is responsible for ensuring that Freddie Mac and Fannie Mae are adequately capitalized and operating safely in accordance with the GSE Act. In this regard, OFHEO is authorized to:

- issue regulations to carry out its responsibilities;
- conduct examinations;
- require reports of financial condition and operation;
- develop and apply critical, minimum and risk-based capital standards, including classifying each enterprise s capital levels not less than quarterly;
- prohibit excessive executive compensation under prescribed standards; and
- impose temporary and final cease-and-desist orders and civil money penalties, provided certain conditions are met.

From time to time, OFHEO has adopted guidance on a number of different topics, including accounting practices, corporate governance and compensation practices.

OFHEO also has exclusive administrative enforcement authority that is similar to that of other federal financial institutions regulatory agencies. That authority can be exercised in the event we fail to meet regulatory capital requirements; violate our charter, the GSE Act, OFHEO regulations, or a written agreement with or order issued by OFHEO; or engage in conduct that threatens to cause a significant depletion of our core capital. Core capital consists of the par value of outstanding common stock (common stock issued less common stock held in treasury), the par value of outstanding non-cumulative, perpetual preferred stock, additional paid-in capital and retained earnings, as determined in accordance with U.S. generally accepted accounting principles, or GAAP.

Consent Order

On December 9, 2003, we entered into a consent order and settlement with OFHEO that concluded its special investigation of the company related to the restatement of our previously issued consolidated financial statements for the years ended December 31, 2000 and 2001 and the revision of fourth quarter and full-year consolidated financial statements for 2002. Under the terms of the consent order, we agreed to undertake certain remedial actions related to governance, corporate culture, internal controls, accounting practices, disclosure and oversight. The consent order required us to make various submissions to OFHEO, to take various actions on an ongoing basis and to complete a variety of actions. We submitted all required submissions in a timely manner; are in compliance with all provisions requiring ongoing actions; and, except for the separation of the positions of Chairman and Chief Executive Officer, we have completed all actions required to be completed. We provide OFHEO with quarterly reports of the status of our progress against the ongoing requirements and against the one remaining item under the consent order. OFHEO public statements have indicated its intention to lift the consent order in the near term.

Voluntary, Temporary Growth Limit

In response to a request by OFHEO on August 1, 2006, we announced that we would voluntarily and temporarily limit the growth of our retained portfolio to 2.0% annually. On September 19, 2007, OFHEO provided an interpretation regarding the methodology for calculating the voluntary, temporary growth limit. Consistent with OFHEO s February 27, 2008 announcement of the removal of the growth limit on March 1, 2008, the growth limit has expired.

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Capital Standards and Dividend Restrictions

The GSE Act established regulatory capital requirements for us that include ratio-based minimum and critical capital requirements and a risk-based capital requirement designed to ensure that we maintain sufficient capital to survive a sustained severe downturn in the economic environment. These standards determine the amounts of core capital and total capital that we must maintain to meet regulatory capital requirements. Total capital includes core capital and general reserves for mortgage and foreclosure losses and any other amounts available to absorb losses that OFHEO includes by regulation.

Minimum Capital. The minimum capital standard requires us to hold an amount of core capital that is generally equal to the sum of 2.50% of aggregate on-balance sheet assets and approximately 0.45% of the sum of outstanding mortgage-related securities we guaranteed and other aggregate off-balance sheet obligations. As discussed below, in 2004 OFHEO implemented a framework for monitoring our capital adequacy, which includes a mandatory target capital surplus over the minimum capital requirement.

Critical Capital. The critical capital standard requires us to hold an amount of core capital that is generally equal to the sum of 1.25% of aggregate on-balance sheet assets and approximately 0.25% of the sum of outstanding mortgage-related securities we guaranteed and other aggregate off-balance sheet obligations.

Risk-Based Capital. The risk-based capital standard requires the application of a stress test to determine the amount of total capital that we must hold to absorb projected losses resulting from adverse interest-rate and credit-risk conditions specified by the GSE Act and adds 30% additional capital to provide for management and operations risk. The adverse interest-rate conditions prescribed by the GSE Act include one scenario in which 10-year Treasury yields rise by as much as 75% (up-rate scenario) and one in which they fall by as much as 50% (down-rate scenario). The credit risk component of the stress tests simulates the performance of our mortgage portfolio based on loss rates for a benchmark region. The criteria for the benchmark region are established by the GSE Act and are intended to capture the credit-loss experience of the region that experienced the highest historical rates of default and severity of mortgage losses for two consecutive origination years.

The GSE Act requires OFHEO to classify our capital adequacy at least quarterly. OFHEO has always classified us as adequately capitalized, the highest possible classification.

To be classified as adequately capitalized, we must meet both the risk-based and minimum capital standards. If we fail to meet the risk-based capital standard, we cannot be classified higher than undercapitalized. If we fail to meet the minimum capital requirement but exceed the critical capital requirement, we cannot be classified higher than significantly undercapitalized. If we fail to meet the critical capital standard, we must be classified as critically undercapitalized. In addition, OFHEO has discretion to reduce our capital classification by one level if OFHEO determines that we are engaging in conduct OFHEO did not approve that could result in a rapid depletion of core capital or determines that the value of property subject to mortgage loans we hold or guarantee has decreased significantly. If a dividend payment on our common or preferred stock would cause us to fail to meet our minimum capital or risk-based capital requirements, we would not be able to make the payment without prior written approval from OFHEO.

When we are classified as adequately capitalized, we generally can pay a dividend on our common or preferred stock or make other capital distributions (which include common stock repurchases and preferred stock redemptions) without prior OFHEO approval so long as the payment would not decrease total capital to an amount less than our risk-based capital requirement and would not decrease our core capital to an amount less than our minimum capital requirement.

If we were classified as undercapitalized, we would be prohibited from making a capital distribution that would reduce our core capital to an amount less than our minimum capital requirement. We also would be required to submit a capital restoration plan for OFHEO approval, which could adversely affect our ability to make capital distributions.

If we were classified as significantly undercapitalized, we would be prohibited from making any capital distribution that would reduce our core capital to less than the critical capital level. We would otherwise be able to make a capital distribution only if OFHEO determined that the distribution will: (a) enhance our ability to meet the risk-based capital standard and the minimum capital standard promptly; (b) contribute to our long-term financial safety and soundness; or (c) otherwise be in the public interest. Also, under this classification, OFHEO could take action to limit our growth, require us to acquire new capital or restrict us from activities that create excessive risk. We also would be required to submit a capital restoration plan for OFHEO approval, which could adversely affect our ability to make capital distributions.

If we were classified as critically undercapitalized, OFHEO would be required to appoint a conservator for us, unless OFHEO made a written finding that it should not do so and the Secretary of the Treasury concurred in that determination. We would be able to make a capital distribution only if OFHEO determined that the distribution would: (a) enhance our ability to meet the risk-based capital standard and the minimum capital standard promptly; (b) contribute to our long-term financial safety and soundness; or (c) otherwise be in the public interest.

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In a letter dated January 28, 2004, OFHEO created a framework for monitoring our capital. The letter directed that we:

maintain a mandatory target capital surplus of 30% over our minimum capital requirement, subject to certain conditions and variations;

submit weekly reports concerning our capital levels; and

obtain OFHEO s prior approval of certain capital transactions, including common stock repurchases, redemption of any preferred stock and payment of dividends on preferred stock above stated contractual rates.

Our failure to manage to the mandatory target capital surplus would result in an OFHEO inquiry regarding the reason for such failure. If OFHEO were to determine that we had acted unreasonably regarding our compliance with the framework, as set forth in OFHEO s letter, OFHEO could seek to require us to submit a remedial plan or take other remedial steps. We reported to OFHEO that our estimated capital surplus at November 30, 2007 was below the 30% mandatory target capital surplus applicable at that time. In order to manage to the 30% mandatory target capital surplus and to improve business flexibility, we reduced our common stock dividend for the fourth quarter of 2007, issued $6.0 billion of non-cumulative, perpetual preferred stock and reduced the size of our retained and cash and investments portfolio. See RISK FACTORS Competitive and Market Risks *Market uncertainty and volatility may adversely affect our business, profitability, results of operations and capital management*. However, as of December 31, 2007, we reported to OFHEO that we exceeded each of our regulatory capital requirements in addition to the 30% mandatory target capital surplus.

On March 19, 2008, OFHEO, Fannie Mae and Freddie Mac announced an initiative to increase mortgage market liquidity. In conjunction with this initiative, OFHEO reduced our mandatory target capital surplus to 20% above our statutory minimum capital requirement, and we announced that we will begin the process to raise capital and maintain overall capital levels well in excess of requirements while the mortgage markets recover. We estimated at March 31, 2008 that we exceeded each of our regulatory capital requirements, in addition to the 20% mandatory target capital surplus.

In connection with this initiative, we committed to OFHEO to raise $5.5 billion of new core capital through one or more offerings, which will include both common and preferred securities. The timing, amount and mix of securities to be offered will depend on a variety of factors, including prevailing market conditions and our SEC registration process, and is subject to approval by our board of directors. OFHEO has informed us that, upon completion of these offerings, our mandatory target capital surplus will be reduced from 20% to 15%. OFHEO has also informed us that it intends a further reduction of our mandatory target capital surplus from 15% to 10% upon completion of our SEC registration process, our completion of the remaining Consent Order requirement (*i.e.*, the separation of the positions of Chairman and Chief Executive Officer), our continued commitment to maintain capital well above OFHEO s regulatory requirement and no material adverse changes to ongoing regulatory compliance. We reduced the dividend on our common stock in December 2007, and do not currently anticipate further decreases in dividend payments.

For additional information about the OFHEO mandatory target capital surplus framework, see LIQUIDITY AND CAPITAL RESOURCES Capital Adequacy under both ANNUAL MD&A and INTERIM MD&A and NOTE 9: REGULATORY CAPITAL to our audited and unaudited consolidated financial statements. Also, see RISK FACTORS Legal and Regulatory Risks *Developments affecting our legislative and regulatory environment could materially harm our business prospects or competitive position* for more information.

Guidance on Non-traditional Mortgage Product Risks and Subprime Lending

In October 2006, five federal financial institution regulatory agencies jointly issued Interagency Guidance that clarified how financial institutions should offer non-traditional mortgage products in a safe and sound manner and in a way that clearly discloses the risks that borrowers may assume. In June 2007, the same financial institution regulatory agencies published the final interagency Subprime Statement, which addressed risks relating to subprime short-term hybrid ARMs. The Interagency Guidance and the Subprime Statement set forth principles that regulate financial institutions originating certain non-traditional mortgages (interest-only mortgages and option ARMs) and subprime short-term hybrid ARMs with respect to their underwriting practices. These principles included providing borrowers with clear and balanced information about the relative benefits and risks of these products sufficiently early in the process to enable them to make informed decisions.

OFHEO has directed us to adopt practices consistent with the risk management, underwriting and consumer protection principles of the Interagency Guidance and the Subprime Statement. These principles apply to our purchases of non-traditional mortgages and subprime short-term hybrid ARMs and our related investment activities. In response, in July 2007, we informed our customers of new underwriting and disclosure requirements for non-traditional mortgages. In September 2007, we informed our customers and other counterparties of similar new requirements for subprime short-term hybrid ARMs. These new requirements are consistent with our announcement in February 2007 that we would implement stricter investment standards for certain subprime ARMs originated after September 1, 2007, and develop new mortgage products providing lenders with more choices to offer subprime borrowers. See RISK FACTORS Legal and Regulatory Risks.

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Department of the Treasury

Under our charter, the Secretary of the Treasury has approval authority over our issuances of notes, debentures and substantially identical types of unsecured debt obligations (including the interest rates and maturities of these securities), as well as new types of mortgage-related securities issued subsequent to the enactment of the Financial Institutions Reform, Recovery and Enforcement Act of 1989. The Secretary of the Treasury has performed this debt securities approval function by coordinating GSE debt offerings with Treasury funding activities. The Treasury Department has proposed certain changes to its process for approving our debt offerings. The impact of these changes, if adopted, on our debt issuance activities will depend on their ultimate content and the manner in which they are implemented.

Securities and Exchange Commission

While we are exempt from Securities Act and Exchange Act registration and reporting requirements, we have committed to register our common stock under the Exchange Act. Once this process is complete, we will be subject to the financial reporting requirements applicable to registrants under the Exchange Act, including the requirement to file with the SEC annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K. In addition, OFHEO issued a supplemental disclosure regulation under which we will file proxy statements and our officers and directors will file insider transaction reports to the SEC in accordance with rules promulgated under the Exchange Act. After our common stock is registered under the Exchange Act, we will continue to be exempt from certain federal securities law requirements, including the following:

Securities we issue or guarantee are exempted securities under the Securities Act and may be sold without registration under the Securities Act;

Securities we issue or guarantee are exempted securities under the Exchange Act and, although we are voluntarily registering our common stock under the Exchange Act, our equity securities are exempted securities and are not required to be registered under the Exchange Act;

Sections 14(a) and 14(c) of the Exchange Act are inapplicable to us, although we will file proxy statements with the SEC under OFHEO s supplemental disclosure regulation;

Section 16 of the Exchange Act is inapplicable to our officers, directors and shareholders, although our officers and directors will file insider transaction reports to the SEC in accordance with OFHEO s supplemental disclosure regulation;

Regulation 14E under the Exchange Act is inapplicable to us and our securities;

We are excluded from the definitions of government securities broker and government securities dealer under the Exchange Act;

The Trust Indenture Act of 1939 does not apply to securities issued by us; and

We are exempt from the Investment Company Act of 1940 and the Investment Advisers Act of 1940, as we are an agency, authority or instrumentality of the United States for purposes of such Acts.

Legislation

GSE Regulatory Oversight Legislation

We face a highly uncertain regulatory environment in light of GSE regulatory oversight legislation currently under consideration in Congress. On July 11, 2008, the Senate passed comprehensive housing legislation that includes GSE oversight provisions. This legislation would give our regulator substantial authority to assess our safety and soundness and to regulate our portfolio investments, including requiring reductions in those investments, consistent with our mission and safe and sound operations. This legislation includes provisions that would enhance the regulator s authority to require us to maintain higher minimum and risk-based capital levels and to regulate our business activities, which could constrain our ability to respond quickly to a changing marketplace. This legislation would require us to set aside an amount equal to 4.2 basis points for each dollar of unpaid principal balance of total new business purchases and allocate or transfer such amounts to new affordable housing programs established in HUD and Treasury. In addition, the legislation would increase the conventional conforming loan limits in high-cost areas to the lesser of 150 percent of the conventional conforming loan limits or the median area home price.

On May 8, 2008, the House of Representatives passed similar comprehensive housing legislation that would give our regulator authority to assess our safety and soundness and to regulate our portfolio investments. This legislation would also enhance our regulator s authority to require us to maintain higher minimum and risk-based capital levels and to regulate our new business activities. There are several differences between the legislation under consideration in the Senate and House. For example, the House bill would for 2008 through 2012 require Freddie Mac to make annual contributions to an affordable housing fund equal to 1.2 basis points of the average aggregate unpaid principal balance of our total mortgage portfolio. In addition, the House bill would increase the conventional conforming loan limits in high-cost areas to the greater of the

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conventional conforming loan limit or 125 percent of the area median home price, up to a maximum of 175 percent of the conventional conforming loan limit.

We cannot predict the prospects for the enactment, timing or content of any final legislation. The provisions of this legislation could have a material adverse effect on our ability to fulfill our mission, future earnings, stock price and stockholder returns, ability to meet our regulatory capital requirements, rate of growth of fair value of net assets attributable to common stockholders and our ability to recruit and retain qualified officers and directors.

Temporary Increase in Conforming Loan Limits

On February 13, 2008, the President signed into law the Economic Stimulus Act of 2008 that includes a temporary increase in conventional conforming loan limits. The law raises the conforming loan limits for mortgages originated in certain high-cost areas from July 1, 2007 though December 31, 2008 to the higher of the applicable 2008 conforming loan limits, set at $417,000 for a mortgage secured by a one-unit single-family residence, or 125% of the median house price for a geographic area, not to exceed $729,750 for a one-unit, single-family residence. We began accepting these conforming jumbo mortgages for securitization as PCs and purchase into our retained portfolio in April 2008.

ITEM 1A. RISK FACTORS

Before you invest in our securities, you should know that making such an investment involves risks, including the risks described below and in BUSINESS, FORWARD-LOOKING STATEMENTS, RECENT EVENTS, ANNUAL MD&A, INTERIM MD&A and elsewhere in this Registration Statement. These risks could lead to circumstances where our business, financial condition and/or results of operations could be adversely affected. In that case, the trading price of our securities could decline and you may lose all or part of your investment. Some of these risks are managed under our risk management framework, as described in QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK and CREDIT RISKS under ANNUAL MD&A and INTERIM MD&A and ANNUAL MD&A OPERATIONAL RISKS.

Competitive and Market Risks

We are subject to mortgage credit risks and increased credit costs related to these risks could adversely affect our financial condition and/or results of operations.

We are exposed to mortgage credit risk within our total mortgage portfolio, which consists of mortgage loans, PCs, Structured Securities and other mortgage guarantees we have issued in our guarantee business. Mortgage credit risk is the risk that a borrower will fail to make timely payments on a mortgage or an issuer will fail to make timely payments on a security we own or guarantee. Factors that affect the level of our mortgage credit risk include the credit profile of the borrower, the features of the mortgage loan, the type of property securing the mortgage and local and regional economic conditions, including regional unemployment rates and home price appreciation. Recent changes in mortgage pricing and uncertainty may limit borrowers future ability to refinance in response to lower interest rates. Borrowers of the mortgage loans and securities held in our retained portfolio and underlying our guarantees may fail to make required payments of principal and interest on those loans, exposing us to the risk of credit losses.

The proportion of higher risk mortgage loans that were originated in the market during the last four years increased significantly. We have increased our securitization volume of non-traditional mortgage products, such as interest-only loans and loans originated with less documentation in the last two years in response to the prevalence of these products within the origination market. Total non-traditional mortgage products, including those designated as Alt-A and interest-only loans, made up approximately 30% and 24% of our total mortgage purchase volume in the years ended December 31, 2007 and 2006, respectively. Our increased purchases of these mortgages and issuances of

guarantees of them expose us to greater credit risks. In addition, we have increased purchases of mortgages that were underwritten by our sellers/servicers using alternative automated underwriting systems or agreed-upon underwriting standards that differ from our system or guidelines. Those differences may increase our credit risk and may result in increases in credit losses. Furthermore, significant purchases pursuant to the temporary increase in conforming loan limits may also expose us to greater credit risks. In addition, if a recession occurs that negatively impacts national or regional economic conditions, we could experience significantly higher delinquencies and credit losses which will likely reduce our earnings or cause losses in future periods and will adversely affect our results of operations or financial condition.

Market uncertainty and volatility may adversely affect our business, profitability and results of operations.

The mortgage credit markets experienced difficult conditions and volatility during 2007 which continued in the first quarter of 2008. These deteriorating conditions in the mortgage market resulted in a decrease in availability of corporate credit and liquidity within the mortgage industry and have caused disruptions to normal operations of major mortgage originators, including some of our largest customers. These conditions resulted in less liquidity, greater volatility, widening of credit spreads and a lack of price transparency. We operate in these markets and are subject to potential adverse effects on

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our results of operations and financial position due to our activities involving securities, mortgages, derivatives and other mortgage commitments with our customers.

The turmoil in the housing and credit markets creates additional risk regarding the reliability of our models, particularly since we may be required to make manual adjustments to our models in response to rapid changes in economic conditions. This may increase the risk that our models could produce unreliable results.

Our ability to manage our regulatory capital requirements may be adversely affected by market conditions, and actions that we may be required to take to maintain our regulatory capital could adversely affect stockholders.

Our ability to manage our regulatory capital may be adversely affected by mortgage and stock market conditions and volatility. Factors that could adversely affect the adequacy of our capital for future periods include our ability to execute planned capital raising transactions; GAAP net losses; continued declines in home prices; increases in our credit and interest-rate risk profiles; adverse changes in interest-rate or implied volatility; adverse OAS changes; impairments of non-agency mortgage-related securities; counterparty downgrades; downgrades of non-agency mortgage-related securities (with respect to risk-based capital); legislative or regulatory actions that increase capital requirements; or changes in accounting practices or standards. Adverse market conditions may limit our ability to raise new core capital, and may affect the timing, amount, type and mix of securities issued to raise new core capital.

To help manage to our regulatory capital requirements and the 20% mandatory capital surplus, we are considering measures such as reducing or rebalancing risk, limiting growth or reducing the size of our retained portfolio, slowing purchases into our credit guarantee portfolio, issuing additional preferred or convertible preferred stock, issuing common stock, and reducing the dividend on our common stock. Our ability to execute any of these actions or their effectiveness may be limited and we might not be able to manage to our regulatory capital requirements and the 20% mandatory target capital surplus. For example, our ability to issue additional preferred or common stock will depend, in part, on market conditions, and we may not be able to raise additional capital when needed. Issuances of new preferred or common equity may be dilutive to existing stockholders and may carry other terms and conditions that could adversely affect the value of the common or preferred stock held by existing stockholders.

If we are not able to manage to the 20% mandatory target capital surplus, OFHEO may, among other things, seek to require us to (a) submit a plan for remediation or (b) take other remedial steps. In addition, OFHEO has discretion to reduce our capital classification by one level if OFHEO determines that we are engaging in conduct OFHEO did not approve that could result in a rapid depletion of core capital or determines that the value of property subject to mortgage loans we hold or guarantee has decreased significantly. See BUSINESS Regulation and Supervision Office of Federal Housing Enterprise Oversight *Capital Standards and Dividend Restrictions* and NOTE 9: REGULATORY CAPITAL Classification in our audited consolidated financial statements for information regarding additional potential actions OFHEO may seek to take against us. See RECENT EVENTS for information concerning Treasury s proposed plan for temporary authority to provide various types of support to Freddie Mac should it become necessary. The terms of any such support, if it were to be made available, are uncertain, but they could have an adverse impact on existing common and preferred stockholders.

While it is difficult to predict how long these conditions will exist and how our markets or products will ultimately be affected, these factors could adversely impact our business and results of operations, as well as our ability to provide liquidity to the mortgage markets.

Higher credit losses and increased expected future credit costs could adversely affect our financial condition and/or results of operations.

We face the risk that our credit losses could be higher than expected. Higher credit losses on our guarantees could require us to increase our allowances for credit losses through charges to earnings. Other credit exposures could also result in financial losses. Although we regularly review credit exposures to specific customers and counterparties, default risk may arise from events or circumstances that are difficult to detect or foresee. In addition, concerns about, or default by, one institution could lead to significant liquidity problems, losses or defaults by other institutions. This risk may also adversely affect financial intermediaries, such as clearing agencies, clearinghouses, banks, securities firms and exchanges with which we interact. These potential risks could ultimately cause liquidity problems or losses for us as well.

Changes in the mortgage credit environment also affect our credit guarantee activities through the valuation of our guarantee obligation. If expected future credit costs increase and we are not able to increase our management and guarantee fees due to competitive pressures or other factors, then the overall profitability of our new business would be lower and could result in losses on guarantees at their inception. Moreover, an increase in expected future credit costs increases the fair value of our existing guarantee obligation.

We are exposed to increased credit risk related to subprime and Alt-A mortgage loans that back our non-agency mortgage-related securities investments.

We invest in non-agency mortgage-related securities that are backed by Alt-A and subprime mortgage loans. See CONSOLIDATED BALANCE SHEETS ANALYSIS Retained Portfolio under both ANNUAL MD&A and INTERIM MD&A for information about the credit ratings for these securities and the extent to which these securities have been downgraded. In recent months, mortgage loan delinquencies and credit losses generally have increased, particularly in the subprime and Alt-A sectors. In addition, home prices in many areas have declined, after extended periods during which home prices appreciated. If delinquency and loss rates on subprime and Alt-A mortgages continue to increase, or there is a further decline in home prices, we could experience reduced yields or losses on our investments in non-agency mortgage-related securities backed by subprime or Alt-A loans. In addition, the fair value of these investments has declined and may be further adversely affected by additional ratings downgrades or market events. These factors could negatively affect our core capital and results of operations, if we were to conclude that other than temporary impairments occurred.

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We depend on our institutional counterparties to provide services that are critical to our business and our results of operations or financial condition may be adversely affected if one or more of our institutional counterparties is unable to meet their obligations to us.

We face the risk that one or more of the institutional counterparties that has entered into a business contract or arrangement with us may fail to meet its obligations. Our primary exposures to institutional counterparty risk are with:

- mortgage insurers;
- mortgage sellers/servicers;
- issuers, guarantors or third party providers of credit enhancements (including bond insurers);
- mortgage investors;
- multifamily mortgage guarantors;
- issuers, guarantors and insurers of investments held in both our retained portfolio and our cash and investments portfolio; and
- derivatives counterparties.

In some cases, our business with institutional counterparties is concentrated. A significant failure by a major institutional counterparty could have a material adverse effect on our retained portfolio, cash and investments portfolio or credit guarantee activities. See NOTE 17: CONCENTRATION OF CREDIT AND OTHER RISKS to our audited consolidated financial statements and NOTE 15: CONCENTRATION OF CREDIT AND OTHER RISKS to our unaudited consolidated financial statements for additional information. For the three months ended March 31, 2008 and for the year ended December 31, 2007, our ten largest mortgage seller/servicers represented approximately 80% and 79%, respectively, of our single-family mortgage purchase volume. We are exposed to the risk that we could lose purchase volume to the extent these arrangements are terminated or modified and not replaced from other lenders.

Some of our counterparties also may become subject to serious liquidity problems affecting, either temporarily or permanently, their businesses, which may adversely affect their ability to meet their obligations to us. Challenging market conditions have adversely affected and are expected to continue to adversely affect the liquidity and financial condition of a number of our counterparties, including some seller/servicers, mortgage insurers and bond insurers. Some of our largest seller/servicers have experienced ratings downgrades and liquidity constraints. A default by a counterparty with significant obligations to us could adversely affect our ability to conduct our operations efficiently and at cost-effective rates, which in turn could adversely affect our results of operations or our financial condition.

We are also exposed to risk relating to the potential insolvency or non-performance of mortgage insurers and bond insurers. At March 31, 2008, our top four mortgage insurers; Mortgage Guaranty Insurance Corp, Radian Guaranty Inc., Genworth Mortgage Insurance Corporation and PMI Mortgage Insurance Co., each accounted for more than 10% of our overall mortgage insurance coverage and collectively represented approximately 75% of our overall mortgage insurance coverage. As of March 31, 2008, the top four of our bond insurers; Ambac Assurance Corporation, Financial Guaranty Insurance Company, MBIA Inc., and Financial Security Assurance Inc., each accounted for more than 10% of our overall bond insurance coverage (including secondary policies), and collectively represented approximately 91% of our bond insurance coverage. See CREDIT RISKS Institutional Credit Risk under both ANNUAL MD&A and INTERIM MD&A for additional information regarding our credit risks to our counterparties and how we manage them.

Our financial condition or results of operations may be adversely affected if mortgage seller/servicers fail to perform their obligation to repurchase loans sold to us in breach of representations and warranties.

We require seller/servicers to make certain representations and warranties regarding the loans they sell to us. If loans are sold to us in breach of those representations and warranties, we have the contractual right to require the seller/servicer to repurchase those loans from us. Our institutional credit risk exposure to our seller/servicer counterparties includes the risk that they will not perform their obligation to repurchase loans, which could adversely affect our financial condition or results of operations. The risk of such a failure has increased as deteriorating market conditions have affected the liquidity and financial condition of some of our largest seller/servicers. See CREDIT RISKS Institutional Credit Risk *Mortgage Seller/Servicers* under both ANNUAL MD&A and INTERIM MD&A fo additional information on our institutional credit risk related to our mortgage seller/servicers.

A continued decline in U.S. housing prices or other changes in the U.S. housing market could negatively impact our business and earnings.

The national averages for new and existing home prices in the U.S. declined in 2007 for the first time in many years. This decline follows a decade of strong appreciation and dramatic price increases in the past few years. A continued declining trend in home price appreciation in any of the geographic markets we serve could result in a continued increase in delinquencies or defaults and a level of credit-related losses higher than our expectations when our guarantees were issued,

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which could significantly reduce our earnings. For more information, see ANNUAL MD&A CREDIT RISKS and INTERIM MD&A CREDIT RISKS.

If the conforming loan limits are decreased as a result of a decline in the index upon which such limits are based, we may face operational and legal challenges associated with changing our mortgage purchase commitments to conform with the lower limits and there could be fewer loans available for us to purchase. In October 2007, the Federal Housing Finance Board reported that the national average price of a one-family residence had declined slightly. OFHEO subsequently announced that the conforming loan limits would be maintained at the 2007 limits for 2008 and deferred any changes for one year. But, see BUSINESS Regulation and Supervision *Legislation Temporary Increase in Conforming Loan Limits* regarding the temporary increase to the conforming loan limits in the Economic Stimulus Act of 2008 for additional information.

Our business volumes are closely tied to the rate of growth in total outstanding U.S. residential mortgage debt and the size of the U.S. residential mortgage market. The rate of growth in total residential mortgage debt declined to 7.1% in 2007 from 11.3% in 2006. If the rate of growth in total outstanding U.S. residential mortgage debt were to continue to decline, there could be fewer mortgage loans available for us to purchase, which could reduce our earnings and margins, as we could face more competition to purchase a smaller number of loans.

Changes in general business and economic conditions may adversely affect our business and earnings.

Our business and earnings may continue to be adversely affected by changes in general business and economic conditions, including changes in the markets for our portfolio investments or our mortgage-related and debt securities. These conditions include employment rates, fluctuations in both debt and equity capital markets, the value of the U.S. dollar as compared to foreign currencies, and the strength of the U.S. economy and the local economies in which we conduct business. An economic downturn or increase in the unemployment rate could result in fewer mortgages for us to purchase, an increase in mortgage delinquencies or defaults and a higher level of credit-related losses than we estimated, which could reduce our earnings or reduce the fair value of our net assets. Various factors could cause the economy to slow down or even decline, including higher energy costs, higher interest rates, pressure on housing prices, reduced consumer or corporate spending, natural disasters such as hurricanes, terrorist activities, military conflicts and the normal cyclical nature of the economy.

Competition from banking and non-banking companies may harm our business.

We operate in a highly competitive environment and we expect competition to increase as financial services companies continue to consolidate to produce larger companies that are able to offer similar mortgage-related products at competitive prices. Increased competition in the secondary mortgage market and a decreased rate of growth in residential mortgage debt outstanding may make it more difficult for us to purchase mortgages to meet our mission objectives while providing favorable returns for our business. Furthermore, competitive pricing pressures may make our products less attractive in the market and negatively impact our profitability.

We also compete for low-cost debt funding with Fannie Mae, the Federal Home Loan Banks and other institutions that hold mortgage portfolios. Competition for debt funding from these entities can vary with changes in economic, financial market and regulatory environments. Increased competition for low-cost debt funding may result in a higher cost to finance our business, which could decrease our net income.

We may face limited availability of financing, variation in our funding costs and uncertainty in our securitization financing.

The amount, type and cost of our funding, including financing from other financial institutions and the capital markets, directly impacts our interest expense and results of operations and can therefore affect our ability to grow our assets. A number of factors could make such financing more difficult to obtain, more expensive or unavailable on any terms, both domestically and internationally (where funding transactions may be on terms more or less favorable than in the U.S.).

Foreign investors, particularly in Asia, hold a significant portion of our debt securities and are an important source of funding for our business. Foreign investors willingness to purchase and hold our debt securities can be influenced by many factors, including changes in the world economies, changes in foreign-currency exchange rates, regulatory and political factors, as well as the availability of and preferences for other investments. If foreign investors were to divest their holdings or reduce their purchases of our debt securities, our funding costs may increase. The willingness of foreign investors to purchase or hold our debt securities, and any changes to such willingness, may materially affect our liquidity, our business and results of operations. Foreign investors are also significant purchasers of mortgage-related securities and changes in the strength and stability of foreign demand for mortgage-related securities could affect the overall market for those securities and the returns available to us on our portfolio investments.

Other GSEs also issue significant amounts of agency debt, which may negatively impact the prices we are able to obtain for our debt securities. An inability to issue debt securities at attractive rates in amounts sufficient to fund our business

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activities and meet our obligations could have an adverse effect on our liquidity, financial condition and results of operations. See LIQUIDITY AND CAPITAL RESOURCES Liquidity *Debt Securities* under both ANNUAL MD&A and INTERIM MD&A for a more detailed description of our debt issuance programs.

We maintain secured intraday lines of credit to provide additional intraday liquidity to fund our activities through the Fedwire system. These lines of credit may require us to post collateral to third parties. In certain limited circumstances, these secured counterparties may be able to repledge the collateral underlying our financing without our consent. In addition, because these secured intraday lines of credit are uncommitted, we may not be able to continue to draw on them if and when needed.

Our PCs and Structured Securities are also an integral part of our mortgage purchase program and any decline in the price performance of or demand for our PCs could have an adverse effect on the profitability of our securitization financing activities. There is a risk that our PC and Structured Securities support activities may not be sufficient to support the liquidity and depth of the market for PCs.

A reduction in our credit ratings could adversely affect our liquidity.

Nationally recognized statistical rating organizations play an important role in determining, by means of the ratings they assign to issuers and their debt, the availability and cost of debt funding. We currently receive ratings from three nationally recognized statistical rating organizations for our unsecured borrowings. Our credit ratings are important to our liquidity. GAAP net losses and significant deterioration in our capital levels, as well as actions by governmental entities or others, sustained declines in our long-term profitability and other factors could adversely affect our credit ratings. A reduction in our credit ratings could adversely affect our liquidity, competitive position, or the supply or cost of equity capital or debt financing available to us. A significant increase in our borrowing costs could cause us to sustain losses or impair our liquidity by requiring us to find other sources of financing.

The value of mortgage-related securities guaranteed by us and held in our retained portfolio may decline if we did not or were unable to perform under our guarantee or if investor confidence in our ability to perform under our guarantee were to diminish.

We classify the mortgage-related securities in our retained portfolio as either available-for-sale or trading, and account for them at fair value on our consolidated balance sheets. A substantial portion of the mortgage-related securities in our retained portfolio are securities guaranteed by us. Our valuation of these securities is consistent with GAAP and the legal structure of the guarantee transaction, which includes the Freddie Mac guarantee to the securitization trust. The valuation of our guaranteed mortgage securities necessarily reflects investor confidence in our ability to perform under our guarantee and the liquidity that our guarantee provides. If we did not or were unable to perform under our guarantee, or if investor confidence in our ability to perform under our guarantee were to diminish, the value of our guaranteed securities may decline, thereby reducing the value of the securities reported on our consolidated balance sheets and our ability to sell or otherwise use these securities for liquidity purposes, and adversely affecting our financial condition and results of operations.

Fluctuations in interest rates could negatively impact our reported net interest income, earnings and fair value of net assets.

Our portfolio investment activities and credit guarantee activities expose us to interest-rate and other market risks and credit risks. Changes in interest rates up or down could adversely affect our net interest yield. Although the yield we earn on our assets and our funding costs tend to move in the same direction in response to changes in interest rates, either can rise or fall faster than the other, causing our net interest yield to expand or compress. For example, when interest rates rise, our funding costs may rise faster than the yield we earn on our assets, causing our net interest yield

to compress until the effect of the increase is fully reflected in asset yields. Changes in the slope of the yield curve could also reduce our net interest yield.

Changes in interest rates could reduce our GAAP net income materially, especially if actual conditions vary considerably from our expectations. For example, if interest rates rise or fall faster than estimated or the slope of the yield curve varies other than as expected, we may incur significant losses. Changes in interest rates may also affect prepayment assumptions, thus potentially impacting the fair value of our assets, including investments in our retained portfolio, our derivative portfolio and our guarantee asset. When interest rates fall, borrowers are more likely to prepay their mortgage loans by refinancing them at a lower rate. An increased likelihood of prepayment on the mortgages underlying our mortgage-related securities may adversely impact the performance of these securities. An increased likelihood of prepayment on the mortgage loans we hold may also negatively impact the performance of our retained portfolio. Interest rates can fluctuate for a number of reasons, including changes in the fiscal and monetary policies of the federal government and its agencies, such as the Federal Reserve. Federal Reserve policies directly and indirectly influence the yield on our interest-earning assets and the cost of our interest-bearing liabilities. The availability of derivative financial instruments (such as options and interest-rate and foreign-currency swaps) from acceptable counterparties of the types and in the quantities needed could also affect our ability to effectively manage the risks related to our investment funding. Our strategies and efforts to manage our

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exposures to these risks may not be as effective as they have been in the past. See QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK under both ANNUAL MD&A and INTERIM MD&A for a description of the types of market risks to which we are exposed and how we manage those risks.

Changes in OAS could materially impact our fair value of net assets and affect future earnings.

OAS is an estimate of the yield spread between a given security and an agency debt yield curve. The OAS between the mortgage and agency debt sectors can significantly affect the fair value of our net assets. The fair value impact of changes in OAS for a given period represents an estimate of the net unrealized increase or decrease in the fair value of net assets arising from net fluctuations in OAS during that period. We do not attempt to hedge or actively manage the impact of changes in mortgage-to-debt OAS. Changes in market conditions, including changes in interest rates, may cause fluctuations in the OAS. A widening of the OAS on a given asset typically causes a decline in the current fair value of that asset and may adversely affect current earnings or financial condition, but may increase the number of attractive opportunities to purchase new assets for our retained portfolio. Conversely, a narrowing or tightening of the OAS typically causes an increase in the current fair value of that asset, but may reduce the number of attractive opportunities to purchase new assets for our retained portfolio. Consequently, a tightening of the OAS may adversely affect future earnings or financial condition. See CONSOLIDATED FAIR VALUE BALANCE SHEETS ANALYSIS Discussion of Fair Value Results under ANNUAL MD&A and INTERIM MD&A for a more detailed description of the impacts of changes in mortgage-to-debt OAS.

The loss of business volume from key lenders could result in a decline in our market share and revenues.

Our business depends on our ability to acquire a steady flow of mortgage loans. We purchase a significant percentage of our single-family mortgages from several large mortgage originators. During the three months ended March 31, 2008 and the years ended December 31, 2007 and 2006, approximately 80%, 79% and 76%, respectively, of our guaranteed mortgage securities issuances originated from purchase volume associated with our ten largest customers. Three of our customers each accounted for greater than 10% of our mortgage securitization volume for the year ended December 31, 2007. We enter into mortgage purchase volume commitments with many of our customers that are renewed annually and provide for a minimum level of mortgage volume that these customers will deliver to us. In July 2008, Bank of America Corporation completed its acquisition of Countrywide Financial Corp. Together these companies accounted for approximately 22%, 28% and 16% of our securitization volume in the first quarter of 2008 and in 2007 and 2006, respectively. Because the transaction has only recently been completed, it is uncertain how the transaction will affect the volume of our securitization business in the future. The mortgage industry has been consolidating and a decreasing number of large lenders originate most single-family mortgages. The loss of business from any one of our major lenders could adversely affect our market share, our revenues and the performance of our guaranteed mortgage-related securities.

Negative publicity causing damage to our reputation could adversely affect our business prospects, earnings or capital.

Reputation risk, or the risk to our earnings and capital from negative public opinion, is inherent in our business. Negative public opinion could adversely affect our ability to keep and attract customers or otherwise impair our customer relationships, adversely affect our ability to obtain financing, impede our ability to hire and retain qualified personnel, hinder our business prospects or adversely impact the trading price of our securities. Perceptions regarding the practices of our competitors or our industry as a whole may also adversely impact our reputation. Adverse reputation impacts on third parties with whom we have important relationships may impair market confidence or investor confidence in our business operations as well. In addition, negative publicity could expose us to adverse legal and regulatory consequences, including greater regulatory scrutiny or adverse regulatory or legislative changes. These adverse consequences could result from our actual or alleged action or failure to act in any number of activities,

including corporate governance, regulatory compliance, financial reporting and disclosure, purchases of products perceived to be predatory, safeguarding or using nonpublic personal information, or from actions taken by government regulators and community organizations in response to our actual or alleged conduct. Negative public opinion associated with our accounting restatement and material weaknesses in our internal control over financial reporting and related problems could continue to have adverse consequences.

Business and Operational Risks

Deficiencies in internal control over financial reporting and disclosure controls could result in errors, affect operating results and cause investors to lose confidence in our reported results.

We face continuing challenges because of deficiencies in our accounting infrastructure and controls and the operational complexities of our business. There are a number of factors that may impede our efforts to establish and maintain effective internal control and a sound accounting infrastructure, including: the complexity our business activities and related GAAP requirements; uncertainty regarding the operating effectiveness and sustainability of newly established controls; and the uncertain impacts of recent housing and credit market volatility on the reliability of our models used to develop our accounting estimates. We cannot be certain that our efforts to improve our internal control over financial reporting will ultimately be successful.

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Controls and procedures, no matter how well designed and operated, provide only reasonable assurance that material errors in our financial statements will be prevented or detected on a timely basis. A failure to establish and maintain effective internal control over financial reporting increases the risks of a material error in our reported financial results and delay in our financial reporting timeline. Depending on the nature of a failure and any required remediation, ineffective controls could have a material adverse effect on our business.

Delays in meeting our financial reporting obligations could affect our ability to maintain the listing of our securities on the New York Stock Exchange, or NYSE. Ineffective controls could also cause investors to lose confidence in our reported financial information, which may have an adverse effect on the trading price of our securities.

We rely on internal models for financial accounting and reporting purposes, to make business decisions, and to manage risks, and our business could be adversely affected if those models fail to produce reliable results.

We make significant use of business and financial models for financial accounting and reporting purposes and to manage risk. For example, we use models in determining the fair value of financial instruments for which independent price quotations are not available or reliable or in extrapolating third-party values to our portfolio. We also use models to measure and monitor our exposures to interest-rate and other market risks and credit risk. The information provided by these models is also used in making business decisions relating to strategies, initiatives, transactions and products.

Models are inherently imperfect predictors of actual results because they are based on assumptions and/or historical experience. Our models could produce unreliable results for a number of reasons, including incorrect coding of the models, invalid or incorrect assumptions underlying the models, the need for manual adjustments to respond to rapid changes in economic conditions, incorrect data being used by the models or actual results that do not conform to historical trends and experience. In addition, the complexity of the models and the impact of the recent turmoil in the housing and credit markets create additional risk regarding the reliability of our models. The valuations, risk metrics, amortization results and loan loss reserve estimations produced by our internal models may be different from actual results, which could adversely affect our business results, cash flows, fair value of net assets, business prospects and future earnings. Changes in any of our models or in any of the assumptions, judgments or estimates used in the models may cause the results generated by the model to be materially different. The different results could cause a revision of previously reported financial condition or results of operations, depending on when the change to the model, assumption, judgment or estimate is implemented. Any such changes may also cause difficulties in comparisons of the financial condition or results of operations of prior or future periods. If our models are not reliable we could also make poor business decisions, impacting loan purchases, management and guarantee fee pricing, asset and liability management, or other decisions. Furthermore, any strategies we employ to attempt to manage the risks associated with our use of models may not be effective. See ANNUAL MD&A CRITICAL ACCOUNTING POLICIES AND ESTIMATES Valuation of Financial Instruments , INTERIM MD&A CRITICAL ACCOUNTING POLICIES AND ESTIMATES Fair Value Measurements and QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK Interest-Rate Risk and Other Market Risks under both ANNUAL MD&A and INTERIM MD&A for more information on our use of models.

Changes in our accounting policies, as well as estimates we make, could materially affect how we report our financial condition or results of operations.

Our accounting policies are fundamental to understanding our financial condition and results of operations. We have identified certain accounting policies and estimates as being critical to the presentation of our financial condition and results of operations because they require management to make particularly subjective or complex judgments about matters that are inherently uncertain and for which materially different amounts could be recorded using different assumptions or estimates. For a description of our critical accounting policies, see CRITICAL ACCOUNTING POLICIES AND ESTIMATES under both ANNUAL MD&A and INTERIM MD&A . As new information becomes

available and we update the assumptions underlying our estimates, we could be required to revise previously reported financial results.

From time to time, the Financial Accounting Standards Board, or FASB, and the SEC can change the financial accounting and reporting standards that govern the preparation of our financial statements. These changes are beyond our control, can be difficult to predict and could materially impact how we report our financial condition and results of operations. We could be required to apply a new or revised standard retrospectively, which may result in the revision of prior period financial statements by material amounts.

We may be required to establish a valuation allowance against our deferred tax assets, which could materially affect our results of operations and capital position in the future.

As of March 31, 2008, we had approximately $16.6 billion of net deferred tax assets as reported on our consolidated balance sheet. The realization of these deferred tax assets is dependent upon the generation of sufficient future taxable income. We currently believe that it is more likely than not that we will generate sufficient taxable income in the future to

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utilize these deferred tax assets. However, if future events differ from current forecasts, a valuation allowance may need to be established which could have a material adverse effect on our results of operations and capital position.

A failure in our operational systems or infrastructure, or those of third parties, could impair our liquidity, disrupt our business, damage our reputation and cause losses.

Shortcomings or failures in our internal processes, people or systems could lead to impairment of our liquidity, financial loss, disruption of our business, liability to customers, legislative or regulatory intervention or reputational damage. For example, our business is highly dependent on our ability to process a large number of transactions on a daily basis. The transactions we process have become increasingly complex and are subject to various legal and regulatory standards. Our financial, accounting, data processing or other operating systems and facilities may fail to operate properly or become disabled, adversely affecting our ability to process these transactions. The inability of our systems to accommodate an increasing volume of transactions or new types of transactions or products could constrain our ability to pursue new business initiatives.

We also face the risk of operational failure or termination of any of the clearing agents, exchanges, clearing houses or other financial intermediaries we use to facilitate our securities and derivatives transactions. Any such failure or termination could adversely affect our ability to effect transactions, service our customers and manage our exposure to risk.

Most of our key business activities are conducted in our principal offices located in McLean, Virginia. Despite the contingency plans and facilities we have in place, our ability to conduct business may be adversely impacted by a disruption in the infrastructure that supports our business and the communities in which we are located. Potential disruptions may include those involving electrical, communications, transportation or other services we use or that are provided to us. If a disruption occurs and our employees are unable to occupy our offices or communicate with or travel to other locations, our ability to service and interact with our customers or counterparties may suffer and we may not be able to successfully implement contingency plans that depend on communication or travel.

We are exposed to the risk that a catastrophic event, such as a terrorist event or natural disaster, could result in a significant business disruption and an inability to process transactions through normal business processes. To mitigate this risk, we maintain and test business continuity plans and have established backup facilities for critical business processes and systems away from, although in the same metropolitan area as, our main offices. However, these measures may not be sufficient to respond to the full range of catastrophic events that may occur.

Our operations rely on the secure processing, storage and transmission of confidential and other information in our computer systems and networks. Although we take protective measures and endeavor to modify them as circumstances warrant, our computer systems, software and networks may be vulnerable to unauthorized access, computer viruses or other malicious code and other events that could have a security impact. If one or more of such events occur, this potentially could jeopardize confidential and other information, including nonpublic personal information and sensitive business data, processed and stored in, and transmitted through, our computer systems and networks, or otherwise cause interruptions or malfunctions in our operations or the operations of our customers or counterparties, which could result in significant losses or reputational damage. We may be required to expend significant additional resources to modify our protective measures or to investigate and remediate vulnerabilities or other exposures, and we may be subject to litigation and financial losses that are not fully insured.

We rely on third parties for certain functions that are critical to financial reporting, our retained portfolio activity and mortgage loan underwriting. Any failures by those vendors could disrupt our business operations.

We outsource certain key functions to external parties, including but not limited to (a) processing functions for trade capture, market risk management analytics, and asset valuation, (b) custody and recordkeeping for our investments portfolios, and (c) processing functions for mortgage loan underwriting. We may enter into other key outsourcing relationships in the future. If one or more of these key external parties were not able to perform their functions for a period of time, at an acceptable service level, or for increased volumes, our business operations could be constrained, disrupted or otherwise negatively impacted. Our use of vendors also exposes us to the risk of a loss of intellectual property or of confidential information or other harm. Financial or operational difficulties of an outside vendor could also hurt our operations if those difficulties interfere with the vendor s ability to provide services to us.

Our risk management and loss mitigation efforts may not effectively mitigate the risks we seek to manage.

We could incur substantial losses and our business operations could be disrupted if we are unable to effectively identify, manage, monitor and mitigate operational risks, interest-rate and other market risks and credit risks related to our business. Our risk management policies, procedures and techniques may not be sufficient to mitigate the risks we have identified or to appropriately identify additional risks to which we are subject. See QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK under both ANNUAL MD&A and INTERIM MD&A , CREDIT RISKS

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under both ANNUAL MD&A and INTERIM MD&A and ANNUAL MD&A OPERATIONAL RISKS for a discussion of our approach to managing the risks we face.

Our ability to hire, train and retain qualified employees affects our business and operations.

Our continued success depends, in large part, on our ability to hire and retain highly qualified people. Our business is complex and many of our positions require specific skills. Competition for highly qualified personnel is intense and our business and operations could be adversely affected if we are not able to retain our key personnel or if we are not successful in attracting, training or retaining other highly qualified personnel in the future. Furthermore, there is a risk that we may not have sufficient personnel or personnel with sufficient training in key roles.

Legal and Regulatory Risks

Developments affecting our legislative and regulatory environment could materially harm our business prospects or competitive position.

Various developments or factors may adversely affect our legislative or regulatory environment, including:

- any changes affecting our charter, affordable housing goals or capital (including our ability to manage to the mandatory target capital surplus);
- the interpretation of these developments or factors by our regulators;
- the adequacy of internal systems, controls and processes related to these developments or factors;
- the exercise or assertion of regulatory or administrative authority beyond current practice;
- the imposition of additional remedial measures;
- voluntary agreements with our regulators; or
- the enactment of new legislation.

HUD may periodically review certain of our activities to ensure conformity with our mission and charter. In addition, the Treasury Department has proposed certain changes to its process for approving our debt offerings. Our business activities could be restricted as a result of any such changes.

We are also exposed to the risk that weaknesses in our internal systems, controls and processes could affect the accuracy or timing of the data we provide to HUD, OFHEO or the Treasury Department or our compliance with legal requirements, and could ultimately lead to regulatory actions (by HUD, OFHEO or both) or other adverse impacts on our business (including our ability or intent to retain investments). Any assertions of non-compliance with existing or new statutory or regulatory requirements could result in fines, penalties, litigation and damage to our reputation.

Furthermore, we could be required, or may find it advisable, to change the nature or extent of our business activities if our various exemptions and special attributes were modified or eliminated, new or additional fees or substantive regulation of our business activities were imposed, our relationship to the federal government were altered or eliminated, or our charter, the GSE Act, or other federal laws and regulations affecting us were significantly amended. Any of these changes could have a material effect on the scope of our activities, financial condition and results of operations. For example, such changes could (a) reduce the supply of mortgages available to us, (b) impose

restrictions on the size of our retained portfolio, (c) make us less competitive by limiting our business activities or our ability to create new products, (d) increase our capital requirements, or (e) require us to make an annual contribution to an affordable housing fund. We cannot predict when or whether any potential legislation will be enacted or regulation will be promulgated. In addition, capital levels or other operational limitations may limit our ability to purchase a significant number of additional mortgages available to us as a result of the temporary increase in conforming loan limits. See BUSINESS Regulation and Supervision *Legislation Temporary Increase in Conforming Loan Limits*.

Any of the developments or factors described above could materially adversely affect: our ability to fulfill our mission; our ability to meet our affordable housing goals; our ability or intent to retain investments; the size and growth of our mortgage portfolios; our future earnings, stock price and stockholder returns; the fair value of our assets; or our ability to recruit qualified officers and directors.

We may make certain changes to our business in an attempt to meet HUD s housing goals and subgoals that may adversely affect our profitability.

We may make adjustments to our mortgage sourcing and purchase strategies in an effort to meet our housing goals and subgoals, including changes to our underwriting guidelines and the expanded use of targeted initiatives to reach underserved populations. For example, we may purchase loans and mortgage-related securities that offer lower expected returns on our investment and increase our exposure to credit losses. In addition, in order to meet future housing goals and subgoals, our purchases of goal-eligible loans need to increase as a percentage of total new mortgage purchases. Doing so could cause us to forgo other purchase opportunities that we would expect to be more profitable. If our current efforts to meet the goals and subgoals prove to be insufficient, we may need to take additional steps that could further reduce our profitability. See

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BUSINESS Regulation and Supervision *Department of Housing and Urban Development* for additional information about HUD s regulation of our business.

We are involved in legal proceedings that could result in the payment of substantial damages or otherwise harm our business.

We are a party to various legal actions. In addition, certain of our directors, officers and employees are involved in legal proceedings for which they may be entitled to reimbursement by us for costs and expenses of the proceedings. The defense of these or any future claims or proceedings could divert management s attention and resources from the needs of the business. We may be required to establish reserves and to make substantial payments in the event of adverse judgments or settlements of any such claims, investigations or proceedings. Any legal proceeding, even if resolved in our favor, could result in negative publicity or cause us to incur significant legal and other expenses. Furthermore, developments in, outcomes of, impacts of, and costs, expenses, settlements and judgments related to these legal proceedings may differ from our expectations and exceed any amounts for which we have reserved or require adjustments to such reserves. See LEGAL PROCEEDINGS for information about our pending legal proceedings.

Legislation or regulation affecting the financial services industry may adversely affect our business activities.

Our business activities may be affected by a variety of legislative and regulatory actions related to the activities of banks, savings institutions, insurance companies, securities dealers and other regulated entities that constitute a significant part of our customer base. Legislative or regulatory provisions that create or remove incentives for these entities either to sell mortgage loans to us or to purchase our securities could have a material adverse effect on our business results. Among the legislative and regulatory provisions applicable to these entities are capital requirements for federally insured depository institutions and regulated bank holding companies.

For example, the Basel Committee on Banking Supervision, composed of representatives of certain central banks and bank supervisors, has developed a set of risk-based capital standards for banking organizations. The U.S. banking regulators have adopted new capital standards for certain banking organizations that incorporate the Basel Committee s risk-based capital standards. Decisions by U.S. banking organizations about whether to hold or sell mortgage assets could be affected by the new standards. However, the manner in which U.S. banking organizations may respond to them remains uncertain.

The actions we are taking in connection with the Interagency Guidance and the Subprime Statement are described in ANNUAL MD&A CREDIT RISKS Mortgage Credit Risk *Portfolio Diversification Guidance on Non-traditional Mortgage Product Risks and Subprime Mortgage Lending*. These changes to our underwriting and borrower disclosure requirements and investment standards could reduce the number of these mortgage products available for us to purchase. These initiatives may also adversely affect our profitability or our ability to achieve our affordable housing goals and subgoals.

In addition, our business could also be adversely affected by any modification, reduction or repeal of the federal income tax deductibility of mortgage interest payments.

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ITEM 2. FINANCIAL INFORMATION

SELECTED FINANCIAL DATA AND OTHER OPERATING MEASURES[1]

	At or for the Three Months Ended March 31,		At or for the Year Ended December 31, Adjusted[1]				
	2008	2007	2007	2006	2005	2004	200
	(dollars in millions, except share-related amounts)						
Statement Data							
rest income	$ 798	$ 771	$ 3,099	$ 3,412	$ 4,627	$ 8,313	$
erest income (loss)	731	(77)	194	2,086	1,003	(2,723)	
me (loss) before ve effect of change nting principle	(151)	(133)	(3,094)	2,327	2,172	2,603	
ive effect of n accounting e, net of taxes					(59)		
me (loss)	(151)	(133)	(3,094)	2,327	2,113	2,603	
me (loss) available non stockholders	$ (424)	$ (230)	$ (3,503)	$ 2,051	$ 1,890	$ 2,392	$
s (loss) per share before ve effect of change nting principle:							
	$ (0.66)	$ (0.35)	$ (5.37)	$ 3.01	$ 2.82	$ 3.47	$
	(0.66)	(0.35)	(5.37)	3.00	2.81	3.46	
s (loss) per share after ve effect of change nting principle:							
	$ (0.66)	$ (0.35)	$ (5.37)	$ 3.01	$ 2.73	$ 3.47	$
	(0.66)	(0.35)	(5.37)	3.00	2.73	3.46	
ds per common	$ 0.25	$ 0.50	$ 1.75	$ 1.91	$ 1.52	$ 1.20	$
d average common utstanding (in ds):							
	646,338	661,376	651,881	680,856	691,582	689,282	68
	646,338	661,376	651,881	682,664	693,511	691,521	68
Sheet Data							
sets	$ 802,992	$ 813,421	$ 794,368	$ 804,910	$ 798,609	$ 779,572	$ 78
ebt, due within one	290,540	272,295	295,921	285,264	279,764	266,024	27
	464,737	472,638	438,147	452,677	454,627	443,772	43

ebt, due after one							
nated debt, due e year	4,492	5,224	4,489	6,400	5,633	5,622	
r liabilities	27,066	34,211	28,911	33,139	31,945	32,720	3
y interests in ated subsidiaries	133	514	176	516	949	1,509	
lders equity	16,024	28,539	26,724	26,914	25,691	29,925	3
o Balances[2]							
l portfolio[3]	$ 712,462	$ 714,454	$ 720,813	$ 703,959	$ 710,346	$ 653,261	$ 64
Cs and Structured es issued[4]	1,784,077	1,536,525	1,738,833	1,477,023	1,335,524	1,208,968	1,16
ortgage portfolio	2,149,689	1,892,132	2,102,676	1,826,720	1,684,546	1,505,531	1,41
rforming Assets[5]							
d debt rrings			$ 3,621	$ 3,103	$ 2,605	$ 2,297	$
ate owned, net			1,736	743	629	741	
linquent loans			13,089	5,700	6,439	6,345	
n-performing assets			18,446	9,546	9,673	9,383	1
n average assets[6]	(0.1)%	(0.1)%	(0.4)%	0.3%	0.3%	0.3%	
n common	(23.3)	(4.3)	(21.0)	9.8	8.1	9.4	
n total equity[8]	(2.8)	(1.9)	(11.5)	8.8	7.6	8.6	
d payout ratio on stock[9]	N/A	N/A	N/A	63.9	56.9	34.9	
o assets ratio[10]	2.7	3.4	3.4	3.3	3.5	3.8	
d stock to core atio[11]	36.8	18.6	37.3	17.3	13.2	13.5	

(1) See NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES and NOTE 20: CHANGES IN ACCOUNTING PRINCIPLES to our audited consolidated financial statements for more information regarding our accounting policies and adjustments made to periods prior to 2008. See NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES to our unaudited consolidated financial statements for more information regarding our accounting policies as of and for the three months ended March 31, 2008.

(2) Represent the unpaid principal balance and excludes mortgage loans and mortgage-related securities traded, but not yet settled. Effective in December 2007, we established a trust for the administration of cash remittances received related to the underlying assets of our PCs and Structured Securities issued. As a result, for December 2007 and each period in 2008, we report the balance of our mortgage portfolios to reflect the publicly-available security balances of our PCs and Structured Securities. Balances prior to 2007 are based on the unpaid principal balances of the underlying mortgage loans that were reduced upon receipt of remittances ahead of the security payment date. To adjust for this change, we increased our retained portfolio balance by $2.8 billion at December 31, 2007.

(3) The retained portfolio presented on our consolidated balance sheets differs from the retained portfolio in this table because the consolidated balance sheet caption includes valuation adjustments and deferred balances. See ANNUAL MD&A CONSOLIDATED BALANCE SHEETS ANALYSIS Table 20 Characteristics of Mortgage Loans and Mortgage-Related Securities in our Retained Portfolio and INTERIM MD&A CONSOLIDATED BALANCE SHEETS ANALYSIS Table 81 Characteristics of Mortgage Loans and Mortgage-Related Securities in our Retained Portfolio for more information.

(4) Includes PCs and Structured Securities that are held in our retained portfolio. See ANNUAL MD&A PORTFOLIO BALANCES AND ACTIVITIES Table 44 Total Mortgage Portfolio and Segment Portfolio Composition and INTERIM MD&A PORTFOLIO BALANCES AND ACTIVITIES Table 100 Freddie Mac s

Total Mortgage Portfolio and Segment Portfolio Composition for composition of our total mortgage portfolio. Excludes Structured Securities for which we have resecuritized our PCs and Structured Securities. These resecuritized securities do not increase our credit-related exposure and consist of single-class Structured Securities backed by PCs, REMICs and principal-only strips. The notional balances of interest-only strips are excluded because this line item is based on unpaid principal balance. Includes other guarantees issued that are not in the form of a PC, such as long-term standby commitments and credit enhancements for multifamily housing revenue bonds.

(5) Represents mortgage loans held in our retained portfolio, as well as mortgage loans backing our guaranteed PCs and Structured Securities, including those held by third parties.

(6) Ratio computed as annualized net income (loss) divided by the simple average of the beginning and ending balances of total assets.

(7) Ratio computed as annualized net income (loss) available to common stockholders divided by the simple average of the beginning and ending balances of stockholders equity, net of preferred stock (at redemption value).

(8) Ratio computed as annualized net income (loss) divided by the simple average of the beginning and ending balances of stockholders equity.

(9) Ratio computed as common stock dividends declared divided by net income available to common stockholders. Ratio is not computed for periods in which net income (loss) available to common stockholders was a loss.

(10) Ratio computed as the simple average of the beginning and ending balances of stockholders equity divided by the simple average of the beginning and ending balances of total assets.

(11) Ratio computed as preferred stock, at redemption value divided by core capital. See NOTE 9: REGULATORY CAPITAL to our audited and unaudited consolidated financial statements for more information regarding core capital.

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RECENT EVENTS

Since the release of our financial results for the first quarter of 2008, there has been a substantial decline in the market price of our common stock. The market conditions that have contributed to this price decline are likely to affect our approach to raising new core capital including the timing, amount, type and mix of securities we may issue. However, we remain committed to raising new core capital given appropriate market conditions.

Currently, we are not under any mandate or requirement to raise capital other than our commitment with OFHEO to raise $5.5 billion. Preliminary indications of our expected financial performance for the second quarter, while reflecting the challenges that face the industry, will leave us expecting to be capitalized at a level greater than the 20% mandatory target surplus established by OFHEO and with a greater surplus above the statutory minimum capital requirement. We expect to take actions to maintain our capital position above the 20% mandatory target surplus. Accordingly, we continue to review and consider alternatives for managing our capital including issuing equity in amounts that could be substantial, reducing our common dividend and limiting the growth or reducing the size of our retained portfolio by allowing the portfolio to run off and/or by selling securities classified as trading or carried at fair value under SFAS No. 159 or available-for-sale securities that are accretive to capital (fair value exceeds cost). We have retained and are working with our financial advisors and we continue to engage in discussions with OFHEO and Treasury on these matters.

Our liquidity position remains strong as a result of our access to the debt markets at attractive spreads and an unencumbered agency mortgage-related securities portfolio of approximately $550 billion, which could serve as collateral for short-term borrowings. On July 13, 2008, the Board of Governors of the Federal Reserve System granted the Federal Reserve Bank of New York the authority to lend to Freddie Mac if necessary. Any such lending would be at the primary credit rate and collateralized by U.S. government and federal agency securities.

Also on July 13, 2008, the Secretary of the Treasury announced a plan that includes: (i) a temporary increase in Treasury s existing authority to lend to Freddie Mac and Fannie Mae; (ii) temporary authority for Treasury to purchase equity in either Freddie Mac or Fannie Mae if needed which, if taken, could significantly dilute our existing shareholders; and (iii) a consultative role for the Federal Reserve in the process for setting capital requirements and other prudential standards for Freddie Mac and Fannie Mae. Implementation of this plan will require legislation.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AS OF DECEMBER 31, 2007 AND RESULTS OF OPERATIONS FOR THE THREE YEARS ENDED DECEMBER 31, 2007 (ANNUAL MD&A)

EXECUTIVE SUMMARY

Our Business

We generate income through our portfolio investment activities and credit guarantee activities, operating as three reportable segments: Investments, Single-family Guarantee and Multifamily. To achieve our objectives for long-term growth, we focus on three long-term business drivers the profitability of new business, growth and market share. Competition, other market factors, our housing mission under our charter and the HUD affordable housing goals and subgoals require that we make trade-offs in our business that affect each of these drivers.

Market Overview

The U.S. residential mortgage market weakened considerably during 2007, adversely affecting our financial condition and results of operations. We expect that weakened conditions in the residential mortgage market will continue in 2008.

Home prices declined in 2007. The volume of new and existing home sales continued to decline and increased inventories of unsold homes have undermined property values. Forecasts of nationwide home prices indicate a continued overall decline through 2008. Changes in home prices are an important market indicator for us. When home prices decline, the risk of borrower defaults and the severity of credit losses generally increase.

Credit concerns and resulting liquidity issues affected the financial markets. Recently, the market for mortgage-related securities has been characterized by high levels of volatility and uncertainty, reduced demand and liquidity, significantly wider credit spreads and a lack of price transparency. Mortgage-related securities, particularly those backed by non-traditional mortgage products, have been subject to various rating agency downgrades and price declines. Many lenders tightened credit standards in the second half of 2007 or stopped originating certain types of mortgages for riskier products in the market, such as some types of ARMs, resulting in higher mortgage rates. This response has adversely affected many borrowers seeking to refinance out of ARMs scheduled to reset to higher rates, contributing to higher observed delinquencies.

The credit performance of all mortgage products deteriorated during 2007; however, the performance of subprime, Alt-A loans and other non-traditional mortgage products deteriorated more severely. See ANNUAL MD&A CREDIT RISKS Mortgage Credit Risk for additional information regarding mortgage-related securities backed by subprime and Alt-A loans.

Consolidated Results GAAP

Effective December 31, 2007, we retrospectively changed our method of accounting for our guarantee obligation: (a) to a policy of no longer extinguishing our guarantee obligation when we purchase all or a portion of a Freddie Mac-guaranteed security from a policy of effective extinguishment through the recognition of a Participation Certificate residual and (b) to a policy that amortizes our guarantee obligation into earnings in a manner that corresponds more closely to our economic release from risk under our guarantee than our former policy, which

amortized our guarantee obligation according to the contractual expiration of our guarantee as observed by the decline in the unpaid principal balance of securitized mortgage loans. While our previous accounting is acceptable, we believe the newly adopted method of accounting for our guarantee obligation is preferable because it:

- significantly enhances the transparency and understandability of our financial results;
- promotes uniformity in the accounting model for the credit risk retained in our primary credit guarantee business;
- better aligns revenue recognition to the release from economic risk of loss under our guarantee; and
- increases comparability with other similar financial institutions.

The results of operations for all periods presented in this discussion reflect the retrospective application of our new method of accounting for our guarantee obligation. The net cumulative effect of these changes in accounting principles through December 31, 2007 was an increase to our retained earnings of $1.3 billion. See NOTE 20: CHANGES IN ACCOUNTING PRINCIPLES to our audited consolidated financial statements for additional information.

In 2007, we reported net losses of $(3.1) billion, or $(5.37) per diluted share, compared to net income of $2.3 billion, or $3.00 per diluted share, in 2006. Net losses in 2007 were primarily due to higher credit-related expenses, losses on our guarantee activities, and mark-to-market losses on our portfolio of derivatives. Without giving effect to the changes in accounting method, net losses would have been $(3.7) billion for the fourth quarter of 2007 and $(5.2) billion for the year ended December 31, 2007.

Net interest income decreased to $3.1 billion in 2007 from $3.4 billion in 2006. The decline in net interest income reflected higher replacement costs associated with the funding of our retained portfolio. Our long-term debt interest costs increased because our lower-rate debt matured and was replaced with higher-rate debt.

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In 2007, management and guarantee income increased to $2.6 billion from $2.4 billion in 2006, resulting from a 13% increase in the average balance of our PCs and Structured Securities issued. Despite increases in contractual management and guarantee fees, our total management and guarantee fee rate decreased to 16.6 basis points in 2007 from 17.1 basis points in 2006, primarily attributable to declines in amortization income resulting from slower prepayment projections in 2007.

Other components of non-interest income (loss) totaled $(2.4) billion in 2007, compared to $(0.3) billion in 2006. These amounts include $(4.3) billion of valuation losses in 2007 compared to $(1.3) billion in 2006. The change in valuation losses was primarily attributable to the impact of decreasing long-term interest rates on our derivatives portfolio. Our valuation losses in 2007 were partially offset by $0.5 billion of recoveries on loans impaired upon purchase.

Credit-related expenses, which consist of the total of provision for credit losses and real estate owned, or REO, operations expense, were $3.1 billion and $0.4 billion in 2007 and 2006, respectively. In 2007, our provision for credit losses increased due to significant credit deterioration in our single-family credit guarantee portfolio.

Other non-interest expense included losses on certain credit guarantees and losses on loans purchased, which totaled $3.9 billion in 2007, compared to $0.6 billion in 2006. Increases in losses on certain credit guarantees reflect expectations of higher defaults and severity in the credit market in 2007 which were not fully offset by increases in guarantee and delivery fees due to competitive pressures and contractual fee arrangements. Increases in losses on loans purchased reflect reduced fair values and higher volume of delinquent loans purchased under our guarantees. See ANNUAL MD&A CONSOLIDATED RESULTS OF OPERATIONS Non-Interest Expenses *Losses on Certain Credit Guarantees* for additional information.

We reported income tax expense (benefit) of $(2.9) billion and $(45) million in 2007 and 2006 resulting in effective tax rates of 48% and (2)%, respectively. See NOTE 13: INCOME TAXES to our audited consolidated financial statements for additional information.

Segment Earnings

Our operations consist of three reportable segments, which are based on the type of business activities each performs Investments, Single-family Guarantee and Multifamily. The activities of our business segments are described in BUSINESS Business Activities. Certain activities that are not part of a segment are included in the All Other category; this category consists of certain unallocated corporate items, such as remediation and restructuring costs, costs related to the resolution of certain legal matters and certain income tax items. We manage and evaluate performance of the segments and All Other using a Segment Earnings approach. Segment Earnings differs significantly from, and should not be used as a substitute for net income (loss) before cumulative effect of change in accounting principle or net income (loss) as determined in accordance with GAAP. There are important limitations to using Segment Earnings as a measure of our financial performance. Among other things, our regulatory capital requirements are based on our GAAP results. Segment Earnings adjusts for the effects of certain gains and losses and mark-to-market items which, depending on market circumstances, can significantly affect, positively or negatively, our GAAP results and which, in recent periods, have caused us to record GAAP net losses. GAAP net losses will adversely impact our regulatory capital, regardless of results reflected in Segment Earnings. See ANNUAL MD&A CONSOLIDATED RESULTS OF OPERATIONS Segment Measures Segment Earnings for a description of Segment Earnings and a discussion of its use as a measure of segment operating performance.

The objective of Segment Earnings is to present our results on an accrual basis as the cash flows from our segments are earned over time. We are primarily a buy and hold investor in mortgage assets, and given our business objectives, we believe it is meaningful to measure performance of our investment business using long-term returns, not on a

short-term fair value basis. The business model for our investment activity is one where we generally hold our investments for the long term, fund the investments with debt and derivatives to minimize interest rate risk, and generate net interest income in line with our return on equity objectives. The business model for our credit guarantee activity is one where we are a long-term guarantor of the conforming mortgage markets, manage credit risk, and generate guarantee and credit fees, net of incurred credit losses. As a result of these business models, we believe that an accrual-based metric is a meaningful way to present the emergence of our results as actual cash flows are realized, net of credit losses and impairments. In summary, Segment Earnings provides us with a view of our financial results that is more consistent with our business objectives, which helps us better evaluate the performance of our business, both from period to period and over the longer term.

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Table 4 presents Segment Earnings by segment and the All Other category and includes a reconciliation of Segment Earnings to net income (loss) prepared in accordance with GAAP.

Table 4 Reconciliation of Segment Earnings to GAAP Net Income (Loss)

	Year Ended December 31,		
	2007	2006	2005
	(in millions)		
Segment Earnings (loss) after taxes:			
Investments	$ 2,028	$ 2,111	$ 2,284
Single-family Guarantee	(256)	1,289	965
Multifamily	398	434	363
All Other	(103)	19	(437)
Total Segment Earnings, net of taxes	2,067	3,853	3,175
Reconciliation to GAAP net income (loss):			
Derivative- and foreign currency translation-related adjustments	(5,667)	(2,371)	(1,644)
Credit guarantee-related adjustments	(3,268)	(201)	(458)
Investment sales, debt retirements and fair value-related adjustments	987	231	570
Fully taxable-equivalent adjustments	(388)	(388)	(336)
Total pre-tax adjustments	(8,336)	(2,729)	(1,868)
Tax-related adjustments	3,175	1,203	865
Total reconciling items, net of taxes	(5,161)	(1,526)	(1,003)
Net income (loss)[(1)]	$ (3,094)	$ 2,327	$ 2,172

(1) Total per consolidated statement of income reflects the impact of the adjustments described in NOTE 20: CHANGES IN ACCOUNTING PRINCIPLES to our audited consolidated financial statements. Additionally, Net income (loss) is presented before the cumulative effect of a change in accounting principle related to 2005.

Investments

Through our Investments segment, we seek to generate attractive returns on our mortgage-related investment portfolio while maintaining a disciplined approach to interest-rate risk and capital management. We seek to accomplish this objective through opportunistic purchases, sales and restructuring of mortgage assets. Although we are primarily a buy and hold investor in mortgage assets, we may sell assets to reduce risk, respond to capital constraints, provide liquidity or structure certain transactions that improve our returns. We estimate our expected investment returns using an OAS approach.

Segment Earnings for our Investments segment declined in 2007 compared to 2006. We experienced higher funding costs in 2007 for our mortgage-related investment portfolio as our long-term debt interest expense increased, reflecting the replacement of maturing debt.

Performance Highlights of 2007 versus 2006:

Unpaid principal balance of our mortgage-related investment portfolio increased 1% to $663 billion at December 31, 2007.

Segment Earnings net interest yield was flat in 2007, as compared to 2006, due to increased funding costs offset by a decline in amortization expense of our mortgage-related portfolio.

Capital constraints limited our ability to significantly increase our mortgage-related investment portfolio in order to take advantage of wider mortgage-to-debt OAS.

Single-family Guarantee

Through our Single-family Guarantee segment, we seek to issue guarantees that we believe offer attractive long-term returns relative to anticipated credit costs while fulfilling our mission to provide liquidity, stability and affordability in the residential mortgage market. In addition, we seek to improve our share of the total residential mortgage securitization market by enhancing customer service and expanding our customer base, the types of mortgages we guarantee and the products we offer.

Segment Earnings for our Single-family Guarantee segment declined in 2007 compared to 2006. In 2007, we experienced an increase in credit costs largely driven by higher volumes of both non-performing loans and foreclosures, higher severity of losses on a per-property basis, a national decline in home prices and declines in regional economic conditions.

Performance Highlights of 2007 versus 2006:

Credit guarantee portfolio increased by 17.7% for the year ended December 31, 2007, compared to 11.1% for the year ended December 31, 2006.

Average rates of Segment Earnings management and guarantee fee income for the Single-family Guarantee segment remained unchanged at 18.0 basis points.

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Segment Earnings provision for credit losses for the Single-family Guarantee segment increased to $3.0 billion for the year ended December 31, 2007 from $0.3 billion for the year ended December 31, 2006.

Realized single-family credit losses in 2007 were 3.0 basis points of the average total mortgage portfolio, excluding non-Freddie Mac securities, compared to 1.4 basis points in 2006.

Announced significant delivery fee increases effective March 2008. Also, in February 2008, we announced an additional increase in delivery fees, effective June 2008, for certain flow transactions.

Multifamily

Through our Multifamily segment, we seek to generate attractive returns on our investments in multifamily mortgage loans while fulfilling our mission to supply affordable rental housing. We also seek to issue guarantees that we believe offer attractive long-term returns relative to anticipated credit costs.

Segment Earnings for our Multifamily segment decreased in 2007 compared to 2006 as a result of a decrease in net interest income. The decrease in net interest income is primarily attributable to increased debt expense related to higher debt funding costs as well as lower interest yields on the portfolio. Despite market volatility and credit concerns in the single-family market, the multifamily market fundamentals generally continued to display positive trends. Tightened credit standards and reduced liquidity caused many market participants to limit purchases of multifamily mortgages during the second half of 2007, creating investment opportunities for us with higher long-term expected returns and enhancing our ability to meet our affordable housing goals. Despite the investment limitations created by our current capital position, our purchases of multifamily retained mortgages were at record levels in 2007.

Performance Highlights of 2007 versus 2006:

Mortgage purchases into our multifamily loan portfolio increased approximately 50% in 2007, to $18.2 billion from $12.1 billion in 2006.

Unpaid principal balance of our mortgage loan portfolio increased to $57.6 billion at December 31, 2007 from $45.2 billion at December 31, 2006.

Our provision for credit losses for the Multifamily segment remained low at $38 million for the year ended December 31, 2007.

Capital Management

Our primary objective in managing capital is preserving our safety and soundness. We also seek to have sufficient capital to support our business and mission. We make investment decisions based on our capital levels. OFHEO monitors our capital adequacy using several capital standards and since 2004 has directed a 30% mandatory target capital surplus above our regulatory minimum capital requirement.

Weakness in the housing market and volatility in the financial markets continue to adversely affect our capital, including our ability to manage to the 30% mandatory target capital surplus. As a result of the impact of GAAP net losses on our regulatory core capital, our estimated capital surplus was below the 30% mandatory target capital surplus applicable at the end of November 2007. In order to manage to the 30% mandatory target capital surplus and improve business flexibility, on December 4, 2007, we issued $6 billion of non-cumulative, perpetual preferred stock. In addition, during the fourth quarter of 2007, we reduced our common stock dividend by 50% and reduced the size of

our cash and investments portfolio. On March 19, 2008, OFHEO reduced our mandatory target capital surplus to 20% above our statutory minimum capital requirement, and we announced that we will begin the process to raise capital and maintain overall capital levels well in excess of requirements while the mortgage markets recover.

Other items positively affecting our capital position include: (a) certain operational changes in December 2007 for purchasing delinquent loans from PCs, (b) changes in accounting principles we adopted, which increased core capital by $1.3 billion at December 31, 2007 and (c) as discussed in more detail below, our adoption of SFAS No. 159, *The Fair Value Option of Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115*, or SFAS 159, on January 1, 2008, which increased core capital by an estimated $1.0 billion.

We have committed to OFHEO to raise $5.5 billion of new core capital through one or more offerings, which will include both common and preferred securities. The timing, amount and mix of securities to be offered will depend on a variety of factors, including prevailing market conditions and our SEC registration process, and is subject to approval by our board of directors. OFHEO has informed us that, upon completion of these offerings, our mandatory target capital surplus will be reduced from 20% to 15%. OFHEO has also informed us that it intends a further reduction of our mandatory target capital surplus from 15% to 10% upon completion of our SEC registration process, our completion of the remaining Consent Order requirement (*i.e.*, the separation of the positions of Chairman and Chief Executive Officer), our continued commitment to maintain capital well above OFHEO s regulatory requirement and no material adverse changes to ongoing regulatory compliance. We reduced the dividend on our common stock in December 2007.

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The sharp decline in the housing market and volatility in financial markets continues to adversely affect our capital, including our ability to manage to our regulatory capital requirements and the 20% mandatory target capital surplus. Factors that could adversely affect the adequacy of our capital in future periods include our ability to execute our planned capital raising transaction; GAAP net losses; continued declines in home prices; increases in our credit and interest-rate risk profiles; adverse changes in interest-rate or implied volatility; adverse OAS changes; impairments of non-agency mortgage-related securities; counterparty downgrades; downgrades of non-agency mortgage-related securities (with respect to regulatory risk-based capital); legislative or regulatory actions that increase capital requirements; our ability to meet the requirements set by OFHEO for further reductions in the mandatory target capital surplus; or changes in accounting practices or standards. See NOTE 9: REGULATORY CAPITAL to our audited consolidated financial statements for further information regarding our regulatory capital requirements and NOTE 9: REGULATORY CAPITAL to our unaudited consolidated financial statements for further information regarding OFHEO s capital monitoring framework.

Also affecting our capital position was our adoption of SFAS 159 on January 1, 2008. Our election of the fair value option was made in an effort to better reflect, in the financial statements, the economic offsets that exist related to items that were not previously recognized as changes in fair value through our consolidated statements of income. We expect our adoption of the fair value option will reduce the effect of interest-rate changes on our net income (loss) and capital. This change will also increase the impact of spread changes on capital. For a further discussion of our adoption of SFAS 159 see NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Change in Accounting Principles to our unaudited consolidated financial statements. Beginning in the first quarter of 2008, we commenced our use of cash flow hedge accounting relationships to include hedging the changes in cash flows associated with our forecasted issuances of debt. We believe this expanded accounting strategy will reduce the effect of interest-rate changes on our capital. This accounting strategy had a positive impact on our financial results for the first quarter of 2008, and we expect our continued implementation of hedge accounting will have a greater positive effect on our interest rate sensitivity going forward. We also employed this accounting strategy while maintaining our disciplined approach to interest-rate risk management. See NOTE 10: DERIVATIVES to our unaudited consolidated financial statements for additional information about our derivatives designated as cash flow hedges.

To help manage to our regulatory capital requirements and the 20% mandatory target capital surplus, we may consider measures in the future such as reducing or rebalancing risk, limiting growth or reducing the size of our retained portfolio, slowing purchases into our credit guarantee portfolio, issuing additional preferred or convertible preferred stock and issuing common stock.

Our ability to execute additional actions or their effectiveness may be limited and we might not be able to manage to the 20% mandatory target capital surplus. If we are not able to manage to the 20% mandatory target capital surplus, OFHEO may, among other things, seek to require us to (a) submit a plan for remediation or (b) take other remedial steps. In addition, OFHEO has discretion to reduce our capital classification by one level if OFHEO determines that we are engaging in conduct OFHEO did not approve that could result in a rapid depletion of core capital or determines that the value of property subject to mortgage loans we hold or guarantee has decreased significantly. See BUSINESS Regulation And Supervision Office of Federal Housing Enterprise Oversight Capital Standards and Dividend Restrictions, RISK FACTORS and NOTE 9: REGULATORY CAPITAL Classification to our audited consolidated financial statements and NOTE 9: REGULATORY CAPITAL to our unaudited consolidated financial statements for information regarding additional potential actions OFHEO may seek to take against us.

We have submitted amended quarterly minimum and critical capital reports to OFHEO that are adjusted to reflect the impacts of the retrospective application of our changes in method of accounting for our guarantee obligation. OFHEO is the authoritative source for our regulatory capital calculations. However, we believe that we remain adequately capitalized for all historical quarters, on an adjusted basis. At December 31, 2007 our regulatory core capital was $37.9 billion after the effects of the adjustments, which was $11.4 billion in excess of our minimum capital

requirement and $3.5 billion in excess of the 30% mandatory target capital surplus. At March 31, 2008, our estimated regulatory core capital was $38.3 billion, which is an estimated $11.4 billion in excess of our statutory minimum capital requirement and $6.0 billion in excess of the 20% mandatory target capital surplus. See NOTE 9: REGULATORY CAPITAL to our audited consolidated financial statements and NOTE 9: REGULATORY CAPITAL to our unaudited consolidated financial statements for additional information about our regulatory capital.

Fair Value Results

We use estimates of fair value on a routine basis to make decisions about our business activities. Our attribution of the changes in fair value relies on models, assumptions and other measurement techniques that will evolve over time. Our consolidated fair value measurements are a component of our risk management processes. For information about how we estimate the fair value of financial instruments, see NOTE 16: FAIR VALUE DISCLOSURES to our audited consolidated financial statements.

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In 2007, the fair value of net assets attributable to common stockholders, before capital transactions, decreased by $23.6 billion, compared to a $2.5 billion increase in 2006. The payment of common dividends and the repurchase of common shares, net of reissuance of treasury stock, reduced total fair value by an additional $2.1 billion. The fair value of net assets attributable to common stockholders as of December 31, 2007 was $0.3 billion, compared to $26.0 billion as of December 31, 2006.

The following attribution of changes in fair value reflects our current estimate of the items presented (on a pre-tax basis) and excludes the effect of returns on capital and administrative expenses.

Our investment activities decreased fair value by approximately $18.1 billion in 2007. This estimate includes declines in fair value of approximately $23.8 billion attributable to net mortgage-to-debt OAS widening. Of this amount, approximately $13.4 billion was related to the impact of the net mortgage-to-debt OAS widening on our portfolio of non-agency mortgage-related securities.

Our investment activities increased fair value by an estimated $1.3 billion in 2006. This increase in fair value was primarily attributable to the core spread earned on our retained portfolio.

The impact of mortgage-to-debt OAS widening during 2007 increases the likelihood that, in future periods, we will be able to recognize core spread income from our investment activities at a higher spread level. We estimate that we recognized core spread income at a net mortgage-to-debt OAS level of approximately 100 to 105 basis points at December 31, 2007, as compared to approximately 25 to 30 basis points estimated at December 31, 2006. See ANNUAL MD&A CONSOLIDATED FAIR VALUE BALANCE SHEETS ANALYSIS Discussion of Fair Value Results *Estimated Impact of Changes in Mortgage-To-Debt OAS on Fair Value Results* for additional information.

Our credit guarantee activities, including multifamily and single-family whole loan credit exposure, decreased fair value by an estimated $18.5 billion in 2007. This estimate includes an increase in the single-family guarantee obligation of approximately $22.2 billion, primarily attributable to higher expected future credit costs and increased uncertainty in the market. This increase in the single-family guarantee obligation was partially offset by a fair value increase in the single-family guarantee asset of approximately $2.1 billion and cash receipts related to management and guarantee fees and other up-front fees.

During 2006, our credit guarantee activities increased fair value by an estimated $1.9 billion. This estimate includes a fair value increase related to the single-family guarantee asset of approximately $0.9 billion and cash receipts related to management and guarantee fees and other up-front fees. These increases were partially offset by an increase in the single-family guarantee obligation of approximately $1.3 billion.

Business Outlook

We expect that our realized credit losses will continue to increase, which will adversely affect the profitability of our Single-family Guarantee segment. We expect the increase will be largely driven by the credit characteristics of loans originated in 2006 and 2007, which are generally of lower credit quality than loans underlying our issuances in prior years. Loans originated in 2006 and 2007 represent 42% of the unpaid principal balance of our single-family credit guarantee portfolio and approximately 28% of the unpaid principal balance of loans that we hold for sale and investment, which consist primarily of loans purchased under financial guarantees. In addition, the average management and guarantee fees on our 2007 issuances did not keep pace with the increase in expected default costs on the underlying loans. We expect to continue to pursue increases to our management and guarantee fees and delivery fees on bulk and flow transactions to better reflect our expectations of future default costs.

We expect to continue to experience attractive purchase opportunities for our retained portfolio, due to wider mortgage spreads and continued attractive debt funding levels. As a result of the temporary increase in the conventional conforming loan limits, we expect to purchase mortgages with significantly higher unpaid principal balances. Our ability to purchase these mortgages is subject to certain operational constraints and any conditions that may be imposed by our regulators as well as our ability to manage the additional credit risks associated with such mortgages. In addition, our ability to take full advantage of these and other market opportunities may also be limited by our ability to manage to the 30% mandatory target capital surplus and our voluntary, temporary growth limit.

The turmoil in the credit and mortgage markets is also presenting opportunities to profitably grow our single-family and multifamily portfolios. We expect our share of the mortgage securitization market to grow as mortgage originators have generally tightened their credit standards during 2007, causing conforming mortgages to be the predominant product in the market.

As a part of our initiative to register our common stock with the SEC, we expect to complete the remediation of the material weaknesses in our financial reporting processes. Although we have made substantial progress in the remediation of our control deficiencies, the process of meeting our ongoing reporting obligations once our common stock is registered poses significant operational challenges for us.

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Over the next two years, we believe we should be able to reduce administrative expenses. We expect to begin this process in 2008, as we complete our financial remediation efforts and benefit from our investments in new technology.

We expect that it will be challenging for us to achieve HUD s affordable housing goals and subgoals for 2008, due to the significant changes in the residential mortgage market that occurred in 2007 and that are likely to continue well into 2008. These changes include a decrease in single-family home sales that began in 2005 and deteriorating conditions in the mortgage credit markets, which have resulted in more rigorous underwriting standards, and greatly reduced originations of subprime and Alt-A mortgages.

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CONSOLIDATED RESULTS OF OPERATIONS

The following discussion of our consolidated results of operations should be read in conjunction with our audited consolidated financial statements, including the accompanying notes. Also see ANNUAL MD&A CRITICAL ACCOUNTING POLICIES AND ESTIMATES for more information concerning the most significant accounting policies and estimates applied in determining our reported financial position and results of operations.

Effective December 31, 2007, we retrospectively changed our method of accounting for our guarantee obligation: (a) to a policy of no longer extinguishing our guarantee obligation when we purchase all or a portion of a Freddie Mac-guaranteed security from a policy of effective extinguishment through the recognition of a Participation Certificate residual and (b) to a policy that amortizes our guarantee obligation into earnings in a manner that corresponds more closely to our economic release from risk under our guarantee than our former policy, which amortized our guarantee obligation according to the contractual expiration of our guarantee as observed by the decline in the unpaid principal balance of securitized mortgage loans. While our previous accounting is acceptable, we believe the newly adopted method of accounting for our guarantee obligation is preferable because it:

- significantly enhances the transparency and understandability of our financial results;
- promotes uniformity in the accounting model for the credit risk retained in our primary credit guarantee business;
- better aligns revenue recognition to the release from economic risk of loss under our guarantee; and
- increases comparability with other similar financial institutions.

All of the results of operations discussed below for years ended December 31, 2006 and 2005 are shown as Adjusted in the tables to reflect the retrospective application of our new method of accounting for our guarantee obligation. Results for the quarters of 2007 and the twelve months ended 2007 reflect these changes for the full periods presented.

On October 1, 2007, we adopted FASB Interpretation No. 39-1, *Amendment to FASB Interpretation No. 39*, or FSP FIN 39-1. See NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Recently Adopted Accounting Standards *Offsetting of Amounts Related to Certain Contracts* to our audited consolidated financial statements for additional information about our adoption of FSP FIN 39-1. The adoption of FSP FIN 39-1 had no effect on our consolidated statements of income.

The net cumulative effect of these changes in accounting principles through December 31, 2007 was an increase to our net income of $1.3 billion, which includes a net cumulative increase of $2.2 billion for 2005, 2006 and 2007 and a net cumulative decrease of $0.9 billion related to periods prior to 2005. See NOTE 20: CHANGES IN ACCOUNTING PRINCIPLES to our audited consolidated financial statements for additional information.

Table 5 Summary Consolidated Statements of Income GAAP Results

	Year Ended December 31,		
		Adjusted	
	2007	2006	2005
	(in millions)		

Net interest income	$ 3,099	$ 3,412	$ 4,627
Non-interest income:			
Management and guarantee income	2,635	2,393	2,076
Gains (losses) on guarantee asset	(1,484)	(978)	(1,409)
Income on guarantee obligation	1,905	1,519	1,428
Derivative gains (losses)	(1,904)	(1,173)	(1,321)
Gains (losses) on investment activity	294	(473)	(97)
Gains on debt retirement	345	466	206
Recoveries on loans impaired upon purchase	505		
Foreign-currency gains (losses), net	(2,348)	96	(6)
Other income	246	236	126
Non-interest income	194	2,086	1,003
Non-interest expense:			
Administrative expenses	(1,674)	(1,641)	(1,535)
Other expenses	(7,596)	(1,575)	(1,565)
Non-interest expense	(9,270)	(3,216)	(3,100)
Income (loss) before income tax (expense) benefit and cumulative effect of change in accounting principle	(5,977)	2,282	2,530
Income tax (expense) benefit	2,883	45	(358)
Net income (loss) before cumulative effect of change in accounting principle	(3,094)	2,327	2,172
Cumulative effect of change in accounting principle, net of tax			(59)
Net income (loss)	$ (3,094)	$ 2,327	$ 2,113

Net Interest Income

Table 6 summarizes our net interest income and net interest yield and provides an attribution of changes in annual results to changes in interest rates or changes in volumes of our interest-earning assets and interest-bearing liabilities.

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Average balance sheet information is presented because we believe end-of-period balances are not representative of activity throughout the periods presented. For most components of the average balances, a daily weighted average balance was calculated for the period. When daily weighted average balance information was not available, a simple monthly average balance was calculated.

Table 6 Average Balance, Net Interest Income and Rate/Volume Analysis

	Year Ended December 31,								
				Adjusted					
	2007			2006			2005		
	Average Balance[1][2]	Interest Income (Expense)[1]	Average Rate	Average Balance[1][2]	Interest Income (Expense)[1]	Average Rate	Average Balance[1][2]	Interest Income (Expense)[1]	Ave Ra
	(dollars in millions)								
st-earning assets:									
age loans[3][4]	$ 70,890	$ 4,449	6.28%	$ 63,870	$ 4,152	6.50%	$ 61,256	$ 4,010	
age-related securities	645,844	34,893	5.40	650,992	33,850	5.20	611,761	28,968	
etained portfolio	716,734	39,342	5.49	714,862	38,002	5.32	673,017	32,978	
ments[5]	43,910	2,285	5.20	57,705	2,789	4.83	53,252	1,773	
ties purchased under ments to resell and funds sold	24,469	1,283	5.25	28,577	1,473	5.15	25,344	833	
nterest-earning assets	$ 785,113	$ 42,910	5.46	$ 801,144	$ 42,264	5.28	$ 751,613	$ 35,584	
st-bearing liabilities:									
erm debt	$ 174,418	$ (8,916)	(5.11)	$ 179,882	$ (8,665)	(4.82)	$ 192,497	$ (6,102)	
erm debt[6]	576,973	(29,148)	(5.05)	587,978	(28,218)	(4.80)	524,270	(23,246)	
debt securities	751,391	(38,064)	(5.07)	767,860	(36,883)	(4.80)	716,767	(29,348)	
PC investors	7,820	(418)	(5.35)	7,475	(387)	(5.18)	10,399	(551)	
nterest-bearing ies	759,211	(38,482)	(5.07)	775,335	(37,270)	(4.81)	727,166	(29,899)	
se related to ives		(1,329)	(0.17)		(1,582)	(0.20)		(1,058)	
of net terest-bearing funding	25,902		0.17	25,809		0.16	24,447		
unding of t-earning assets	$ 785,113	$ (39,811)	(5.07)	$ 801,144	$ (38,852)	(4.85)	$ 751,613	$ (30,957)	
erest income/yield		$ 3,099	0.39		$ 3,412	0.43		$ 4,627	
axable-equivalent ments[7]		392	0.05		392	0.04		339	

erest income/yield
axable-equivalent

$ 3,491	0.44%	$ 3,804	0.47%	$ 4,966	0	

	2007 vs. 2006 Variance Due to			2006 vs. 2005 Variance Due to		
	Rate[8]	Volume[8]	Total Change	Rate[8]	Volume[8]	Total Change
	(in millions)					
Interest-earning assets:						
Mortgage loans	$ (147)	$ 444	$ 297	$ (28)	$ 170	$ 142
Mortgage-related securities	1,312	(269)	1,043	2,952	1,930	4,882
Total retained portfolio	1,165	175	1,340	2,924	2,100	5,024
Investments	201	(705)	(504)	857	159	1,016
Securities purchased under agreements to resell and federal funds sold	25	(215)	(190)	523	117	640
Total interest-earning assets	$ 1,391	$ (745)	$ 646	$ 4,304	$ 2,376	$ 6,680
Interest-bearing liabilities:						
Short-term debt	$ (520)	$ 269	$ (251)	$ (2,986)	$ 423	$ (2,563)
Long-term debt	(1,465)	535	(930)	(2,008)	(2,964)	(4,972)
Total debt securities	(1,985)	804	(1,181)	(4,994)	(2,541)	(7,535)
Due to PC investors	(13)	(18)	(31)	12	152	164
Total interest-bearing liabilities	(1,998)	786	(1,212)	(4,982)	(2,389)	(7,371)
Expense related to derivatives	253		253	(524)		(524)
Total funding of interest-earning assets	$ (1,745)	$ 786	$ (959)	$ (5,506)	$ (2,389)	$ (7,895)
Net interest income	$ (354)	$ 41	$ (313)	$ (1,202)	$ (13)	$ (1,215)
Fully taxable-equivalent adjustments	9	(9)		29	24	53
Net interest income (fully taxable-equivalent basis)	$ (345)	$ 32	$ (313)	$ (1,173)	$ 11	$ (1,162)

(1) Excludes mortgage loans and mortgage-related securities traded, but not yet settled.
(2) For securities in our retained and investment portfolios, we calculated average balances based on their unpaid principal balance plus their associated deferred fees and costs (*e.g.*, premiums and discounts), but excluded the effects of mark-to-fair-value changes.
(3) Non-performing loans, where interest income is recognized when collected, are included in average balances.
(4) Loan fees included in mortgage loan interest income were $290 million, $280 million and $371 million for the years ended December 31, 2007, 2006 and 2005, respectively.
(5) Consist of cash and cash equivalents and non-mortgage-related securities.
(6) Includes current portion of long-term debt. See NOTE 7: DEBT SECURITIES AND SUBORDINATED BORROWINGS to our audited consolidated financial statements for a reconciliation of senior debt, due within

one year on our consolidated balance sheets.

(7) The determination of net interest income/yield (fully taxable-equivalent basis), which reflects fully taxable-equivalent adjustments to interest income, involves the conversion of tax-exempt sources of interest income to the equivalent amounts of interest income that would be necessary to derive the same net return if the investments had been subject to income taxes using our federal statutory tax rate of 35%.

(8) Rate and volume changes are calculated on the individual financial statement line item level. Combined rate/volume changes were allocated to the individual rate and volume change based on their relative size.

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Table 7 summarizes components of our net interest income.

Table 7 Net Interest Income

	Year Ended December 31,		
		Adjusted	
	2007	2006	2005
	(in millions)		
Contractual amounts of net interest income	$ 6,038	$ 7,472	$ 8,289
Amortization expense, net:[1]			
Asset-related amortization expense, net	(268)	(875)	(1,158)
Long-term debt-related amortization expense, net	(1,342)	(1,603)	(1,446)
Total amortization expense, net	(1,610)	(2,478)	(2,604)
Expense related to derivatives:			
Amortization of deferred balances in AOCI[2]	(1,329)	(1,620)	(1,966)
Accrual of periodic settlements of derivatives:[3]			
Receive-fixed swaps[4]		502	1,185
Foreign-currency swaps		(464)	(277)
Total accrual of periodic settlements of derivatives		38	908
Total expense related to derivatives	(1,329)	(1,582)	(1,058)
Net interest income	3,099	3,412	4,627
Fully taxable-equivalent adjustments	392	392	339
Net interest income (fully taxable-equivalent basis)	$ 3,491	$ 3,804	$ 4,966

(1) Represents amortization related to premiums, discounts, deferred fees and other adjustments to the carrying value of our financial instruments and the reclassification of previously deferred balances from accumulated other comprehensive income, or AOCI, for certain derivatives in cash flow hedge relationships related to individual debt issuances and mortgage purchase transactions.
(2) Represents changes in fair value of derivatives in cash flow hedge relationships that were previously deferred in AOCI and have been reclassified to earnings as the associated hedged forecasted issuance of debt and mortgage purchase transactions affect earnings.
(3) Reflects the accrual of periodic cash settlements of all derivatives in qualifying hedge accounting relationships.
(4) Include imputed interest on zero-coupon swaps.

Net interest income and net interest yield on a fully taxable-equivalent basis decreased for the year ended December 31, 2007 compared to the year ended December 31, 2006. During 2007, we experienced higher funding costs for our retained portfolio as our long-term debt interest expense increased, reflecting the replacement of maturing debt that had been issued at lower interest rates to fund our investments in fixed-rate mortgage-related investments. The decrease in net interest income and net interest yield on a fully taxable-equivalent basis was partially offset by a decrease in our mortgage-related securities premium amortization expense as purchases into our retained portfolio in 2007 largely consisted of securities purchased at a discount. In addition, wider mortgage-to-debt OAS due

to continued lower demand for mortgage-related securities from depository institutions and foreign investors, along with heightened market uncertainty regarding mortgage-related securities, resulted in favorable investment opportunities. However, to manage to our 30% mandatory target capital surplus, we reduced our average balance of interest earning assets and as a result, we were not able to take full advantage of these opportunities.

Net interest income and net interest yield on a fully taxable-equivalent basis decreased in 2006 as compared to 2005 as spreads on fixed-rate investments continued to narrow, driven by increases in long- and medium-term interest rates. The increase in our long-term debt interest costs reflects the turnover of medium-term debt that we issued in previous years to fund our investments in fixed-rate mortgage-related investments when the yield curve was steep (*i.e.*, short- and medium-term interest rates were low as compared to long-term interest rates). As the yield curve flattened during 2005 and 2006, we experienced increased funding costs associated with replacing maturing lower-cost debt. During 2006, net interest margins declined as a result of changes in interest rates on variable-rate assets acquired in 2004 and 2005. Also, we adjusted our funding mix in 2006 by increasing the proportion of callable debt outstanding, which we use to manage prepayment risk associated with our mortgage-related investments and which generally has a higher interest cost than non-callable debt. In 2006, we considered the issuance of callable debt to be more cost effective than alternative interest-rate risk management strategies, primarily the issuance of non-callable bullet debt combined with the use of derivatives. In addition, the impact of rising short-term interest rates on our funding costs was largely offset by the impact of rising rates on our variable-rate assets in our retained portfolio and cash and investments portfolio.

Net interest income for 2006 also reflected lower net interest income on derivatives in qualifying hedge accounting relationships. Net interest income associated with the accrual of periodic settlements declined as the benchmark London Interbank Offer Rate, or LIBOR, and the Euro Interbank Offered Rate, or Euribor-, interest rates increased during the year, adversely affecting net settlements on our receive-fixed and foreign-currency swaps (Euro-denominated). Net interest income was also affected by our decisions in March and December 2006 to discontinue hedge accounting treatment for a significant amount of our receive-fixed and foreign-currency swaps, as discussed in NOTE 11: DERIVATIVES to our audited consolidated financial statements. The net interest expense related to these swaps is no longer a component of net interest income, after hedge accounting was discontinued, but instead is recognized as a component of derivative gains (losses). By the end of 2006, nearly all of our derivatives were not in hedge accounting relationships.

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Enhancements to certain models used to estimate prepayment speeds on mortgage-related securities and our approach for estimating uncollectible interest on single-family mortgages greater than 90 days delinquent resulted in a net decrease in retained portfolio interest income of $166 million (pre-tax) during the first quarter of 2005.

Non-Interest Income (Loss)

Management and Guarantee Income

Management and guarantee income is the contractual management and guarantee fees, representing a portion of the interest collected on the underlying loans that we receive on mortgage-related securities issued and guaranteed by us. The primary drivers affecting management and guarantee income are changes in the average balance of our PCs and Structured Securities issued and changes in management and guarantee fee rates. Contractual management and guarantee fees include adjustments for buy-ups and buy-downs, whereby the management and guarantee fee is adjusted for up-front cash payments we make (buy-up) or receive (buy-down) upon issuance of our guarantee. All guarantee-related compensation that is received over the life of the loan in cash is reflected in earnings as a component of management and guarantee income. Our average rates of management and guarantee income are affected by the mix of products we issue, competition in the market and customer preference for buy-up and buy-down fees. The majority of our guarantees are issued under customer flow channel contracts. The remainder of our purchase and guarantee securitization of mortgage loans occurs through bulk purchases.

Table 8 provides summary information about management and guarantee income. Management and guarantee income consists of contractual amounts due to us (reflecting buy-ups and buy-downs to base management and guarantee fees) as well as amortization of certain pre-2003 deferred credit and buy-down fees received by us which are recorded as deferred income as a component of other liabilities. Post-2002 credit fees and buy-down fees are reflected as either increased income on guarantee obligation as the guarantee obligation is amortized or a reduction in losses on certain credit guarantees recorded at the initiation of a guarantee.

Table 8 Management and Guarantee Income[1]

	Year Ended December 31,					
				Adjusted		
	2007		2006		2005	
	Amount	Rate	Amount	Rate	Amount	Rate
	(dollars in millions, rates in basis points)					
Contractual management and guarantee fees	$ 2,591	16.3	$ 2,201	15.7	$ 1,982	15.8
Amortization of credit and buy-down fees included in other liabilities	44	0.3	192	1.4	94	0.8
Total management and guarantee income	$ 2,635	16.6	$ 2,393	17.1	$ 2,076	16.6
Unamortized balance of credit and buy-down fees included in other liabilities, at period end	$ 410		$ 440		$ 619	

(1) Consists of management and guarantee fees received related to all issued and outstanding guarantees, including those issued prior to adoption of FIN 45 in January 2003, which did not require the establishment of a guarantee asset.

Management and guarantee income increased in 2007 compared to 2006 resulting from a 13% increase in the average balance of our PCs and Structured Securities. The total management and guarantee fee rate decreased in 2007 compared to 2006 due to declines in amortization income resulting from slowing prepayments attributable to increasing interest rate projections. The decline was partially offset by an increase in contractual management and guarantee fee rates as a result of an increase in buy-up activity in 2007.

Management and guarantee income increased in 2006 compared to 2005 reflecting a 12% increase in the average balance of our PCs and Structured Securities. The total management and guarantee fee rate increased in 2006 compared to 2005, which reflects higher amortization income due to a decrease in interest rates. The contractual management and guarantee fee rate increase was offset by an increase in buy-down activity in 2006.

Gains (Losses) on Guarantee Asset

Upon issuance of a guarantee of securitized assets, we record a guarantee asset on our consolidated balance sheets representing the fair value of the management and guarantee fees we expect to receive over the life of our PCs or Structured Securities. Guarantee assets are recognized in connection with transfers of PCs and Structured Securities that are accounted for as sales under SFAS 140. Additionally, we recognize guarantee assets for PCs issued through our guarantor swap program and for certain Structured Securities that we issue to third parties in exchange for non-agency mortgage-backed securities. Subsequent changes in the fair value of the future cash flows of the guarantee asset are reported in current period income as gains (losses) on guarantee asset.

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The change in fair value of the guarantee asset reflects:

reductions related to the management and guarantee fees received that are considered a return of our recorded investment in the guarantee asset; and

changes in future management and guarantee fees we expect to receive over the life of the related PCs or Structured Securities.

The fair value of future management and guarantee fees is driven by expected changes in interest rates that affect the estimated life of the mortgages underlying our PCs and Structured Securities issued and the related discount rates used to determine the net present value of the cash flows. For example, an increase in interest rates extends the life of the guarantee asset and increases the fair value of future management and guarantee fees. Our valuation methodology for the guarantee asset uses market-based information, including market values of excess servicing, interest-only securities, to determine the fair value of future cash flows associated with the guarantee asset.

Table 9 Attribution of Change Gains (Losses) on Guarantee Asset

	Year Ended December 31,		
	2007	Adjusted 2006	2005
		(in millions)	
Contractual Management and guarantee fees due	$ (2,288)	$ (1,873)	$ (1,565)
Portion of contractual guarantee fees due related to imputed interest income	549	580	450
Return of investment on guarantee asset	(1,739)	(1,293)	(1,115)
Change in fair value of management and guarantee fees	255	315	(294)
Gains (losses) on guarantee asset	$ (1,484)[1]	$ (978)[2]	$ (1,409)[3]

(1) In 2007 we updated the inputs to our model by consuming information directly from third-party data providers. Additionally, a change was made to our model that revised the duration and convexity assumptions, which resulted in longer estimated maturities for the related securities covered by our guarantee.
(2) In 2006 we updated our model to revise the conventions used for aggregating loans with similar characteristics to expand and refine the number of aggregate loan pools used for price determination.
(3) In 2005 we updated our model to utilize greater market data inputs, such as home price appreciation forecasts by geographic area and to expand the use of specific loan characteristics as inputs to our prepayment model.

Management and guarantee fees due represents cash received in the current period related to our PCs and Structured Securities with an established guarantee asset. A portion of management and guarantee fees due is attributed to imputed interest income on the guarantee asset. Management and guarantee fees due increased in both 2007 and 2006, primarily due to increases in the average balance of our PCs and Structured Securities issued.

Gains on fair value of management and guarantee fees in 2007 primarily resulted from an increase in interest rates during the second quarter. The increase in gains on fair value of management and guarantee fees in 2006 was due to an increase in interest rates throughout the year.

Income on Guarantee Obligation

Upon issuance of a guarantee of securitized assets, we record a guarantee obligation on our consolidated balance sheets representing the fair value of our obligation to perform under the terms of the guarantee. Our guarantee obligation is amortized into income using a static effective yield calculated and fixed at inception of the guarantee based on forecasted unpaid principal balances. The static effective yield will be evaluated and adjusted when significant changes in economic events cause a shift in the pattern of our economic release from risk, or the loss curve. For example, certain market environments may lead to sharp and sustained changes in home prices or prepayments of mortgages, leading to the need for an adjustment in the static effective yield for specific mortgage pools underlying the guarantee. When a change is required, a cumulative catch-up adjustment, which could be significant in a given period, will be recognized and a new static effective yield will be used to determine our guarantee obligation amortization. For the years ended December 31, 2007, 2006 and 2005, the cumulative catch-up adjustments recognized for individual mortgage pools where the triggers that identify significant shifts in the loss curve have been met were $199 million, $181 million, and $319 million, respectively, and were due to significant increases in prepayment speeds. The resulting amortization recorded to income on guarantee obligation results in a pattern of revenue recognition that is consistent with our economic release from risk under changing economic scenarios. Periodic amortization of both our guarantee obligation and deferred income are reflected as components of the income on guarantee obligation.

Our guarantee obligation includes the following:

estimated credit costs, including estimated unrecoverable principal and interest that will be incurred over the life of the underlying mortgages backing PCs;

estimated foreclosure-related costs;

net float earnings on cash flows between mortgage loan servicers and investors in PCs;

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estimated administrative and other costs related to our management and guarantee activities; and

an estimated market rate of return, or profit, that a market participant would require to assume the obligation.

Over time, we recognize credit losses on loans underlying a guarantee contract as those losses become incurred. Those incurred losses may equal, exceed or be less than the expected losses we estimated as a component of our guarantee obligation at inception of the guarantee contract. We recognize incurred losses as part of our provision for credit losses and as real estate owned operations expense.

See NOTE 20: CHANGES IN ACCOUNTING PRINCIPLES to our audited consolidated financial statements for further information regarding our guarantee obligation.

Table 10 Income on Guarantee Obligation

	Year Ended December 31,		
	2007	Adjusted 2006	2005
	(in millions)		
Amortization income related to:			
Performance and other related costs	$ 1,146	$ 804	$ 747
Deferred guarantee income	759	715	681
Total income on guarantee obligation	$ 1,905	$ 1,519	$ 1,428
Components of the guarantee obligation, at period end:			
Unamortized balance of performance and other related costs	$ 9,930	$ 5,841	$ 4,556
Unamortized balance of deferred guarantee income	3,782	3,641	3,351
Total guarantee obligation	$ 13,712	$ 9,482	$ 7,907

Amortization income increased in 2007 and 2006. These increases reflect the growth of the guarantee obligation associated with newly-issued guarantees, which have higher associated performance costs due to higher expected credit costs than issuances in previous years, as well as higher average balances of our PCs and Structured Securities.

Our amortization method is intended to correlate to our economic release from risk under our guarantee, under changing economic scenarios. In the event of significant and sustained economic changes, we would revise our static effective yield amortization, by recognizing a cumulative, catch-up adjustment. We expect that the decline in national home prices in 2008 will require catch-up adjustments to our static effective yield method. This will result in higher amortization in the first quarter of 2008 than would be recognized under the static effective yield method absent these economic changes.

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Derivative Overview

Table 11 presents the effect of derivatives on our audited consolidated financial statements, including notional or contractual amounts of our derivatives and our hedge accounting classifications.

Table 11 Summary of the Effect of Derivatives on Selected Consolidated Financial Statement Captions

	Consolidated Balance Sheets					
	December 31, 2007			Adjusted December 31, 2006		
Description	Notional or Contractual Amount[1]	Fair Value (Pre-Tax)[2]	AOCI (Net of Taxes)[3]	Notional or Contractual Amount[1]	Fair Value (Pre-Tax)[2]	AOCI (Net of Taxes)[3]
	(in millions)					
Cash flow hedges-open	$	$	$	$ 70	$	$
No hedge designation	1,322,881	4,790		758,039	7,720	
Subtotal	1,322,881	4,790		758,109	7,720	
Balance related to closed cash flow hedges			(4,059)			(5,032)
Total	$ 1,322,881	$ 4,790	$ (4,059)	$ 758,109	$ 7,720	$ (5,032)

	Consolidated Statements of Income Year Ended December 31,		
		Adjusted	
Description	2007 Derivative Gains (Losses)	2006 Derivative Gains (Losses)	2005 Derivative Gains (Losses)
		(in millions)	
Cash flow hedges-open	$	$	$ (25)
No hedge designation	(1,904)	(1,173)	(1,296)
Total	$ (1,904)	$ (1,173)	$ (1,321)

(1) Notional or contractual amounts are used to calculate the periodic settlement amounts to be received or paid and generally do not represent actual amounts to be exchanged. Notional or contractual amounts are not recorded as assets or liabilities.

(2) The value of derivatives on our consolidated balance sheets is reported as derivative asset, net and derivative liability, net, and includes net derivative interest receivable or payable and cash collateral held or posted. Fair

value excludes net derivative interest receivable of $1.7 billion and net derivative collateral held of $6.2 billion at December 31, 2007. Fair value excludes net derivative interest receivable of $2.3 billion and net derivative collateral held of $9.5 billion at December 31, 2006.

(3) Derivatives that meet specific criteria may be accounted for as cash flow hedges. Changes in the fair value of the effective portion of open cash flow hedges are recorded in AOCI, net of taxes. Net deferred gains and losses on closed cash flow hedges (*i.e.*, where the derivative is either terminated or redesignated) are also included in AOCI, net of taxes, until the related forecasted transaction affects earnings or is determined to be probable of not occurring.

Prior to 2007, we discontinued nearly all of our cash flow hedge and fair value hedge accounting relationships. At December 31, 2007, we did not have any derivatives in hedge accounting relationships. From time to time, we designate as cash flow hedges certain commitments to forward sell mortgage-related securities. See NOTE 11: DERIVATIVES to our audited consolidated financial statements for additional information on our discontinuation of hedge accounting treatment. Derivatives that are not in qualifying hedge accounting relationships generally increase the volatility of reported non-interest income because the fair value gains and losses on the derivatives are recognized in earnings without the offsetting recognition in earnings of the change in value of the economically hedged exposures.

For derivatives designated in cash flow hedge accounting relationships, the effective portion of the change in fair value of the derivative asset or derivative liability is presented in the stockholders equity section of our consolidated balance sheets in AOCI, net of taxes. At December 31, 2007 and 2006, the net cumulative change in the fair value of all derivatives designated in cash flow hedge relationships for which the forecasted transactions had not yet affected earnings (net of amounts previously reclassified to earnings through each year-end) was an after-tax loss of approximately $4.1 billion and $5.0 billion, respectively. These amounts relate to net deferred losses on closed cash flow hedges. The majority of the closed cash flow hedges relate to hedging the variability of cash flows from forecasted issuances of debt. Fluctuations in prevailing market interest rates have no impact on the deferred portion of AOCI, net of taxes, relating to closed cash flow hedges. The deferred amounts related to closed cash flow hedges will be recognized into earnings as the hedged forecasted transactions affect earnings, unless it becomes probable that the forecasted transactions will not occur. If it is probable that the forecasted transactions will not occur, then the deferred amount associated with the forecasted transactions will be recognized immediately in earnings.

At December 31, 2007, over 70% and 90% of the $4.1 billion net deferred losses in AOCI, net of taxes, relating to cash flow hedges were linked to forecasted transactions occurring in the next 5 and 10 years, respectively. Over the next 10 years, the forecasted debt issuance needs associated with these hedges range from approximately $18.6 billion to $104.7 billion in any one quarter, with an average of $58.3 billion per quarter.

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Table 12 presents the scheduled amortization of the net deferred losses in AOCI at December 31, 2007 related to closed cash flow hedges. The scheduled amortization is based on a number of assumptions. Actual amortization will differ from the scheduled amortization, perhaps materially, as we make decisions on debt funding levels or as changes in market conditions occur that differ from these assumptions. For example, for the scheduled amortization for cash flow hedges related to future debt issuances, we assume that we will not repurchase the related debt and that no other factors affecting debt issuance probabilities will change.

Table 12 Scheduled Amortization into Income of Net Deferred Losses in AOCI Related to Closed Cash Flow Hedge Relationships

	December 31, 2007	
Period of Scheduled Amortization into Income	**Amount (Pre-tax)**	**Amount (After-tax)**
	(in millions)	
2008	$ (1,331)	$ (865)
2009	(1,105)	(718)
2010	(910)	(592)
2011	(720)	(468)
2012	(563)	(366)
2013 to 2017	(1,107)	(719)
Thereafter	(509)	(331)
Total net deferred losses in AOCI related to closed cash flow hedge relationships	$ (6,245)	$ (4,059)

Derivative Gains (Losses)

Table 13 provides a summary of the period-end notional amounts and the gains and losses recognized during the year related to derivatives not accounted for in hedge accounting relationships.

Table 13 Derivatives Not in Hedge Accounting Relationships

	Year Ended December 31,					
	2007		2006		Adjusted 2005	
	Notional or Contractual Amount	**Derivative Gains (Losses)**	**Notional or Contractual Amount**	**Derivative Gains (Losses)**	**Notional or Contractual Amount**	**Derivative Gains (Losses)**
	(in millions)					
Call swaptions						
Purchased	$ 259,272	$ 2,472	$ 194,200	$ (1,128)	$ 146,615	$ (402)
Written	1,900	(121)				
Put swaptions						
Purchased	18,725	(4)	29,725	(100)	34,675	202

Written	2,650	(72)				
Receive-fixed swaps	301,649	3,905	222,631	(290)	81,185	(1,535)
Pay-fixed swaps	409,682	(11,362)	217,565	649	181,562	612
Futures	196,270	142	22,400	(248)	86,252	63
Foreign-currency swaps	20,118	2,341	29,234	(92)	197	(9)
Forward purchase and sale commitments	72,662	445	9,942	(95)	21,827	110
Other[1]	39,953	18	32,342	39	15,643	(25)
Subtotal	1,322,881	(2,236)	758,039	(1,265)	567,956	(984)
Accrual of periodic settlements:						
Receive-fixed swaps[2]		(327)		(418)		426
Pay-fixed swaps		703		541		(763)
Foreign-currency swaps		(48)		(34)		
Other		4		3		
Total accrual of periodic settlements		332		92		(337)
Total	$ 1,322,881	$ (1,904)	$ 758,039	$ (1,173)	$ 567,956	$ (1,321)

(1) Consists of basis swaps, certain option-based contracts (including written options), interest-rate caps, credit derivatives and swap guarantee derivatives not accounted for in hedge accounting relationships. 2005 also included a prepayment management agreement which was terminated effective December 31, 2005.
(2) Includes imputed interest on zero-coupon swaps.

Derivative gains (losses) represents the change in fair value of derivatives not accounted for in hedge accounting relationships because the derivatives did not qualify for, or we did not elect to pursue, hedge accounting, resulting in fair value changes being recorded to earnings. Derivative gains (losses) also includes the accrual of periodic settlements for derivatives that are not in hedge accounting relationships. Although derivatives are an important aspect of our management of interest-rate risk, they will generally increase the volatility of reported net income, particularly when they are not accounted for in hedge accounting relationships. From 2005 through 2007, we experienced significant periodic income volatility due to changes in the fair values of our derivatives and changes in the composition of our portfolio of derivatives not in hedge accounting relationships.

We use receive- and pay-fixed swaps to adjust the interest rate characteristics of our debt funding in order to more closely match changes in the interest-rate characteristics of our mortgage assets. A receive-fixed swap results in our receipt

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of a fixed interest-rate payment from our counterparty in exchange for a variable-rate payment to our counterparty. Conversely, a pay-fixed swap requires us to make a fixed interest-rate payment to our counterparty in exchange for a variable-rate payment from our counterparty. Receive-fixed swaps increase in value and pay-fixed swaps decrease in value when interest rates decrease (with the opposite being true when interest rates increase).

We use swaptions and other option-based derivatives to adjust the characteristics of our debt in response to changes in the expected lives of mortgage-related assets in our retained portfolio. Purchased call and put swaptions, where we make premium payments, are options for us to enter into receive- and pay-fixed swaps, respectively. Conversely, written call and put swaptions, where we receive premium payments, are options for our counterparty to enter into receive- and pay-fixed swaps, respectively. The fair values of both purchased and written call and put swaptions are sensitive to changes in interest rates and are also driven by the market s expectation of potential changes in future interest rates (referred to as implied volatility). Purchased swaptions generally become more valuable as implied volatility increases and less valuable as implied volatility decreases. Recognized losses on purchased options in any given period are limited to the premium paid to purchase the option plus any unrealized gains previously recorded. Potential losses on written options are unlimited.

In 2007, overall decreases in interest rates across the swap yield curve resulted in fair value losses on our interest-rate swap derivative portfolio that were partially offset by fair value gains on our option-based derivative portfolio. Gains on our option-based derivative portfolio resulted from an overall increase in implied volatility and decreasing interest rates. The overall decline in interest rates resulted in a loss of $11.4 billion on our pay-fixed swaps that was only partially offset by a $3.9 billion gain on our receive-fixed swap position. Gains on option-based derivatives, particularly purchased call swaptions, increased in 2007 to $2.3 billion. We recognized a gain of $2.3 billion on our foreign-currency swaps as the Euro continued to strengthen against the dollar. The gains on foreign-currency swaps offset a $2.3 billion loss on the translation of our foreign-currency denominated debt, which is recorded in foreign-currency gains (losses), net.

The accrual of periodic settlements for derivatives not in qualifying hedge accounting relationships increased in 2007 compared to 2006 due to the increase in our net pay-fixed swap position as we responded to the changing interest rate environment.

During 2006, fair value losses on our swaptions increased as implied volatility declined and both long-term and short-term swap interest rates increased. During 2006 and 2005, fair value changes of our pay-fixed and receive-fixed swaps were driven by increases in long-term swap interest rates. Our discontinuation of hedge accounting treatment resulted in an increase in the notional balance of our receive-fixed swaps not in qualifying hedge accounting relationships, which, combined with fluctuations in swap interest rates throughout the year, reduced fair value losses recognized on our receive-fixed swaps during 2006. See NOTE 11: DERIVATIVES to our audited consolidated financial statements for additional information on our discontinuation of hedge accounting treatment.

The accrual of periodic settlements for derivatives not in qualifying hedge accounting relationships increased during 2006 compared to 2005 as short-term interest rates increased resulting in an increase in income on our pay-fixed swaps.

Gains (Losses) on Investment Activity

Gains (losses) on investment activity includes gains and losses on certain assets where changes in fair value are recognized through earnings. Also included are gains and losses related to sales, impairments and other valuation adjustments. Table 14 summarizes the components of gains (losses) on investment activity. For further information, refer to NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES to our audited consolidated financial statements.

Table 14 Gains (Losses) on Investment Activity

	Year Ended December 31,		
		Adjusted	
	2007	2006	2005
	(in millions)		
Gains (losses) on trading securities	$ 506	$ (106)	$ (305)
Gains (losses) on sale of mortgage loans[1]	14	90	124
Gains (losses) on sale of available-for-sale securities	232	(140)	370
Security impairments	(365)	(297)	(276)
Lower-of-cost-or-market valuation adjustments	(93)	(20)	(10)
Total gains (losses) on investment activity	$ 294	$ (473)	$ (97)

(1) Represent mortgage loans sold in connection with securitization transactions.

Gains (Losses) on Trading Securities

In 2007, the overall decrease in long-term interest rates resulted in gains related to our agency securities classified as trading.

In 2006, the increase in long-term interest rates resulted in gains related to our interest-only mortgage related securities classified as trading. These gains were more than offset by losses on other mortgage-related securities classified as trading as

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a result of the rise in interest rates. In 2005, increases in long-term interest rates resulted in losses on mortgage-related securities classified as trading.

Gains (Losses) on Sale of Available-For-Sale Securities

We realized net gains on the sale of available-for-sale securities of $232 million for the year ended December 31, 2007, compared to net losses of $140 million for the year ended December 31, 2006. During the fourth quarter of 2007, we sold approximately $27.2 billion of PCs and Structured Securities, classified as available-for-sale, for capital management purposes. These sales generated gross gains of approximately $216 million and gross losses of $30 million included in gains (losses) on sale of available-for-sale securities. The securities sold at a loss had an unpaid principal balance of $6 billion. We were not required to sell these securities; instead, these sales were part of a broader set of strategic management decisions made in the fourth quarter of 2007 to help maintain our minimum capital requirements in the face of the unanticipated extraordinary market conditions that existed in the latter half of 2007. In an effort to improve our capital position in light of these conditions, we strategically selected blocks of securities to sell, the majority of which were in a gain position. These sales reduced the assets on our balance sheet against which we are required to hold capital, which improved our capital position, and the net gains increased our retained earnings, which also contributed to our capital, and further improved our capital position. See ANNUAL MD&A LIQUIDITY AND CAPITAL RESOURCES Capital Adequacy for further discussion of our sale of these securities and our regulatory capital requirements. Given the extraordinary market conditions and the isolated nature of these sales, we still have the ability and intent to hold the remaining available-for-sale securities in an unrealized loss position for a period of time sufficient to recover all unrealized losses. These gains were partially offset by losses generated by the sale of securities during the second quarter of 2007.

In 2006, losses on sales of available-for-sale securities were primarily driven by resecuritization activity, partially offset by net gains of $188 million related to the sale of certain commercial mortgage-backed securities, or CMBS, as discussed in *Security Impairments*.

Security Impairments

Security impairments on mortgage-related securities increased for the year ended December 31, 2007, compared to the year ended December 31, 2006. Security impairments in 2007 were primarily related to impairments recognized during the second quarter of 2007 on agency securities that we sold in the third quarter of 2007 and thus did not have the intent to hold until the loss would be recovered.

For the years ended December 31, 2006 and 2005, security impairments included $236 million and $91 million, respectively, of interest-rate related impairments related to mortgage-related securities where we did not have the intent to hold the security until the loss would be recovered. Security impairments during the years ended December 31, 2006 and 2005, also included $61 million and $185 million, respectively, related to certain CMBSs backed by cash flows from mixed pools of multifamily and non-residential commercial mortgages. In December 2005, HUD determined that these mixed-pool investments were not authorized under our charter and OFHEO subsequently directed us to divest these investments, which we did in 2006.

Gains (Losses) on Debt Retirement

We repurchase or call our outstanding debt securities from time to time to help support the liquidity and predictability of the market for our debt securities and to manage our mix of liabilities funding our assets. When we repurchase or call outstanding debt securities, we recognize a gain or loss related to the difference between the amount paid to redeem the debt security and the carrying value, including any remaining unamortized deferred items (*e.g.*, premiums, discounts, issuance costs and hedging-related basis adjustments), in earnings in the period of extinguishment as a

component of gains (losses) on debt retirement.

Contemporaneous transfers of cash between us and a creditor in connection with the issuance of a new debt security and satisfaction of an existing debt security are accounted for as either an extinguishment or modification of the existing debt security. If the debt securities have substantially different terms, the transaction is accounted for as an extinguishment of the existing debt security with recognition of any gains or losses in earnings in gains (losses) on debt retirement, the issuance of a new debt security is recorded at fair value, fees paid to the creditor are expensed, and fees paid to third parties are deferred and amortized into interest expense over the life of the new debt obligation using the effective interest method. If the terms of the existing debt security and the new debt security are not substantially different, the transaction is accounted for as a modification of the existing debt security, fees paid to the creditor are deferred and amortized over the life of the modified debt security using the effective interest method, and fees paid to third parities are expensed as incurred.

Recoveries on Loans Impaired upon Purchase

Recoveries on loans impaired upon purchase represent the recapture into income of previously recognized losses on loans purchased and provision for credit losses associated with purchases of delinquent loans from our PCs and Structured Securities in conjunction with our guarantee activities. Recoveries occur when a non-performing loan is repaid in full or

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when at the time of foreclosure the estimated fair value of the acquired property, less costs to sell, exceeds the carrying value of the loan. For impaired loans where the borrower has made required payments that return the loan to less than 90 days delinquent, the recovery amounts are instead accreted into interest income over time as periodic payments are received. During 2007, we recognized recoveries on loans impaired upon purchase of $505 million. During 2006, we recaptured $58 million on impaired loans, which reduced losses on loans purchased. For impaired loans where the borrower has made required payments that return to current status, the basis adjustments are accreted into interest income over time, as periodic payments are received.

Foreign-Currency Gains (Losses), Net

Foreign-currency gains (losses), net represents the translation gains or losses on debt securities denominated in a foreign currency which are translated into U.S. dollars using foreign exchange spot rates at the balance sheet dates. We actively manage the foreign-currency exposure associated with our foreign-currency denominated debt through the use of derivatives. For the year ended December 31, 2007, we recognized net foreign-currency translation losses of $2.3 billion primarily due to the weakening of the U.S. dollar relative to the Euro. These losses offset an increase in fair value of $2.3 billion related to foreign-currency-related derivatives during the period, which is recorded in derivative gains (losses).

For the year ended December 31, 2006, we recognized net foreign-currency translation gains related to our foreign-currency denominated debt of $96 million. These gains offset a decrease in fair value of $92 million related to foreign-currency-related derivatives during the period, which is recorded in derivative gains (losses).

In December 2006, we voluntarily discontinued hedge accounting for our foreign-currency swaps. See *Derivative Gains (Losses)* and NOTE 11: DERIVATIVES to our audited consolidated financial statements for additional information about our derivatives.

Other Income

Other income primarily consists of resecuritization fees, trust management income, fees associated with servicing and technology-related programs, including Loan Prospector, various fees related to multifamily loans (including application and other fees) and various other fees received from mortgage originators and servicers. Resecuritization fees represent amounts we earn primarily in connection with the issuance of Structured Securities for which we make a REMIC election, where the underlying collateral is provided by third parties. These fees are also generated in connection with the creation of interest-only and principal-only strips as well as other Structured Securities. For the years ended December 31, 2007, 2006, and 2005, we immediately recognized resecuritization fees of $85 million, $95 million, and $112 million, respectively. Trust management fees represent the fees we earn as master servicer, issuer and trustee. These fees are derived from interest earned on principal and interest cash flows between the time they are remitted to the trust by servicers and the date of distribution to our PC and Structured Securities holders. Other income increased in 2007 compared to 2006 due to $18 million of trust management income that was related to the establishment of securitization trusts in December 2007 for the underlying assets of our PCs and Structured Securities. Prior to December 2007, these amounts were presented as one to PC Investors.

Other income increased in 2006 compared to 2005, primarily due to $80 million of expense recorded in 2005 that was related to certain errors not material to our audited consolidated financial statements with respect to income in previously reported periods.

Non-Interest Expense

Table 15 summarizes the components of non-interest expense.

Table 15 Non-Interest Expense

	Year Ended December 31,		
	2007	Adjusted 2006	2005
	(in millions)		
Administrative Expenses:			
Salaries and employee benefits	$ 896	$ 830	$ 805
Professional services	443	460	386
Occupancy expense	64	61	58
Other administrative expenses	271	290	286
Total administrative expenses	1,674	1,641	1,535
Provision for credit losses	2,854	296	307
REO operations expense	206	60	40
Losses on certain credit guarantees	1,988	406	272
Losses on loans purchased	1,865	148	
LIHTC partnerships	469	407	320
Minority interests in earnings of consolidated subsidiaries	(8)	58	96
Other expenses	222	200	530
Total non-interest expense	$ 9,270	$ 3,216	$ 3,100

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Administrative Expenses

Salaries and employee benefits increased during the past three years as we hired additional employees to support our financial reporting and infrastructure activities. Certain long-term employee incentive compensation costs also increased as we worked to attract and retain key talent to reduce reliance on external resources.

Professional services decreased in 2007 compared to 2006 as we modestly decreased our reliance on consultants and relied more heavily on our employee base to complete certain financial initiatives and our control remediation activities. Professional services increased in 2006 compared to 2005 as we increased the number of consultants utilized to assist in our initiatives to build new financial accounting systems and improve our financial controls.

Despite continued increases in administrative expenses, administrative expenses as a percentage of our average total mortgage portfolio declined to 8.6 basis points for the year ended December 31, 2007 from 9.3 basis points and 9.7 basis points for the years ended 2006 and 2005, respectively.

Provision for Credit Losses

Our credit loss reserves reflect our best estimates of incurred losses. Our reserve estimate includes projections related to strategic loss mitigation initiatives, including a higher rate of loan modifications for troubled borrowers, and projections of recoveries through repurchases by seller/servicers of defaulted loans due to failure to follow contractual underwriting requirements at the time of the loan origination.

Our reserve estimate also reflects our best projection of defaults. However, the unprecedented deterioration in the national housing market and the uncertainty in other macro economic factors makes forecasting of default rates increasingly imprecise.

The inability to realize the benefits of our loss mitigation plans, a lower realized rate of seller/servicer repurchases or default rates that exceed our current projections will cause our losses to be significantly higher than those currently estimated.

The provision for credit losses increased significantly in 2007 compared to 2006, as continued weakening in the housing market affected our single-family portfolio. In 2007, and to a lesser extent in 2006, we recorded additional reserves for credit losses on our single-family portfolio as a result of:

- increased estimates of incurred losses on mortgage loans that are expected to experience higher default rates, particularly for mortgage loans originated during 2006 and 2007, which do not have the benefit of significant home price appreciation;

- an observed increase in delinquency rates and the rates at which loans transition through delinquency to foreclosure; and

- increases in the severity of losses on a per-property basis, driven in part by the declines in home sales and home prices, particularly in the North Central, East and West regions of the U.S.

We expect our loan loss reserves to increase in future periods commensurate with our outlook for future charge-offs. The rate of change will depend on a number of factors including property values, geographic distribution, loan balances and third-party insurance coverage. In 2005, we recorded an additional loss provision of $128 million for our estimate of incurred losses for loans affected by Hurricane Katrina. During 2006, we reversed $82 million of the provision for credit losses recorded in 2005 associated with Hurricane Katrina because the related payment and

delinquency experience on affected properties was more favorable than expected. Absent the adjustments related to Hurricane Katrina, the provision for credit losses would have been $378 million and $179 million in 2006 and 2005, respectively.

REO Operations Expense

The increase in REO operations expense in 2007, as compared to 2006, was due to a 64% increase in our REO property inventory in 2007 and declining REO property values. The decline in home prices during 2007, combined with our higher REO inventory balance, resulted in an increase in the market-based writedowns of REO, which totaled $129 million and $5 million in 2007 and 2006, respectively. The increase in REO expense in 2006, as compared to 2005, was due to higher real estate taxes, maintenance and net losses on sales experienced in 2006.

Losses on Certain Credit Guarantees

We recognize losses on certain credit guarantees when, upon the issuance of PCs in guarantor swap transactions, we determine that the fair value of our guarantee obligation net of other initial compensation exceeds the fair value of our guarantee asset plus buy-up fees and credit enhancement-related assets. Our recognition of losses on guarantee contracts can occur due to any one or a combination of several factors, including long-term contract pricing for our flow business, the difference in overall transaction pricing versus pool-level accounting measurements and, to a lesser extent, efforts to support our affordable housing mission.

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We negotiate contracts with our customers based on the volume and types of mortgage loans to be delivered to us, and our estimates of the net present value of related future management and guarantee fees, credit costs and other associated cash flows. However, the accounting for our guarantee assets and guarantee obligations is not determined at the level at which we negotiate contracts; rather, it is determined separately for each PC-related pool of loans. We determine the initial fair value of the pool-level guarantee assets and guarantee obligations using methodologies that employ direct market-based information. These methodologies differ from the methodologies we use to determine pricing on new contracts.

For each loan pool created, we compare the initial fair value of the related guarantee obligation to the initial fair value of the related guarantee asset and credit enhancement-related assets. If the guarantee obligation is greater than the guarantee asset, we immediately recognize a loss equal to the difference with respect to that pool. If the guarantee obligation is less than the guarantee asset, no initial gain is recorded; rather, guarantee income equal to the difference is deferred as an addition to the guarantee obligation and is recognized as that liability is amortized. Accordingly, a guarantor swap transaction may result in some loan pools for which a loss is recognized immediately in earnings and other loan pools where guarantee income is deferred. We record these losses as losses on certain credit guarantees.

In 2007, 2006 and 2005 we recognized losses of $2.0 billion, $0.4 billion and $0.3 billion, respectively, on certain guarantor swap transactions entered into during those periods. We also deferred income related to newly-issued guarantees of $0.9 billion, $1.0 billion and $1.2 billion in 2007, 2006 and 2005, respectively. Increases in losses on certain credit guarantees reflect expectations of higher defaults and severity in the credit market in 2007 which were not fully offset by increases in guarantee and delivery fees due to competitive pressures and contractual fee arrangements. Increases in losses on loans purchased reflect reduced fair values and higher volume of delinquent loans purchased under our guarantees.

Our management and guarantee fees with customers are negotiated periodically and remain in effect for an initial contract period of up to one year. We expect most of our guarantor swap transactions under these contracts to generate positive economic returns over the lives of the related PCs. During periods in which conditions in the mortgage credit market deteriorate, such as experienced in 2007,we may incur losses on certain transactions until such time as contract terms are changed or business conditions improve. We continue to believe the fair value of the guarantee obligation recorded exceeds the losses that we ultimately expect to incur.

During the fourth quarter of 2007, we announced increases in delivery fees which are paid at the time of securitization. These increases represent additional fees assessed on all loans issued through flow activity channels, including extra fees for non-traditional and higher risk mortgage loans, that are effective in March 2008. Also, in February 2008, we announced an additional increase in delivery fees, effective in June 2008, for certain flow transactions.

Losses on Loans Purchased

Losses on non-performing loans purchased from the mortgage pools underlying our PCs and Structured Securities occur when the acquisition basis of the purchased loan exceeds the estimated fair value of the loan on the date of purchase.

In 2007, the market-based valuation of non-performing loans was adversely affected by the market s expectation of higher default costs. The decrease in fair values of these loans, combined with an increase in the volume of purchases of non-performing loans and an increase in the average unpaid principal balance of those loans, resulted in losses of $1.9 billion and $0.1 billion for 2007 and 2006, respectively. We expect to recover a portion of the losses on loans purchased over time as these market-based valuations imply future credit losses that are significantly higher than we expect to ultimately incur. See Non-Interest Income (Loss) *Recoveries on Loans Impaired upon Purchase* for

discussion related to recoveries on those previously purchased loans. See ANNUAL MD&A CREDIT RISKS Table 59 Changes in Loans Purchased Under Financial Guarantees for additional information about our purchases of non-performing loans.

Effective December 2007 we made certain operational changes for purchasing delinquent loans from PC pools, which reduced the amount of our losses on loans purchased during the fourth quarter of 2007. Operationally, we will no longer automatically purchase loans from PC pools once they become 120 days delinquent, but rather we will purchase loans from pools when the loans have been 120 days delinquent and (a) modified, (b) foreclosure sales occur, (c) when the loans have been delinquent for 24 months, or (d) when the cost of guarantee payments to PC holders, including advances of interest at the PC coupon, exceeds the expected cost of holding the nonperforming mortgage in our retained portfolio. We made these changes in order to preserve capital in compliance with our regulatory capital requirements better reflect our expectations for future credit losses and reduce our capital costs.

Freddie Mac s operational changes for purchasing delinquent loans from PC pools has had no effect on the existing loss mitigation alternatives that are available to Freddie Mac or its servicers. The change does not impact the process or timing of modifying the loans. Freddie Mac s servicers will continue to perform the same loss mitigation efforts they have always performed while the loans are in the PC pools, and Freddie Mac will continue to purchase and modify delinquent loans when that is the best option available to mitigate losses. As a result, Freddie Mac does not expect this change in practice to have an impact on ultimate credit losses and cure rates. However, when viewed in isolation, this change in practice will result in

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higher provision for credit losses associated with our PCs and Structured Securities and will reduce our losses on loans purchased.

Although these operational changes will immediately decrease the number of loans purchased from PC pools, the total number of loans purchased from PC pools may increase in the future, which would result in an increase in our AICPA Statement of Position 03-3, *Accounting for Certain Loans on Debt Securities Acquired in a Transfer*, or SOP 03-3, fair value losses. The total number of loans we purchase from PC pools is dependent on a number of factors, including management decisions about appropriate loss mitigation efforts, the expected increase in loan delinquencies within our PC pools resulting from the current adverse conditions in the housing market and our need to preserve capital to meet our regulatory capital requirements. The credit environment remains fluid, and the number of loans that we purchase from PC pools will continue to be affected by events and conditions that occur nationally and in regional markets, as well as changes in our business practices to respond to the current conditions.

Other Expenses

Other expenses increased slightly from 2007 to 2006 and decreased from 2006 to 2005 due to $339 million of expenses we recorded in 2005 to increase our reserves for legal settlements, net of expected insurance proceeds. See NOTE 12: LEGAL CONTINGENCIES to our audited consolidated financial statements for more information.

Income Tax Expense (Benefit)

For 2007, 2006 and 2005, we reported income tax expense (benefit) of $(2.9) billion, $(45) million, and $358 million, respectively, resulting in effective tax rates of 48%, (2)% and 14%, respectively. The volatility in our effective tax rate over the past three years is primarily the result of fluctuations in pre-tax income. Our effective tax rate continues to be favorably impacted by our investments in LIHTC partnerships and interest earned on tax-exempt housing related securities. Our 2006 effective tax rate also benefited from releases of tax reserves of $174 million.

For the year ended December 31, 2007, our pre-tax loss exceeded our pre-tax income for years 2005 and 2006. We have not recorded a valuation allowance against our deferred tax assets as we believe that realization is more likely than not. See NOTE 13: INCOME TAXES to our audited consolidated financial statements for additional information.

Segment Earnings

Segment Earnings

In managing our business, we measure the operating performance of our segments using Segment Earnings. Segment Earnings differs significantly from, and should not be used as a substitute for net income (loss) before cumulative effect of change in accounting principle or net income (loss) as determined in accordance with GAAP. There are important limitations to using Segment Earnings as a measure of our financial performance. Among other things, our regulatory capital requirements are based on our GAAP results. Segment Earnings adjusts for the effects of certain gains and losses and mark-to-market items which, depending on market circumstances, can significantly affect, positively or negatively, our GAAP results and which, in recent periods, have contributed to GAAP net losses. GAAP net losses will adversely impact our regulatory capital, regardless of results reflected in Segment Earnings. Also, our definition of Segment Earnings may differ from similar measures used by other companies. However, we believe that the presentation of Segment Earnings highlights the results from ongoing operations and the underlying results of the segments in a manner that is useful to the way we manage and evaluate the performance of our business. See NOTE 15: SEGMENT REPORTING to our audited consolidated financial statements for more information regarding segments and Segment Earnings.

As described below, Segment Earnings is calculated for the segments by adjusting net income (loss) before cumulative effect of change in accounting principle for certain investment-related activities and credit guarantee-related activities. Segment Earnings includes certain reclassifications among income and expense categories that have no impact on net income (loss) but provide us with a meaningful metric to assess the performance of each segment and the company as a whole.

Investment Activity-Related Adjustments

We are primarily a buy and hold investor in mortgage assets, although we may sell assets to reduce risk, respond to capital constraints, provide liquidity, or structure transactions that improve our returns. Our measure of Segment Earnings for our investment-related activities is useful to us because it reflects the way we manage and evaluate the performance of our business.

The most significant inherent risk in our investing activities is interest-rate risk, including duration, convexity and volatility. We actively manage these risks through asset selection and structuring, financing asset purchases with a broad range of both callable and non-callable debt and the use of interest-rate derivatives designed to economically hedge a significant portion of our interest-rate exposure. Our interest rate derivatives include interest-rate swaps, exchange-traded futures, and both purchased and written options (including swaptions). GAAP-basis earnings related to investment activities of our Investments segment, and to a lesser extent, our Multifamily segment, are subject to significant period-to-period

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variability, which we believe is not necessarily indicative of the risk management techniques that we employ and the performance of these segments.

Our derivative instruments are adjusted to fair value under GAAP with resulting gains or losses recorded in GAAP-basis income. Certain other assets are also adjusted to fair value under GAAP with resulting gains or losses recorded in GAAP-basis income. These assets consist primarily of mortgage-related securities classified as trading and mortgage-related securities classified as available-for-sale when a decline in the fair value of available-for-sale securities is deemed to be other than temporary.

To help us assess the performance of our investment-related activities, we make the following adjustments to earnings as determined under GAAP. We believe this measure of performance, which we call Segment Earnings, enhances the understanding of operating performance for specific periods, as well as trends in results over multiple periods, as this measure is consistent with assessing our performance against our investment objectives and the related risk-management activities.

Derivative- and foreign currency translation-related adjustments:

Fair value adjustments on derivative positions, recorded pursuant to GAAP, are not recognized in Segment Earnings as these positions economically hedge our investment activities.

Payments or receipts to terminate derivative positions are amortized prospectively into Segment Earnings on a straight-line basis over the associated term of the derivative instrument.

Payments of up-front premiums (*e.g.*, payments made to third parties related to purchased swaptions) are amortized prospectively on a straight-line basis into Segment Earnings over the contractual life of the instrument. The up-front payments, primarily for option premiums, are amortized to reflect the periodic cost associated with the protection provided by the option contract.

Foreign-currency translation gains and losses associated with foreign-currency denominated debt along with the foreign currency derivatives gains and losses are excluded from Segment Earnings because the fair value adjustments on the foreign-currency swaps that we use to manage foreign-currency exposure are also excluded through the fair value adjustment on derivative positions as described above as the foreign currency exposure is economically hedged.

Investment sales, debt retirements and fair value-related adjustments:

Gains and losses on investment sales and debt retirements that are recognized at the time of the transaction pursuant to GAAP are not immediately recognized in Segment Earnings. Gains and losses on securities sold out of the retained portfolio and cash and investments portfolio are amortized prospectively into Segment Earnings on a straight-line basis over five years and three years, respectively. Gains and losses on debt retirements are amortized prospectively into Segment Earnings on a straight-line basis over the original terms of the repurchased debt.

Trading losses or impairments that reflect expected or realized credit losses are realized immediately pursuant to GAAP and in Segment Earnings since they are not economically hedged. Fair value adjustments to trading securities related to investments that are economically hedged are not included in Segment Earnings. Similarly, non-credit related impairment losses on securities are not included in Segment Earnings. These amounts are deferred and amortized prospectively into Segment Earnings on a straight-line basis over five years for securities in the retained portfolio and over three years for securities in

the cash and investments portfolio. GAAP-basis accretion income that may result from impairment adjustments is also not included in Segment Earnings.

Fully taxable-equivalent adjustment:

Interest income on tax-exempt investments is adjusted to reflect its equivalent yield on a fully taxable basis.

We fund our investment assets with debt and derivatives to minimize interest-rate risk as evidenced by our PMVS and duration gap metrics. As a result, in situations where we record gains and losses on derivatives, securities or debt buybacks, these gains and losses are offset by economic hedges that we do not mark-to-market for GAAP purposes. For example, when we realize a gain on the sale of a security, the debt which is funding the security has an embedded loss that is not recognized under GAAP, but instead over time as we realize the interest expense on the debt. As a result, in Segment Earnings, we defer and amortize the security gain to interest income to match the interest expense on the debt that funded the asset. Because of our risk management strategies, we believe that amortizing gains or losses on economically hedged positions in the same periods as the offsetting gains or losses is a meaningful way to assess performance of our investment activities.

We believe it is useful to measure our performance using long-term returns, not on a short-term fair value basis. Fair value fluctuations in the short-term are not an accurate indication of long-term returns. In calculating Segment Earnings, we make adjustments to our GAAP-basis results that are designed to provide a more consistent view of our financial results, which helps us better assess the performance of our business segments, both from period to period and over the longer term.

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The adjustments we make to present our Segment Earnings are consistent with the financial objectives of our investment activities and related hedging transactions and provide us with a view of expected investment returns and effectiveness of our risk management strategies that we believe is useful in managing and evaluating our investment-related activities. Although we seek to mitigate the interest-rate risk inherent in our investment-related activities, our hedging and portfolio management activities do not eliminate risk. We believe that a relevant measure of performance should closely reflect the economic impact of our risk management activities. Thus, we amortize the impact of terminated derivatives as well as gains and losses on asset sales and debt retirements into Segment Earnings. Although our interest-rate risk and asset/liability management processes ordinarily involve active management of derivatives as well as asset sales and debt retirements, we believe that Segment Earnings, although it differs significantly from, and should not be used as a substitute for GAAP-basis results, is indicative of the longer-term time horizon inherent in our investment-related activities.

Credit Guarantee Activity-Related Adjustments

The credit guarantee activities of our Single-family Guarantee and Multifamily segments consist largely of our guarantee of the payment of principal and interest on mortgages and mortgage-related securities in exchange for guarantee and other fees. Over the longer-term, earnings consist almost entirely of the management and guarantee fee revenues we receive less related credit costs (*i.e.*, provision for credit losses) and operating expenses. Our measure of Segment Earnings for these activities consists primarily of these elements of revenue and expense. We believe this measure is a relevant indicator of operating performance for specific periods, as well as trends in results over multiple periods, because it more closely aligns with how we manage and evaluate the performance of the credit guarantee business.

We purchase mortgages from sellers/servicers in order to securitize and issue PCs and Structured Securities. In addition to the components of earnings noted above, GAAP-basis earnings for these activities include gains or losses realized upon the execution of such transactions, subsequent fair value adjustments to the guarantee asset and amortization of the guarantee obligation.

Our credit-guarantee activities also include the purchase of significantly past due mortgage loans from loan pools that underlie our guarantees. Pursuant to GAAP, at the time of our purchase, the loans are recorded at fair value. To the extent the adjustment of a purchased loan to market value exceeds our own estimate of the losses we will ultimately realize on the loan, as reflected in our loan loss reserve, an additional loss is recorded in our GAAP-basis results.

When we determine Segment Earnings for our credit guarantee-related activities, the adjustments we apply to earnings computed on a GAAP-basis include the following:

Amortization and valuation adjustments pertaining to the guarantee asset and guarantee obligation are excluded from Segment Earnings. Cash compensation exchanged at the time of securitization, excluding buy-up and buy-down fees, is amortized into earnings.

The initial recognition of gains and losses in connection with the execution of either securitization transactions that qualify as sales or guarantor swap transactions, such as losses on certain credit guarantees, is excluded from Segment Earnings.

Fair value adjustments recorded upon the purchase of delinquent loans from pools that underlie our guarantees are excluded from Segment Earnings. However, for Segment Earnings reporting, our GAAP-basis loan loss provision is adjusted to reflect our own estimate of the losses we will ultimately realize on such items.

Over the long term, Segment Earnings and GAAP-basis income both capture the aggregate cash flows associated with our guarantee-related activities. Although Segment Earnings differs significantly from, and should not be used as a substitute for GAAP-basis income, we believe that excluding the impact of changes in the fair value of expected future cash flows from our Segment Earnings provides a meaningful measure of performance for a given period as well as trends in performance over multiple periods, because it more closely aligns with how we manage and evaluate the performance of the credit guarantee business.

Segment Allocations

Results of each reportable segment include directly attributable revenues and expenses. Administrative expenses that are not directly attributable to a segment are allocated ratably using alternative quantifiable measures such as headcount distribution or system usage if considered semi-direct or on a pre-determined basis if considered indirect. Expenses not allocated to segments consist primarily of costs associated with remediating our internal controls and near-term restructuring costs and are included in the All Other category. Net interest income for each segment includes an allocation related to investments and debt based on each segment s assets and off-balance sheet obligations. The LIHTC tax benefit is allocated to the Multifamily segment. All remaining taxes are calculated based on a 35% federal statutory rate as applied to Segment Earnings.

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We continue to assess the methodologies used for segment reporting and refinements may be made in future periods. See NOTE 15: SEGMENT REPORTING to our audited consolidated financial statements for further discussion of Segment Earnings as well as the management reporting and allocation process used to generate our segment results.

Segment Earnings

Investments

In this segment, we invest principally in mortgage-related securities and single-family mortgage loans through our mortgage-related investment portfolio. Segment Earnings consists primarily of the returns on these investments, less the related financing costs and administrative expenses. Within this segment, our activities may include the purchase of mortgage loans and mortgage-related securities with less attractive investment returns and with incremental risk in order to achieve our affordable housing goals and subgoals. We maintain a cash and a non-mortgage-related securities investment portfolio in this segment to help manage our liquidity. We finance these activities primarily through issuances of short- and long-term debt in the public markets. Results also include derivative transactions we enter into to help manage interest-rate and other market risks associated with our debt financing activities and mortgage-related investment portfolio.

Table 16 presents the Segment Earnings of our Investments segment.

Table 16 Segment Earnings Investments

	Year Ended December 31,		
	2007	2006	2005
	(in millions)		
Segment Earnings:			
Net interest income	$ 3,626	$ 3,736	$ 4,117
Non-interest income (loss)	40	38	(74)
Non-interest expense:			
Administrative expenses	(515)	(495)	(466)
Other non-interest expense	(31)	(31)	(63)
Total non-interest expense	(546)	(526)	(529)
Segment Earnings before income tax expense	3,120	3,248	3,514
Income tax expense	(1,092)	(1,137)	(1,230)
Segment Earnings, net of taxes	2,028	2,111	2,284
Reconciliation to GAAP net income (loss):			
Derivative and foreign currency translation-related adjustments	(5,658)	(2,374)	(1,652)
Credit guarantee-related adjustments	2	1	
Investment sales, debt retirements and fair value-related adjustments	987	231	570
Fully taxable-equivalent adjustment	(388)	(388)	(336)
Tax-related adjustments	2,026	1,139	717
Total reconciling items, net of taxes	(3,031)	(1,391)	(701)

Net income (loss)[1]	$ (1,003)	$ 720	$ 1,583
Net interest yield Segment Earnings basis	0.51%	0.51%	0.60%

(1) Net income (loss) is presented before the cumulative effect of a change in accounting principle related to 2005.

Segment Earnings for our Investments segment declined slightly in 2007 compared to 2006. In 2007 and 2006, the growth rates of our mortgage-related investment portfolio were 0.7% and (1.6)%, respectively. In 2007, wider mortgage-to-debt OAS resulted in favorable investment opportunities, particularly in the second half of the year. In response to these market conditions, we took advantage of these opportunities by increasing our purchase activities in CMBS and agency mortgage-related securities. In November 2007, additional widening in OAS levels negatively impacted our GAAP results and lowered our overall capital position. Capital constraints forced us to reduce our balance of interest earning assets, issue $6 billion of non-cumulative, perpetual preferred stock and reduce our common stock dividend by 50% in the fourth quarter of 2007. As a result, the unpaid principal balance of our mortgage-related investment portfolio increased only slightly from $658.8 billion at December 31, 2006 to $663.2 billion at December 31, 2007.

The unpaid principal balance of our mortgage-related investment portfolio declined to $658.8 billion at December 31, 2006 from $669.3 billion at December 31, 2005, as relatively tight mortgage-to-debt OASs limited attractive investment opportunities. In addition, we began managing our mortgage-related investment portfolio under a voluntary, temporary growth limit during the second half of 2006.

Our net interest yield remained unchanged for the year ended December 31, 2007 compared to the year ended December 31, 2006; however, our Segment Earnings net interest income declined. This decline is due, in part, to a decrease in the average balance of our mortgage-related investment portfolio. We also experienced higher funding costs as our long-term debt interest expense increased, reflecting the replacement of maturing debt that we issued at lower interest rates during the past few years. Increases in our funding costs were offset by a decline in our mortgage-related securities amortization expense as purchases in 2007 largely consisted of securities purchased at a discount.

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During the year ended December 31, 2007, demand for our debt securities remained strong, allowing us to issue our debt securities at rates below those of comparable maturities on the LIBOR yield curve.

Single-Family Guarantee

In this segment, we guarantee the payment of principal and interest on single-family mortgage-related securities, including those held in our retained portfolio, in exchange for management and guarantee fees received over time and other up-front compensation. Earnings for this segment consist of management and guarantee fee revenues less the related credit costs (*i.e.*, provision for credit losses) and operating expenses. Also included is the interest earned on assets held in the Investments segment related to single-family guarantee activities, net of allocated funding costs and amounts related to net float benefits.

Net float benefits is comprised of float, cost of funding advances, and compensating interest. Float is the income earned from the temporary investment of cash payments received from loan servicers for borrower payments and prepayments in advance of the date that payments are due to PC holders. The cost of funding advances arises in situations where we are required to pay PC holders prior to receiving cash from the loan servicers. When a borrower prepays their loan balance, interest is only due up to the date of the prepayment; however, the holder of the PC is entitled to interest for the entire month. We make payments to the PC holders for this shortfall, which we refer to as compensating interest. We refer to the combination of these items as the net float benefit.

Net float benefits can vary significantly based on a variety of factors, including the timing and amount of prepayments, rates of return on the temporarily invested cash, and the timing of the servicer and security payment cycles. As a result, net float benefit can be a net revenue or a net expense, and it can change month to month.

Net float benefits are included in the value of our guarantee obligation, and the fair value of the net float benefits is derived from a model that calculates the present value of the estimated future cash flows of the net float benefit, using prepayment, interest rate, and other assumptions that we believe a market participant would use.

Table 17 presents the Segment Earnings of our Single-family Guarantee segment.

Table 17 Segment Earnings Single-Family Guarantee

	Year Ended December 31,		
	2007	2006	2005
	(in millions)		
Segment Earnings:			
Net interest income	$ 703	$ 556	$ 349
Non-interest income:			
Management and guarantee income	2,889	2,541	2,341
Other non-interest income	117	159	78
Total non-interest income	3,006	2,700	2,419
Non-interest expense:			
Administrative expenses	(806)	(815)	(767)
Provision for credit losses	(3,014)	(313)	(447)
REO operations expense	(205)	(61)	(40)
Other non-interest expense	(78)	(84)	(30)

Total non-interest expense	(4,103)	(1,273)	(1,284)
Segment Earnings (loss) before income tax expense	(394)	1,983	1,484
Income tax (expense) benefit	138	(694)	(519)
Segment Earnings (loss), net of taxes	(256)	1,289	965
Reconciliation to GAAP net income (loss):			
Credit guarantee-related adjustments	(3,270)	(205)	(462)
Tax-related adjustments	1,144	72	161
Total reconciling items, net of taxes	(2,126)	(133)	(301)
Net income (loss)	$ (2,382)	$ 1,156	$ 664

Segment Earnings for our Single-family Guarantee segment declined in 2007 compared to 2006. This decline reflects an increase in credit costs largely driven by a decline in home prices and other declines in regional economic conditions, partially offset by an increase in management and guarantee income. The increases in management and guarantee income in 2006 and 2007 are primarily due to higher average balances of the single-family credit guarantee portfolio.

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Table 18 below provides summary Segment Earnings information about management and guarantee earnings for the Single-family Guarantee segment. Management and guarantee earnings consist of contractual amounts due to us related to our management and guarantee fees as well as amortization of credit fees.

Table 18 Segment Management and Guarantee Earnings Single-Family Guarantee

	Year Ended December 31,					
	2007		2006		2005	
	Amount	Rate	Amount	Rate	Amount	Rate
	(dollars in millions, rates in basis points)					
Contractual management and guarantee fees	$ 2,514	15.7	$ 2,186	15.5	$ 1,934	15.4
Amortization of credit fees included in other liabilities	375	2.3	355	2.5	407	3.2
Total Segment Earnings management and guarantee income	2,889	18.0	2,541	18.0	2,341	18.6
Adjustments to reconcile to consolidated GAAP:						
Reclassification between net interest income and guarantee fee[1][2]	29		(37)		(9)	
Credit guarantee-related activity adjustments[3]	(342)		(172)		(315)	
Multifamily management and guarantee earnings[4]	59		61		59	
Management and guarantee income, GAAP	$ 2,635		$ 2,393		$ 2,076	

(1) Management and guarantee fees earned on mortgage loans held in our retained portfolio are reclassified from net interest income within the Investments segment to management and guarantee fees within the Single-family Guarantee segment.
(2) Buy-up and buy-down fees are transferred from the Single-family Guarantee segment to the Investments segment.
(3) Primarily represents credit fee amortization adjustments.
(4) Represents management and guarantee earnings recognized related to our Multifamily segment that is not included in our Single-family Guarantee segment.

In 2007 and 2006, the growth rates of our credit guarantee portfolio were 17.7% and 11.1%, respectively. We estimate the annual growth in total U.S. residential mortgage debt outstanding to be approximately 7.1% in 2007 compared to 11.3% in 2006. Our single-family mortgage purchase and guarantee volumes are impacted by several factors, including origination volumes, mortgage product and underwriting trends, competition, customer-specific behavior and contract terms. Mortgage purchase volumes from individual customers can fluctuate significantly. In 2007, flow and bulk transactions represented approximately 78% and 22%, respectively, of our single-family mortgage purchase and securitization volumes.

The credit markets have been increasingly volatile and the securitization market was extremely competitive. Competitive pressure on flow business guarantee contracts in early 2007 during the renewal periods of some of our longer-term contracts limited our ability to increase flow-business management and guarantee fees in 2007. As a result, some of our guarantee business in 2007 was acquired below our normal expected return thresholds. At the same time, the expected future credit costs associated with our new credit guarantee business increased.

We negotiated increases in our contractual fee rates for securitization issuances through bulk activity channels throughout 2007 in response to increases in market pricing of mortgage credit risk. We continue to pursue management and guarantee fee price increases in our flow-business as contracts are renewed. During the fourth quarter of 2007, we announced increases in delivery fees, which are paid at the time of securitization. These increases, which will be effective in March 2008, represent an additional 25 basis points of fees assessed on all loans issued through flow-business channels, as well as extra fees for non-traditional and higher risk mortgage loans. Also, in February 2008, we announced an additional increase in delivery fees for certain flow-business transactions that will be effective in June 2008.

Net interest income increased due to interest earned on cash and investment balances held in the Investments segment related to single-family guarantee activities, net of allocated funding costs. We expect net interest income from cash and investments to decline in 2008, as we begin to recognize trust management income in other non-interest income. The trust management income will be offset by interest expense we incur when a borrower prepays.

Our Segment Earnings provision for credit losses for the Single-family Guarantee segment increased to $3.0 billion in 2007, compared to $0.3 billion in 2006, due to continued credit deterioration in our single-family credit guarantee portfolio, primarily related to 2006 and 2007 loan originations. Mortgages in our portfolio originated in 2006 and 2007 have higher transition rates from delinquency to foreclosure, higher delinquency rates as well as higher loss severities on a per-property basis. Our provision is based on our estimate of incurred credit losses inherent in both our retained mortgage loan and our credit guarantee portfolio using recent historical performance, such as the trends in delinquency rates, recent charge-off experience, recoveries from credit enhancements and other loss mitigation activities.

The proportion of higher risk mortgage loans that were originated in the market during the last several years increased significantly. We have increased our securitization volume of non-traditional mortgage products, such as interest-only loans and loans originated with less documentation in the last two years in response to the prevalence of these products within the origination market. Total non-traditional mortgage products, including those designated as Alt-A and interest-only loans, made up approximately 30% and 24% of our total mortgage purchase volume in the years ended December 31, 2007 and 2006, respectively. Our increased purchases of these mortgages and issuances of guarantees of them expose us to greater

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credit risks. In addition, we have increased purchases of mortgages that were underwritten by our seller/servicers using alternative automated underwriting systems or agreed-upon underwriting standards that differ from our system or guidelines.

The delinquency rate on our single-family credit guarantee portfolio, representing those loans which are 90 days or more past due and excluding loans underlying Structured Transactions, increased to 65 basis points as of December 31, 2007 from 42 basis points as of December 31, 2006. Increases in delinquency rates occurred in all product types in 2007, but were most significant for interest-only and option ARM mortgages. Although we believe that our delinquency rates remain low relative to conforming loan delinquency rates of other industry participants, we expect our delinquency rates will rise in 2008. See ANNUAL MD&A CREDIT RISKS Table 58 Single-Family Delinquency Rates By Product for further discussion.

Single-family charge-offs, gross, increased 71% in 2007 compared to 2006, primarily due to a considerable increase in the volume of REO properties acquired at foreclosure. In addition, there has been a substantial increase in the average size of the associated unpaid principal balances in 2007, especially for those loans in major metropolitan areas. Higher volumes of foreclosures and higher average loan balances resulted in higher charge-offs, on a per property basis, during 2007.

We experienced increases in delinquency rates and REO activity in the Northeast, North Central, Southeast and West regions during 2007 compared to 2006. The increases in delinquencies and foreclosures have been most evident in the North Central region, where unemployment rates continue to be high. During 2007, we experienced increases in the rate at which loans in our single-family credit guarantee portfolio transitioned from delinquency to foreclosure. The increase in the delinquency transition rates which is the percentage of delinquent loans that proceed to foreclosure or are modified as troubled debt restructurings, compared to our historical experience, has been progressively worse for mortgage loans originated in 2006 and 2007. We believe this trend is, in part, due to the increase of non-traditional mortgage loans, such as interest-only mortgages, as well as an increase in total loan-to-value ratios for mortgage loans originated during these years. In addition, the average size of the unpaid principal balance related to REO properties in our portfolio rose significantly in 2007, especially those REO properties in the Northeast, Southeast and West regions.

Declines in home prices have contributed to the increase in the weighted average estimated current loan-to-value, or LTV, ratio for loans underlying our single-family credit guarantee portfolio to 63% at December 31, 2007 from 57% at December 31, 2006. Approximately 10% of loans in our single-family mortgage portfolio had estimated current LTV ratios above 90% at December 31, 2007, compared to 2% at December 31, 2006. However, as home prices increased during 2006 and prior years, many borrowers used second liens at the time of purchase to potentially reduce the LTV ratio to below 80%, thus avoiding requirements to have private mortgage insurance. Including this secondary financing that our borrowers secured with other financial institutions, we estimate that the percentage of loans underlying our single-family portfolio with total LTV ratios above 90% has risen to approximately 14% at December 31, 2007. In general, higher total LTV ratios indicate that the borrower has less equity in the home and would thus be more susceptible to foreclosure in the event of a financial downturn.

Multifamily

In this segment, we purchase multifamily mortgages for our retained portfolio and guarantee the payment of principal and interest on multifamily mortgage-related securities and mortgages underlying multifamily housing revenue bonds. These activities support our mission to supply financing for affordable rental housing. This segment also includes certain equity investments in various limited partnerships that sponsor low- and moderate-income multifamily rental apartments, which benefit from low-income housing tax credits. Also included is the interest earned on assets held in the Investments segment related to multifamily guarantee activities, net of allocated funding costs.

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Table 19 presents the Segment Earnings of our Multifamily segment.

Table 19 Segment Earnings Multifamily

	Year Ended December 31,		
	2007	2006	2005
	(in millions)		
Segment Earnings:			
Net interest income	$ 426	$ 479	$ 417
Non-interest income:			
Management and guarantee income	59	61	59
Other non-interest income	24	28	19
Total non-interest income	83	89	78
Non-interest expense:			
Administrative expenses	(189)	(182)	(151)
Provision for credit losses	(38)	(4)	(7)
REO operations expense	(1)	1	
LIHTC partnerships	(469)	(407)	(320)
Other non-interest expense	(21)	(17)	(20)
Total non-interest expense	(718)	(609)	(498)
Segment Earnings (loss) before income tax benefit	(209)	(41)	(3)
LIHTC partnerships tax benefit	534	461	365
Income tax benefit	73	14	1
Segment Earnings, net of taxes	398	434	363
Reconciliation to GAAP net income:			
Derivative and foreign currency translation-related adjustments	(9)	3	8
Credit guarantee-related adjustments		3	4
Tax-related adjustments	2	(1)	(4)
Total reconciling items, net of taxes	(7)	5	8
Net income	$ 391	$ 439	$ 371

Segment Earnings for our Multifamily segment decreased $36 million, or 8%, in 2007 compared to 2006 primarily due to lower net interest income, higher provision for credit losses and higher LIHTC losses.

Net interest income includes interest earned on cash and investment balances held in the Investments segment related to multifamily guarantee activities, net of allocated funding costs. The net interest income of this segment declined slightly in 2007, compared to 2006, as higher funding costs more than offset the increase in our loan portfolio balances. We experienced higher funding costs in 2007 versus 2006, reflecting the replacement of maturing long-term debt that was issued at lower rates in prior years.

Despite market volatility and credit concerns in the single-family market, the multifamily market fundamentals generally continued to display positive trends throughout 2007. Tightened credit standards and reduced liquidity caused many market participants to limit purchases of multifamily mortgages during the second half of 2007, creating investment opportunities for us with higher long-term expected returns and enhancing our ability to meet our affordable housing goals.

Mortgage purchases into our multifamily loan portfolio increased approximately 50% in 2007, to $18.2 billion from $12.1 billion in 2006. The balance of our multifamily loan portfolio increased to $57.6 billion at December 31, 2007 from $45.2 billion at December 31, 2006. Our purchases in 2007 were driven by greater opportunities created by the reduced liquidity in the market, which resulted in attractive lending opportunities on post-construction, higher occupancy properties. These purchases were principally from our largest institutional customers with proven track records. The credit quality of the Multifamily segment remains strong, reflecting a geographically diversified portfolio. While current market developments indicate higher credit losses for most multifamily mortgage investors, we expect a modest impact to our results, as we continued our conservative approach to underwriting multifamily assets throughout the past two years while credit standards for many lenders deteriorated sharply. Our relatively low provision for credit losses and other non-interest expenses in 2007 and 2006 for this segment reflects our disciplined approach.

We increased our LIHTC investment in 2007 compared to 2006. These investments generated losses and tax credits during development and construction phases and income when the properties were placed into service. At December 31, 2007, the unconsolidated LIHTC equity investment portfolio consisted of 268 funds invested in 5,064 properties and had a net investment balance of $4.6 billion. Our continued investment in LIHTC partnership funds resulted in tax benefits of $534 million and $461 million for the years ended December 31, 2007 and 2006, respectively.

CONSOLIDATED BALANCE SHEETS ANALYSIS

The following discussion of our consolidated balance sheets should be read in conjunction with our audited consolidated financial statements, including the accompanying notes. Also see ANNUAL MD&A CRITICAL ACCOUNTING POLICIES AND ESTIMATES for more information concerning our significant accounting policies.

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On October 1, 2007, we adopted FSP FIN 39-1. See NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Recently Adopted Accounting Standards *Offsetting of Amounts Related to Certain Contracts* to our audited consolidated financial statements for additional information about adoption of FSP FIN 39-1. The adoption of FSP FIN 39-1 reduced derivative assets, net, derivative liabilities, net and senior debt, due within one year on our consolidated balance sheets.

Effective December 31, 2007, we retrospectively applied changes in our method of accounting for our guarantee obligation. See NOTE 20: CHANGES IN ACCOUNTING PRINCIPLES to our audited consolidated financial statements for additional information regarding these changes and the effect on our consolidated balance sheets. Previously reported consolidated balance sheet amounts as of December 31, 2006 discussed below have been adjusted to reflect the retrospective application of these changes in method.

Retained Portfolio

We are primarily a buy and hold investor in mortgage assets. We invest principally in mortgage loans and mortgage-related securities, which consist of securities issued by us, Fannie Mae and Ginnie Mae, as well as non-agency mortgage-related securities. We refer to these investments on our consolidated balance sheet as our retained portfolio.

See ANNUAL MD&A PORTFOLIO BALANCES AND ACTIVITIES for further information on the composition of our mortgage portfolios. In response to a request by OFHEO, on August 1, 2006, we voluntarily and temporarily limited the growth of our retained portfolio. For a further discussion of our retained portfolio growth limitation see BUSINESS Regulation and Supervision *Office of Federal Housing Enterprise Oversight Voluntary, Temporary Growth Limit.* The average unpaid principal balance of our retained portfolio for the six months ended December 31, 2007, calculated using cumulative average month-end portfolio balances, was $26.9 billion below our voluntary growth limit of $742.4 billion. As of March 1, 2008, we are no longer subject to the voluntary growth limit on our retained portfolio of 2.0% annually.

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Table 20 provides unpaid principal balances of the mortgage loans and mortgage-related securities in our retained portfolio.

Table 20 Characteristics of Mortgage Loans and Mortgage-Related Securities in our Retained Portfolio

	December 31,					
	2007			2006 (Adjusted)[11]		
	Fixed Rate	Variable Rate	Total	Fixed Rate	Variable Rate	Total
	(in millions)					
Mortgage loans:						
Single-family[1]						
Conventional[2]:						
Amortizing	$ 20,461	$ 1,266	$ 21,727	$ 18,376	$ 951	$ 19,327
Interest-Only	246	1,434	1,680	51	282	333
Total conventional	20,707	2,700	23,407	18,427	1,233	19,660
RHS/FHA/VA	1,182		1,182	980		980
Total Single-family	21,889	2,700	24,589	19,407	1,233	20,640
Multifamily[3]	53,114	4,455	57,569	41,866	3,341	45,207
Total mortgage loans	75,003	7,155	82,158	61,273	4,574	65,847
PCs and Structured Securities:[1][4]						
Single-family	269,896	84,415	354,311	282,052	71,828	353,880
Multifamily	2,522	137	2,659	241	141	382
Total PCs and Structured Securities	272,418	84,552	356,970	282,293	71,969	354,262
Non-Freddie Mac mortgage-related securities:[1]						
Agency mortgage-related securities:[5]						
Fannie Mae:						
Single-family	23,140	23,043	46,183	25,779	17,441	43,220
Multifamily	759	163	922	1,013	201	1,214
Government National Mortgage Association, or Ginnie Mae:						
Single-family	468	181	649	707	231	938
Multifamily	82		82	13		13
Total agency mortgage-related securities	24,449	23,387	47,836	27,512	17,873	45,385

Non-agency mortgage-related securities:						
Single-family:						
Subprime[6]	498	100,827	101,325	408	121,691	122,099
Alt-A and other[7]	3,762	47,551	51,313	3,683	52,579	56,262
CMBS	25,709	39,095	64,804	23,517	21,243	44,760
Obligations of states and political subdivisions[8]	14,870	65	14,935	13,775	59	13,834
Manufactured housing[9]	1,250	222	1,472	1,381	129	1,510
Total non-agency mortgage-related securities[10]	46,089	187,760	233,849	42,764	195,701	238,465
Total unpaid principal balance of retained portfolio	$ 417,959	$ 302,854	720,813	$ 413,842	$ 290,117	703,959
Premiums, discounts, deferred fees, impairments of unpaid principal balances and other basis adjustments			(655)			993
Net unrealized gains (losses) on mortgage-related securities, pre-tax			(10,116)			(4,950)
Allowance for loan losses on mortgage loans held-for-investment			(256)			(69)
Total retained portfolio per consolidated balance sheets			$ 709,786			$ 699,933

(1) Variable-rate single-family mortgage loans and mortgage-related securities include those with a contractual coupon rate that, prior to contractual maturity, is either scheduled to change or is subject to change based on changes in the composition of the underlying collateral. Single-family mortgage loans also include mortgages with balloon/reset provisions.

(2) Includes $2.2 billion and $0.8 billion as of December 31, 2007 and 2006, respectively, of mortgage loans categorized as Alt-A due solely to reduced documentation standards at the time of loan origination. Although we do not categorize our single-family loans into prime or subprime, we recognize there are loans with higher risk characteristics. This balance includes $1.3 billion and $1.1 billion as of December 31, 2007 and 2006, respectively, of loans with higher-risk characteristics, which we define as loans with original LTV greater than 90% and the credit scores of the borrowers were less than 620 at the time of loan origination. See Table 53 Characteristics of Single Family Mortgage Portfolio for more information on LTV and credit scores.

(3) Variable-rate multifamily mortgage loans include only those loans that, as of the reporting date, have a contractual coupon rate that is subject to change.

(4) For our PCs and Structured Securities, we are subject to the credit risk associated with the underlying mortgage loan collateral.

(5) Agency mortgage-related securities are generally not separately rated by nationally recognized statistical rating organizations, but are viewed as having a level of credit quality at least equivalent to non-agency mortgage-related securities AAA-rated or equivalent.

(6) Single-family non-agency mortgage-related securities backed by subprime residential loans include significant credit enhancements, particularly through subordination from tranches in which we do not invest. For information about how these securities are rated, see Table 24 Investments in Non-Agency Securities backed by

Subprime and Alt-A and Other Loans in our Retained Portfolio , Table 25 Ratings of Non-Agency Mortgage-Related Securities backed by Subprime Loans at December 31, 2007 , and Table 26 Ratings of Non-Agency Mortgage-Related Securities backed by Subprime Loans at December 31, 2007 and February 25, 2008 .

(7) Single-family non-agency mortgage-related securities backed by Alt-A and other mortgage loans include significant credit enhancements, particularly through subordination from tranches in which we do not invest. For information about how these securities are rated, see Table 24 Investments in Non-Agency Securities backed by Subprime and Alt-A and Other Loans in our Retained Portfolio .

(8) Consist of mortgage revenue bonds. Approximately 67% and 66% of these securities held at December 31, 2007 and 2006, respectively, were AAA-rated as of those dates, based on the lowest rating available.

(9) At December 31, 2007 and 2006, 34% and 30%, respectively, of mortgage-related securities backed by manufactured housing were rated BBB or above, based on the lowest rating available. For the same dates, 97% of these securities were supported by third-party credit enhancements (*e.g.*, bond insurance) and other credit enhancements (*e.g.*, deal structure through subordination from tranches in which we do not invest). Approximately 28% and 23% of these securities were AAA-rated at December 31, 2007 and 2006, respectively, based on the lowest rating available.

(10) Credit ratings for most non-agency mortgage-related securities are designated by no fewer than two nationally recognized statistical rating organizations. Approximately 96% of total non-agency mortgage-related securities held at both December 31, 2007 and 2006 were AAA-rated as of those dates, based on the lowest rating available.

(11) Certain previously reported amounts have been adjusted to reflect changes in accounting principles adopted during the fourth quarter of 2007. See NOTE 20: CHANGES IN ACCOUNTING PRINCIPLES to our audited consolidated financial statements for more information regarding adjustments made to previously reported results due to changes in accounting principles.

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We invest in agency-issued mortgage-related securities, principally our own, when market conditions offer positive risk-adjusted returns relative to other permitted investments. We also purchase non-agency mortgage-related securities backed by single family and multifamily mortgages in support of our affordable housing mission.

Our purchases of non-agency single-family mortgage-related securities, which principally consist of securities backed by subprime and Alt-A mortgage products, have been in highly-rated, senior tranches of securitized mortgage pools. Due to credit concerns in the second half of 2007, new issuances of these securities have declined dramatically. Consequently, our holdings of non-agency single-family mortgage-related securities have decreased in 2007, compared to 2006.

Table 21 provides additional detail regarding the fair value of mortgage-related securities in our retained portfolio.

Table 21 Fair Value of Available-For-Sale and Trading Mortgage-Related Securities in our Retained Portfolio

	December 31,		
	2007	2006	2005
	(in millions)		
Available-for-sale securities:			
Mortgage-related securities:			
Freddie Mac	$ 346,967	$ 344,088	$ 351,447
Fannie Mae	45,857	43,886	43,306
Ginnie Mae	562	733	1,115
Subprime	92,706	122,186	132,576
Alt-A and other	48,928	56,180	53,937
Commercial mortgage-backed securities	64,799	44,403	43,393
Manufactured housing	1,268	1,330	1,450
Obligations of states and political subdivisions	14,578	13,925	11,241
Total available-for-sale mortgage-related securities	615,665	626,731	638,465
Trading securities:			
Mortgage-related securities:			
Freddie Mac	12,216	6,573	8,156
Fannie Mae	1,697	802	534
Ginnie Mae	175	222	204
Other	1		
Total trading mortgage-related securities	14,089	7,597	8,894
Total fair value of available-for-sale and trading mortgage-related securities	$ 629,754	$ 634,328	$ 647,359

While we are primarily a buy and hold investor, our mortgage related securities are classified as either available for sale or trading. Upon the adoption of SFAS 159 on January 1, 2008, we increased the number of securities categorized as trading in our retained portfolio. See NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Recently Issued Accounting Standards, Not Yet Adopted *The Fair Value Option for Financial Assets and Financial Liabilities* to our audited consolidated financial statements for more information.

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Table 22 summarizes amortized cost, estimated fair values and corresponding gross unrealized gains and gross unrealized losses for available-for-sale securities and estimated fair values for trading securities by major security type held in our retained portfolio.

Table 22 Available-for-Sale Securities and Trading Securities in our Retained Portfolio

December 31, 2007	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(in millions)		
Retained portfolio:				
Available-for-sale mortgage-related securities:				
Freddie Mac	$ 346,569	$ 2,981	$ (2,583)	$ 346,967
Fannie Mae	45,688	513	(344)	45,857
Ginnie Mae	545	19	(2)	562
Subprime	101,278	12	(8,584)	92,706
Alt-A and other	51,456	15	(2,543)	48,928
Commercial mortgage-backed securities	64,965	515	(681)	64,799
Manufactured housing	1,149	131	(12)	1,268
Obligations of states and political subdivisions	14,783	146	(351)	14,578
Total available-for-sale mortgage-related securities	$ 626,433	$ 4,332	$ (15,100)	$ 615,665
Trading mortgage-related securities:				
Freddie Mac				$ 12,216
Fannie Mae				1,697
Ginnie Mae				175
Other				1
Total trading mortgage-related securities				$ 14,089
December 31, 2006 Adjusted				
Retained portfolio:				
Available-for-sale mortgage-related securities:				
Freddie Mac	$ 348,591	$ 1,438	$ (5,941)	$ 344,088
Fannie Mae	44,223	323	(660)	43,886
Ginnie Mae	720	17	(4)	733
Subprime	122,102	98	(14)	122,186
Alt-A and other	56,433	65	(318)	56,180
Commercial mortgage-backed securities	44,927	239	(763)	44,403
Manufactured housing	1,180	151	(1)	1,330
Obligations of states and political subdivisions	13,622	334	(31)	13,925

Total available-for-sale mortgage-related securities	$ 631,798	$ 2,665	$ (7,732)	$ 626,731
Trading mortgage-related securities:				
Freddie Mac				$ 6,573
Fannie Mae				802
Ginnie Mae				222
Other				
Total trading mortgage-related securities				$ 7,597

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Table 23 shows the fair value of available-for-sale securities held in our retained portfolio as of December 31, 2007 and 2006 that have been in a gross unrealized loss position less than 12 months or greater than 12 months.

Table 23 Available-For-Sale Securities Held in Our Retained Portfolio in a Gross Unrealized Loss Position

	Less than 12 months		12 months or Greater		Total	
December 31, 2007	**Fair Value**	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**
			(in millions)			
Retained portfolio:						
Mortgage-related securities:						
Freddie Mac	$ 22,546	$ (254)	$ 135,966	$ (2,329)	$ 158,512	$ (2,583)
Fannie Mae	4,728	(17)	15,214	(327)	19,942	(344)
Ginnie Mae	2		74	(2)	76	(2)
Subprime	87,004	(8,021)	5,213	(563)	92,217	(8,584)
Alt-A and other	33,509	(2,029)	14,525	(514)	48,034	(2,543)
Commercial mortgage-backed securities	8,652	(154)	26,207	(527)	34,859	(681)
Manufactured housing	435	(11)	24	(1)	459	(12)
Obligations of state and political subdivisions	7,735	(264)	1,286	(87)	9,021	(351)
Total available-for-sale securities in a gross unrealized loss position	$ 164,611	$ (10,750)	$ 198,509	$ (4,350)	$ 363,120	$ (15,100)
December 31, 2006 Adjusted						
Retained portfolio:						
Mortgage-related securities:						
Freddie Mac	$ 41,249	$ (290)	$ 204,715	$ (5,651)	$ 245,964	$ (5,941)
Fannie Mae	5,604	(69)	22,567	(591)	28,171	(660)
Ginnie Mae	146		99	(4)	245	(4)
Subprime	13,871	(12)	349	(2)	14,220	(14)
Alt-A and other	9,146	(14)	15,504	(304)	24,650	(318)
Commercial mortgage-backed securities	12,174	(84)	20,165	(679)	32,339	(763)
Manufactured housing	37		54	(1)	91	(1)
Obligations of state and political subdivisions	959	(7)	1,245	(24)	2,204	(31)
Total available-for-sale securities in a gross unrealized loss position	$ 83,186	$ (476)	$ 264,698	$ (7,256)	$ 347,884	$ (7,732)

At December 31, 2007, gross unrealized losses on available-for-sale securities held in our retained portfolio were $15.1 billion, or approximately 4% of the fair value of such securities in an unrealized loss position. Included in these losses are gross unrealized losses of $11.8 billion related to non-agency mortgage-related securities backed by subprime, Alt-A and other loans, and commercial mortgage-backed securities. We routinely purchase multiple lots of individual securities at different times and at different costs. We determine gross unrealized gains and gross unrealized losses by specifically identifying investment positions at the lot level; therefore, some of the lots we hold for a single security may be in an unrealized gain position while other lots for that security are in an unrealized loss position, depending upon the amortized cost of the specific lot.

The evaluation of these unrealized losses for other than temporary impairment contemplates numerous factors. We perform the evaluation on a security-by-security basis considering all available information. Important factors include the length of time and extent to which the fair value has been less than book value; the impact of changes in credit ratings (*i.e.*, rating agency downgrades); our intent and ability to retain the security in order to allow for a recovery in fair value; and an analysis of cash flows based on default and prepayment assumptions. Implicit in the cash flow analysis is information relevant to expected cash flows (such as default and prepayment assumptions) that also underlies the other impairment factors mentioned above, and we qualitatively consider all available information when assessing whether an impairment is other-than-temporary. The relative importance of this information varies based on the facts and circumstances surrounding each security, as well as the economic environment at the time of assessment. Based on the results of this evaluation, if it is determined that the impairment is other than temporary, the carrying value of the security is written down to fair value, and a loss is recognized through earnings.

In evaluating whether we could maintain our assertion that we have the ability and intent to hold our remaining available-for-sale securities in unrealized loss positions until recovery, we considered expectations about market conditions, projections of future results, and minimum capital requirements. Additionally, we evaluated our liquidity, taking into consideration the fact that we were able to complete preferred stock offerings totaling $8.6 billion during 2007, $6 billion of which was issued during the fourth quarter of 2007. From a liquidity standpoint, we have the ability to sell holdings from the cash and investments portfolio and to borrow against our holdings in the retained portfolio through repurchase transactions. Further, we have a significant amount of securities with unrealized gains that can be sold. We also expect that the election of the fair value option and the reintroduction of hedge accounting in 2008 will reduce capital volatility and will significantly reduce the likelihood that we will need to sell more securities to maintain our minimum required capital. Based on these facts, we concluded that our sales of available-for-sale securities, a small portion of which had unrealized losses, did not call into question our ability to assert that we have the intent and ability to hold available-for-sale securities with unrealized losses to recovery.

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We consider all available information in determining the recovery period and anticipated holding periods for our available-for-sale securities. Because we are a portfolio investor, we generally hold available-for-sale securities in our retained portfolio to maturity. (See ANNUAL MD&A LIQUIDITY AND CAPITAL RESOURCES Liquidity for a discussion of how our sources of liquidity include primarily sales from our cash and investments portfolio and our ability to borrow against the retained portfolio. Any retained portfolio investments being borrowed against would continue to be recorded on our consolidated balance sheet.) An important underlying factor we consider in determining the period to recover unrealized losses on our available-for-sale securities is the estimated life of the security. Since most of our available-for-sale securities are prepayable, the average life is far shorter than the contractual maturity.

We have concluded that the unrealized losses included in Table 23 are temporary since we have the ability and intent to hold to recovery. These conclusions are based on the following analysis by security type.

Freddie Mac and Fannie Mae securities. The unrealized losses on agency securities are primarily a result of movements in interest rates. These securities generally fit into one of two categories:

Unseasoned Securities These securities are desirable for a resecuritization. We frequently resecuritize agency securities, typically unseasoned pass-through securities. In these resecuritization transactions, we typically retain an interest representing a majority of the cash flows, but consider the resecuritization to be a sale of all of the securities for purposes of assessing if an impairment is other-than-temporary. As these securities have generally been recently acquired, they generally have coupon rates and dollar prices close to par, so any decline in the fair value of these agency securities is minor. This means that the decline could be recovered easily, and we expect that the recovery period would be in the near term. Notwithstanding this, we do recognize other-than-temporary impairments on any of these securities that are likely to be sold, which are determined through a thorough identification process in which management evaluates the population of securities that is eligible to be included in future resecuritization transactions, and determines the specific securities that are likely to be included in resecuritizations expected to occur given current market conditions. If any of the identified securities are in a loss position, other-than-temporary impairment is recorded because management cannot assert that it has the intent to hold such securities to recovery. Any additional losses realized upon sale result from further declines in fair value. For these securities that are not likely to be sold, we expect to recover any unrealized losses by holding them to recovery.

Seasoned Securities These securities are not desirable for a resecuritization. We hold the seasoned agency securities that are in an unrealized loss position at least to recovery. Typically, we hold all seasoned agency securities to maturity. As the principal and interest on these securities are guaranteed and as we have the intent and ability to hold these securities, any unrealized loss will be recovered.

Non-agency securities backed by subprime, Alt-A and other loans and commercial mortgage-backed securities. We believe the unrealized losses the non-agency mortgage-related securities are primarily a result of decreased liquidity and larger risk premiums. Our review of these securities included expected cash flow analyses based on default and prepayment assumptions. We have not identified any bonds in the portfolio that are probable of incurring a contractual principal or interest loss. As such, and based on our consideration of all available information and our ability and intent to hold these securities for a period of time sufficient to recover all unrealized losses, we have concluded that the impairment of these securities is temporary. Most of these securities are investment grade (*i.e.*, rated BBB– or better on a Standard and Poor s, or S&P, or equivalent scale).

Our review of the securities backed by subprime and Alt-A and other included cash flow analyses of the underlying collateral, including the collectibility of amounts that would be recovered from monoline insurers. We stress test the key assumptions in these analyses to determine whether our securities would receive their contractual payments in adverse credit environments. These tests simulate the distribution of cash flows from the underlying loans to the

securities that we hold considering different default rate and severity assumptions. These tests are performed on a security-by-security basis for all our securities backed by subprime and Alt-A loans. We have concluded that the assumptions required for us to not receive all of our contractual cash flows on any one security are not probable. We also considered the impact of credit rating downgrades, including downgrades subsequent to December 31, 2007. In so doing, we have noted widespread inconsistencies in how securities with similar credit characteristics are rated, and noted that the cash flow analyses we performed indicates that it is not probable that we will not receive all of our contractual cash flows. While we consider credit ratings in our analysis, we believe that our detailed security-by-security cash flow stress test provides a more consistent view of the ultimate collectibility of contractual amounts due to us since it considers the specific credit performance and credit enhancement position of each security using the same criteria.

Furthermore, we considered significant declines in fair value between December 31, 2007 and February 25, 2008. Based on our review, default levels and actual severity experienced were within the range of underlying assumptions included in our stress test of cash flows. Based on our cash flow analyses, our consideration of all available

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information, and given that we have the intent and ability to hold these securities to recovery, we determined the further declines in value did not result in the impairment being other-than-temporary.

As a result of our review, we have not identified any securities in our available-for-sale portfolio where we believe it is probable a contractual principal or interest loss will be incurred. Based on this review, on our ability and intent to hold our available-for-sale securities for a sufficient time to recover all unrealized losses, and on our consideration of all available information, we have concluded that the reduction in fair value of these securities is temporary. This analysis is conducted on a quarterly basis and is subject to change as new information regarding delinquencies, severities, loss timing, prepayments, and other factors becomes available.

Table 24 Investments in Non-Agency Securities backed by Subprime and Alt-A and Other Loans in our Retained Portfolio

Non-agency mortgage-related securities backed by:	Unpaid Principal Balance	Gross Amortized Cost (in millions)	Unrealized Losses	Collateral Delinquency(1)	December 31, Original % AAA(2)	2007 % AAA	Current % AAA(3)	Current % Investment Grade(4)
Subprime loans:								
First lien	$ 100,297	$ 100,259	$ (8,337)	21%	100%	97%	81%	100%
Second lien	1,028	1,018	(247)	7%	99%	17%	17%	91%
Total non-agency mortgage-related securities, backed by subprime loans	$ 101,325	$ 101,277	$ (8,584)	21%	100%	96%	80%	99%
Alt-A and other loans:								
Alt-A	$ 46,207	$ 46,340	$ (2,090)	7%	100%	100%	99%	100%
Other(5)	5,106	5,116	(453)		100%	100%	85%	100%
Total non-agency mortgage-related securities, backed by Alt-A and other loans	$ 51,313	$ 51.456	$ (2,543)		100%	100%	98%	100%

(1) Determined based on loans that are 60 days or more past due that underlie the securities.
(2) Reflects the composition of the portfolio that was AAA-rated as of the date of our acquisition of the security, based on the lowest rating available.
(3) Reflects the AAA-rated composition of the securities as of February 25, 2008, based on the lowest rating available.
(4) Reflects the composition of these securities with credit ratings of BBB or above as of February 25, 2008, based on unpaid principal balance and the lowest rating available.
(5) Includes securities backed by FHA/VA mortgages, home-equity lines of credit and other residential loans deemed to be Alt-A collateral. Credit enhancement and delinquency percentages not presented as 93% of the unpaid principal balance is covered by monoline bond insurance.

Non-agency Mortgage-related Securities Backed by Subprime Loans Participants in the mortgage market often characterize single-family loans based upon their overall credit quality at the time of origination, generally considering them to be prime or subprime. There is no universally accepted definition of subprime. The subprime segment of the mortgage market primarily serves borrowers with poorer credit payment histories and such loans typically have a mix of credit characteristics that indicate a higher likelihood of default and higher loss severities than prime loans. Such characteristics might include a combination of high LTV ratios, low credit scores or originations using lower underwriting standards such as limited or no documentation of a borrower s income. The subprime market helps certain borrowers by broadening the availability of mortgage credit.

At December 31, 2007, we held investments of approximately $101 billion, respectively, of non-agency mortgage-related securities backed by subprime loans. These securities benefit from significant credit enhancement, particularly through subordination from tranches in which we do not invest, and 96% of these securities were AAA-rated at December 31, 2007. The gross unrealized losses on these securities that are below AAA-rated are included in AOCI and totaled $847 million as of December 31, 2007. In addition, there were $7.7 billion of unrealized losses included in AOCI on these securities that are AAA-rated, principally as a result of decreased liquidity and larger risk premiums in the subprime market. We have received substantial monthly remittances of principal repayments on these securities, which totaled $5.7 billion from December 31, 2007 to February 25, 2008. Table 25 shows the amortized cost and the unrealized losses of non-agency mortgage-related securities backed by subprime loans held at December 31, 2007 based on their rating as of December 31, 2007. Table 26 shows the percentage of the non-agency mortgage-related securities backed by subprime loans held at December 31, 2007 based on their ratings as of December 31, 2007 and February 25, 2008. To construct the Tables 25 and 26, we used the lowest rating available for each security.

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Table 25 Ratings of Non-Agency Mortgage-Related Securities backed by Subprime Loans at December 31, 2007

Credit Rating as of December 31, 2007	Unpaid Principal Balance	Amortized Cost	Gross Unrealized Losses	Collateral Delinquency[1]
		(in millions)		
Investment grade:				
AAA-rated	$ 97,161	$ 97,113	$ (7,738)	21%
Other	4,071	4,071	(804)	21%
Below investment grade	93	93	(43)	10%
	$ 101,325	$ 101,277	$ (8,584)	21%

(1) Determined based on loans that are 60 days or more past due that underlie the securities.

Table 26 Ratings of Non-Agency Mortgage-Related Securities backed by Subprime Loans at December 31, 2007 and February 25, 2008

% of Unpaid Principal Balance at December 31, 2007	Credit Rating as of December 31, 2007	Credit Rating as of February 25, 2008
Investment Grade:		
AAA-rated	96%	81%
Other	4%	18%
Below Investment Grade		1%
	100%	100%

In evaluating these securities for other-than-temporary impairment, we noted and specifically considered that the percentage of securities that were AAA-rated and the percentage that were investment grade had decreased since acquisition and had further decreased from the latest balance sheet date to the release of these financial statements. Further, we expect this trend to continue in the near future. In performing this evaluation, we considered all available information, including the ratings of the securities. Although the ratings have declined, the ratings themselves are not determinative that a loss is probable.

In order to determine whether securities are other-than-temporarily impaired, we perform hypothetical stress test scenarios on our investments in non-agency mortgage-related securities backed by subprime loans on a security-by-security basis to assess changes in expected performance of the securities that could impact the collectability of our outstanding principal and interest. Two key factors that drive projected losses on the securities are default rates and average loss severity. In evaluating each scenario, we use numerous assumptions (in addition to the default rate and severity scenarios), including, but not limited to the timing of losses, prepayment rates, the collectability of excess interest, and interest rates that could materially impact the results.

The stress test scenarios are as follows: (1) 50% default rate and 50% average loss severity, (2) 50% default rate and 60% average loss severity, and (3) 60% default rate and 50% average loss severity. We believe that the stress default and severity assumptions that would indicate a potential loss are more severe than what we believe are probable based on both current delinquency and severity experience and historical data. Current collateral delinquency rates presented in Table 27 averaged 21 percent for first lien subprime loans, with ABX index average first lien severities approximating 40 percent.

We also perform related analyses where we use assumptions about the losses likely to result from the loans that are currently more than 60 days delinquent and then evaluate what percentage of the remaining loans (that are current or less than 60 days delinquent) would have to default to create a loss. The result of this analysis further supports our conclusions that the levels of defaults and severities necessary to create principal or interest shortfalls are not probable. This analysis is conducted on a quarterly basis and is subject to change as new information regarding delinquencies, severities, loss timing, prepayments, and other factors becomes available. These securities have not yet experienced significant cumulative losses and our credit enhancement levels continue to increase on almost all of our holdings. While it is possible that under certain conditions, defaults and loss severities on these securities could reach or even exceed the levels used for our stress test scenarios and a principal or interest loss could occur on certain individual securities, we do not believe that those conditions are probable as of December 31, 2007.

We disclose the estimated losses for non-agency mortgage-related securities backed by first lien subprime loans under three scenarios that provide for various constant default and loss severity rates against the outstanding underlying collateral of the securities. Table 27 provides the summary results of this analysis for our investments in non-agency mortgage-related securities backed by first lien subprime loans as of December 31, 2007. In addition to the stress tests scenarios, Table 27 also displays underlying collateral performance and credit enhancement statistics, by vintage and quartile of credit enhancement level. Within each of these quartiles, there is a distribution of both credit enhancement levels and delinquency performance, and individual security performance will differ from the cohort as a whole. Furthermore, some individual securities with lower subordination could have higher delinquencies.

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Table 27 Investments in Non-Agency Mortgage-Related Securities backed by First Lien Subprime Loans

		Underlying Collateral Performance			Credit Enhancement Statistics			Stress Test Scenarios[5] (in millions)		
Acquisition Date	Quartile	Unpaid Principal Balance (in millions)	Average 3-Month CPR[1]	Collateral Delinquency[2]	Average Credit Enhancement (w/ Monoline)[3]	Minimum Current Subordination[3]	Monoline Coverage (in millions)[4]	50d/50s NPV	50d/60s NPV	60d/50s NPV
2004 & Prior	1	$ 554	22%	19%	41%	16%	$	$ 1	$ 4	$ 5
2004 & Prior	2	535	23%	20%	67%	55%				
2004 & Prior	3	656	21%	22%	95%	85%	373			
2004 & Prior	4	431	22%	16%	100%	100%	431			
2004 & Prior subtotal		$ 2,176	22%	20%	75%	16%	$ 804	$ 1	$ 4	$ 5
2005	1	$ 5,828	31%	22%	36%	19%	$	$	$	$ 1
2005	2	5,697	33%	26%	44%	39%				
2005	3	5,420	29%	28%	55%	49%				
2005	4	5,605	27%	27%	79%	63%	1,387			
2005 subtotal		$ 22,550	30%	26%	53%	19%	$ 1,387	$	$	$ 1
2006	1	$ 10,363	13%	23%	22%	18%	$	$	$	$ 25
2006	2	9,486	15%	27%	28%	25%				
2006	3	9,877	19%	26%	31%	29%				
2006	4	9,830	24%	27%	37%	33%				
2006 subtotal		$ 39,556	18%	25%	29%	18%	$	$	$	$ 25
2007	1	$ 9,021	10%	15%	22%	19%	$	$	$ 18	$ 68
2007	2	9,585	10%	16%	26%	24%				
2007	3	8,449	11%	14%	28%	27%				
2007	4	8,960	11%	8%	43%	30%	1,351			
2007 subtotal		$ 36,015	11%	13%	30%	19%	$ 1,351	$	$ 18	$ 68
Total non-agency mortgage-related securities, back by first lien subprime loans		$ 100,297	18%	21%	36%	16%	$ 3,542	$ 1	$ 22	$ 99

(1)

Represents the average constant prepayment rate, which is a measure of the compound annual rate for loan prepayments expressed as a percentage of the current outstanding loan balance for each category.

(2) Determined based on loans that are 60 days or more past due that underlie the securities.

(3) Consists of subordination, financial guarantees (including monoline insurance coverage), and other credit enhancements.

(4) Reflects the current credit enhancement of the lowest security in each quartile.

(5) Reflects the present value of projected losses based on the disclosed hypothetical cumulative default and loss severity rates against the outstanding collateral balance.

(6) Represents the amount of unpaid principal balance covered by monoline insurance coverage. This amount does not represent the maximum amount of losses we could recover, as the monoline insurance also covers interest.

Non-agency Mortgage-related Securities Backed by Alt-A and Other Loans Many mortgage market participants classify single-family loans with credit characteristics that range between their prime and subprime categories as Alt-A. Although there is no universally accepted definition of Alt-A, industry participants have used this classification principally to describe loans for which the underwriting process has been streamlined in order to reduce the documentation requirements of the borrower or allow alternative documentation.

We invest in non-agency mortgage-related securities backed by Alt-A loans in our retained portfolio. We have classified these securities as Alt-A if the securities were labeled as Alt-A when sold to us or if we believe the underlying collateral includes a significant amount of Alt-A loans. We believe that approximately $51 billion of our single-family non-agency mortgage-related securities that are not backed by subprime loans are generally backed by Alt-A mortgage loans at December 31, 2007. We have focused our purchases on credit-enhanced, senior tranches of these securities, which provide additional protection due to subordination. We had unrealized losses on these securities totaling $2.6 billion as of December 31, 2007. We estimate that the declines in fair values for most of these securities have been due to decreased liquidity and larger risk premiums in the mortgage market. We have received substantial monthly remittances of principal repayments on these securities, which totaled more than $1.4 billion from December 31, 2007 to February 25, 2008.

In evaluating these securities for other-than-temporary impairment, we noted and specifically considered that the percentage of securities that were AAA-rated and the percentage that were investment grade had decreased since acquisition and had further decreased from the latest balance sheet date to the release of these financial statements. Further, we expect this trend to continue in the near future. In performing this evaluation, we considered all available information, including the ratings of the securities. Although the ratings have declined, the ratings themselves are not determinative that a loss is probable.

In order to determine whether securities are other-than-temporarily impaired, we perform hypothetical stress test scenarios on our investments in non-agency mortgage-related securities backed by Alt-A and other loans on a security-by-security basis to assess changes in expected performance of the securities that could impact the collectability of our outstanding principal and interest. Two key factors that drive projected losses on the securities

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are default rates and average loss severity. In evaluating each scenario, we make numerous assumptions (in addition to the default rate and severity scenarios), including, but not limited to the timing of losses, prepayment rates, the collectability of excess interest, and interest rates that could materially impact the results.

The stress test scenarios for these securities are as follows: (1) 20% default rate and 40% average loss severity; (2) 20% default rate and 50% average loss severity, and (3) and 30% default rate and 40% average loss severity. We believe that the stress default and severity assumptions that would indicate a potential loss are more severe than those currently implied by collateral performance and conditions and in comparison to those experienced under recent historical examples of weaker performing sectors of the market. Current collateral delinquency rates presented in Table 28 averaged 7 percent and Alt-A industry data indicate average severities of less than 40 percent.

We also perform a related analysis where we use assumptions about the losses likely to result from the loans that are currently more than 60 days delinquent and then evaluate what percentage of the remaining loans (that are current or less than 60 days delinquent) would have to default to create a loss. The result of this analysis further supports our conclusions that the levels of defaults and severities necessary to create principal or interest shortfalls are not probable. This analysis is conducted on a quarterly basis and is subject to change as new information regarding delinquencies, severities, loss timing, prepayments, and other factors becomes available. These securities have not yet experienced significant cumulative losses and our credit enhancement levels continue to increase on almost all of our holdings. While it is possible that under certain conditions, defaults and loss severities on these securities could reach or even exceed the levels used for our stress test scenarios and a principal or interest loss could occur on certain individual securities, we do not believe that those conditions are probable as of December 31, 2007.

We disclose the estimated losses for non-agency mortgage-related securities backed by Alt-A loans under three scenarios that provide for various constant default and loss severity rates against the outstanding underlying collateral of the securities. Table 28 provides the summary results of this analysis for our investments in non-agency mortgage-related securities backed by Alt-A loans as of December 31, 2007. In addition to the stress test scenarios, Table 28 also displays underlying collateral performance and credit enhancement statistics, by vintage and quartile of credit enhancement level. Within each of these quartiles, there is a distribution of both credit enhancement levels and delinquency performance, and individual security performance will differ from the cohort as a whole. Furthermore, some individual securities with lower subordination could have higher delinquencies.

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Table 28 Investments in Non-Agency Mortgage-Related Securities backed by Alt-A Loans

		Underlying Collateral Performance			Credit Enhancement Statistics			Stress Test Scenarios[5] (in millions)		
Acquisition Date	Quartile	Unpaid Principal Balance (in millions)	Average 3-Month CPR[1]	Collateral Delinquency[2]	Average Credit Enhancement (excl. Senior)[3]	Minimum Current Subordination[4]	Monoline Coverage (in millions)[6]	20d/40s NPV	20d/50s NPV	30d/40s NPV
2004 & Prior	1	$ 1,719	13%	2%	9%	6%	$	$ 9	$ 22	$ 47
2004 & Prior	2	1,741	18%	3%	13%	11%		1	2	9
2004 & Prior	3	1,718	26%	6%	17%	14%				
2004 & Prior	4	1,659	29%	12%	61%	21%	686			
2004 & Prior subtotal		$ 6,837	21%	6%	25%	6%	$ 686	$ 10	$ 24	$ 56
2005	1	$ 3,644	9%	3%	8%	5%	$	$ 55	$ 111	$ 180
2005	2	3,566	15%	6%	13%	10%			2	18
2005	3	3,622	19%	10%	19%	16%				1
2005	4	3,730	17%	10%	35%	22%	214			
2005 subtotal		$ 14,562	15%	7%	19%	5%	$ 214	$ 55	$ 113	$ 199
2006	1	$ 3,510	11%	9%	9%	4%	$	$ 23	$ 46	$ 71
2006	2	4,156	15%	9%	12%	11%				
2006	3	4,065	12%	7%	17%	13%			4	12
2006	4	4,012	12%	12%	41%	24%	595			
2006 subtotal		$ 15,743	12%	9%	20%	4%	$ 595	$ 23	$ 50	$ 83
2007	1	$ 2,262	8%	8%	7%	5%	$	$ 12	$ 28	$ 45
2007	2	2,148	10%	6%	10%	8%				2
2007	3	2,304	9%	5%	16%	12%				
2007	4	2,351	9%	6%	30%	26%				
2007 subtotal		$ 9,065	9%	6%	16%	5%	$	$ 12	$ 28	$ 47
Total non-agency mortgage-related securities backed by Alt-A loans		$ 46,207	14%	7%	19%	4%	$ 1,495	$ 100	$ 215	$ 385

(1) Represents the average constant prepayment rate, which is a measure of the compound annual rate for loan prepayments expressed as a percentage of the current outstanding loan balance for each category.

(2) Determined based on loans that are 60 days or more past due that underlie the securities.
(3) Consists of subordination, financial guarantees (including monoline insurance coverage), and other credit enhancements.
(4) Reflects the current credit enhancement of the lowest security in each quartile.
(5) Reflects the present value of projected losses based on the disclosed hypothetical cumulative default and loss severity rates against the outstanding collateral balance.
(6) Represents the amount of unpaid principal balance covered by monoline insurance coverage. This amount does not represent the maximum amount of losses we could recover, as the monoline insurance also covers interest.

Commercial Mortgage-Backed Securities We perform a similar expected cash flow analysis to determine whether we will receive all of the contractual payments due to us. Virtually all of these securities are currently AAA-rated Since we generally hold these securities to maturity, our cash flow analysis have lead us to conclude that we have the ability and intent to hold to a recovery. In 2006, OFHEO required us to sell commercial mortgage backed securities with mixed use collateral. Accordingly, an impairment was recognized on these securities because we no longer had the intent to hold to a recovery.

Obligations of states and political subdivisions. These obligations are comprised of mortgage revenue bonds. The unrealized losses on obligations of states and political subdivisions are primarily a result of movements in interest rates. The extent and duration of the decline in fair value relative to the amortized cost have met our criteria for determining that the impairment of these securities is temporary and no other facts or circumstances existed to suggest that the decline was other-than-temporary. The issuer guarantees related to these securities have led us to conclude that any credit risk is minimal.

For the years ended December 31, 2007, 2006 and 2005, we recorded impairments related to investments in securities of $365 million, $297 million and $276 million, respectively. Table 29 summarizes our impairments recorded by security type and the duration of the unrealized loss prior to impairment of less than 12 months or 12 months or greater.

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Table 29 Security Impairments Recorded by Gross Unrealized Loss Position

	Gross Unrealized Loss Position		
	Less than 12 months	12 months or greater	Total
	(in millions)		
Year Ended December 31, 2007			
Mortgage-related securities:			
Freddie Mac	$ 17	$ 320	$ 337
Fannie Mae	1	12	13
Subprime	11		11
Manufactured housing	4		4
Total securities impairments	$ 33	$ 332	$ 365
Year Ended December 31, 2006			
Mortgage-related securities:			
Freddie Mac	$ 168	$ 13	$ 181
Fannie Mae	31	17	48
Commercial mortgage-backed securities	62	4	66
Manufactured housing	2		2
Total securities impairments	$ 263	$ 34	$ 297
Year Ended December 31, 2005			
Mortgage-related securities:			
Freddie Mac	$ 44	$	$ 44
Fannie Mae	12	4	16
Non-agency and obligations of state and political subdivisions	56	160	216
Total securities impairments	$ 112	$ 164	$ 276

Table 30 below illustrates the gross realized gains and gross realized losses received from the sale of available-for-sale securities that were held in our retained portfolio.

Table 30 Gross Realized Gains and Gross Realized Losses on Available-for-Sale Securities Held in Our Retained Portfolio

	Year Ended December 31,		
	2007	2006	2005
	(in millions)		
Gross Realized Gains			
Retained portfolio:			
Mortgage-related securities:			

Freddie Mac	$ 666	$ 164	$ 332
Fannie Mae		1	40
Subprime	4	1	
Commercial mortgage-backed securities	3	210	360
Manufactured housing	11		
Obligations of states and political subdivisions	1		
Total mortgage-related securities gross realized gains	685	376	732
Gross Realized Losses			
Retained portfolio:			
Mortgage-related securities:			
Freddie Mac	(390)	(358)	(219)
Fannie Mae	(9)	(77)	(86)
Alt-A and other			(9)
Commercial mortgage-backed securities		(60)	(74)
Total mortgage-related securities gross realized losses	(399)	(495)	(388)
Net realized gains (losses)	$ 286	$ (119)	$ 344

We have gross realized losses in all periods presented related to sales of securities that were not impaired at the previous balance sheet date, as well as sales of securities that were previously impaired and experienced further declines in fair value. For Freddie Mac securities, these losses generally relate to our structuring activity where we do not assert the ability and intent to hold to recovery for a specific population of securities. Of the $399 million in realized losses in 2007, $390 million related to Freddie Mac securities. Of that amount, approximately $190 million related to Freddie Mac securities where we had previously asserted the ability and intent to hold to recovery. However, these losses relate to a discrete number of resecuritization transactions involving seasoned agency securities, which were in response to facts and circumstances arising after the previous balance sheet date related to our voluntary portfolio growth limit and unanticipated extraordinary market conditions. The balance of the realized losses on agency securities in 2007 and 2006 relate to resecuritization transactions where we had not previously asserted an intent and ability to hold the securities and relate to sales of other agency securities that resulted in average gross realized losses of less than 1% of the unpaid principal balance on those securities. For the securities where losses were less than 1%, the securities were often acquired subsequent to the previous balance sheet date or the securities were not in a loss position at the balance sheet date; for the remaining securities, any

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unrealized loss at the previous balance sheet date represented such a small decline in value that interest rate movements within a near term could easily have caused the securities to fully recover in value.

In addition, we recognize impairments on Freddie Mac securities accounted for under Emerging Issues Task Force 99-20, Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests That Continue to Be Held by a Transferor in Securitized Financial Assets, or EITF 99-20, when there has been both a decline in fair value and an adverse change in expected cash flows. These impairments relate primarily to interest only securities. Interest-only securities acquired in 2007 are accounted for as trading securities with all changes in fair value recognized in earnings and interest income recognized in accordance with EITF 99-20.

Realized losses for non-agency securities in 2006 primarily relate to securities for which we had the ability and intent to hold to recovery but were subsequently sold in response OFHEO directing us to divest of certain securities (specifically certain mixed use commercial mortgage-backed securities) that HUD had originally approved, but later determined were not authorized investments under our charter. These transactions were unusual and non-recurring in nature and therefore do not contradict our ability and intent to hold to recovery on other securities.

Issuers Greater than 10% of Stockholders Equity

We held Fannie Mae securities in our retained portfolio with a fair value of $47.6 billion, which represented 178% of total stockholders equity of $26.7 billion at December 31, 2007. In addition, we held securities issued by Citi Mortgage Loan Trust 2007-1 in our retained portfolio with a fair value of $4.0 billion, which represented 15% of total stockholders equity at December 31, 2007. No other individual issuer at the individual trust level exceeded 10% of total stockholders equity at December 31, 2007.

Cash and Investments

Table 31 provides additional detail regarding the non-mortgage-related securities in our cash and investments portfolio.

Table 31 Cash and Investments

	December 31,					
	2007		2006		2005	
	Fair Value	Average Maturity (Months)	Fair Value	Average Maturity (Months)	Fair Value	Average Maturity (Months)
	(dollars in millions)					
Cash and cash equivalents	$ 8,574	< 3	$ 11,359	< 3	$ 10,468	< 3
Investments:						
Available-for-sale securities:						
Non-mortgage-related securities:						
Commercial paper	18,513	< 3	11,191	< 3	5,764	< 3
Asset-backed securities[1]	16,588	N/A	32,122	N/A	30,578	N/A
Obligations of states and political subdivisions[1]		N/A	2,273	363	5,823	282
	35,101		45,586		42,165	

Total available-for-sale non-mortgage-related securities[2]						
Securities purchased under agreements to resell	6,400	< 3	3,250	< 3	5,250	< 3
Federal funds sold and Eurodollars	162	< 3	19,778	< 3	9,909	< 3
Subtotal	6,562		23,028		15,159	
Total investments	41,663		68,614		57,324	
Total cash and investments per consolidated balance sheets	$ 50,237		$ 79,973		$ 67,792	

(1) Consist primarily of securities that can be prepaid prior to their contractual maturity without penalty.
(2) Credit ratings for most securities are designated by no fewer than two nationally recognized statistical rating organizations. At December 31, 2007, 2006 and 2005, all of our available-for-sale non-mortgage-related securities were rated A or better.

During 2007, we reduced the balance of our cash and investments portfolio in order to take advantage of investment opportunities in mortgage-related securities as OAS widened. In addition, effective in December 2007 we established securitization trusts for the underlying assets of our PCs and Structured Securities. Consequently, we hold remittances in a segregated account and do not commingle those funds with our general operating funds. The cash owned by the trusts is not reflected in our cash and investment balances on our consolidated balance sheets.

During 2006, we made a decision to maintain higher levels of liquid investments to ensure that we could appropriately service our outstanding debt and PCs and Structured Securities while operating under the Federal Reserve Board s intraday overdraft policy, which was revised effective July 2006. The revised policy restricts the GSEs, among others, from maintaining intraday overdraft positions at the Federal Reserve.

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Derivative Assets and Liabilities, Net

See ANNUAL MD&A CONSOLIDATED RESULTS OF OPERATIONS Non-Interest Income (Loss) *Derivative Gains (Losses)* for a description of gains (losses) on our derivative positions. Table 32 summarizes the notional or contractual amounts and related fair value of our total derivative portfolio by product type.

Table 32 Total Derivative Portfolio

	December 31,			
	2007		Adjusted 2006	
	Notional or Contractual Amount[1]	Fair Value[2]	Notional or Contractual Amount[1]	Fair Value[2]
	(in millions)			
Interest-rate swaps:				
Receive-fixed	$ 301,649	$ 3,648	$ 222,631	$ (334)
Pay-fixed	409,682	(11,492)	217,565	(1,352)
Basis (floating to floating)	498		683	
Total interest-rate swaps	711,829	(7,844)	440,879	(1,686)
Option-based:				
Call swaptions				
Purchased	259,272	7,134	194,200	4,034
Written	1,900	(27)		
Put swaptions				
Purchased	18,725	631	29,725	958
Written	2,650	(74)		
Other option-based derivatives[3]	30,486	(23)	28,097	(15)
Total option-based	313,033	7,641	252,022	4,977
Futures	196,270	92	22,400	28
Foreign-currency swaps	20,118	4,568	29,234	4,399
Subtotal	1,241,250	4,457	744,535	7,718
Forward purchase and sale commitments	72,662	327	10,012	6
Credit derivatives	7,667	10	2,605	(1)
Swap guarantee derivatives	1,302	(4)	957	(3)
Total derivative portfolio	$ 1,322,881	$ 4,790	$ 758,109	$ 7,720

(1) Notional or contractual amounts are used to calculate the periodic amounts to be received and paid and generally do not represent actual amounts to be exchanged or directly reflect our exposure to institutional credit risk.

Notional or contractual amounts are not recorded as assets or liabilities on our consolidated balance sheets.

(2) The value of derivatives on our consolidated balance sheets is reported as derivative asset, net and derivative liability, net, and includes net derivative interest receivable or payable and cash collateral held or posted. Fair value excludes net derivative interest receivable of $1.7 billion and net derivative collateral held of $6.2 billion at December 31, 2007. Fair value excludes net derivative interest receivable of $2.3 billion, and net derivative collateral held of $9.5 billion at December 31, 2006. The fair values for futures are directly derived from quoted market prices. Fair values of other derivatives are derived primarily from valuation models using market data inputs.

(3) Primarily represents written options, including guarantees of stated final maturity of issued Structured Securities and written call options on PCs we issued.

On October 1, 2007, we adopted FSP FIN 39-1. The position amends FASB Interpretation No. 39, *Offsetting of Amounts Related to Certain Contracts, an interpretation of APB Opinion No. 10 and FASB Statement No. 105*, and permits a reporting entity to offset fair value amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral against fair value amounts recognized for derivative instruments executed with the same counterparty under a master netting agreement. Our adoption resulted in a decrease to total assets and total liabilities of $8.7 billion. We elected to reclassify net derivative interest receivable or payable and cash collateral held or posted on our consolidated balance sheets to derivative asset, net and derivative liability, net. Prior to adoption, these amounts were recorded in accounts and other receivables, net, accrued interest payable, other assets and senior debt: due within one year, as applicable. FSP FIN 39-1 requires retrospective application and certain amounts in prior periods consolidated balance sheets have been reclassified to conform to the current presentation. See NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Derivatives to our audited consolidated financial statements for additional information about our derivatives.

The composition of our derivative portfolio will change from period to period as a result of derivative purchases, terminations or assignments prior to contractual maturity and expiration of the derivatives at their contractual maturity. We record changes in fair values of our derivatives in current income or, to the extent our accounting hedge relationships are effective, we defer those changes in AOCI or offset them with basis adjustments to the related hedged item.

As interest rates fluctuate, we use derivatives to adjust the contractual funding of our debt in response to changes in the expected lives of mortgage-related assets in our retained portfolio. Notional or contractual amount increased year-over-year as we responded to the changing interest rate environment. It is often operationally more efficient to enter new derivative positions even though the same economic result can be achieved by terminating existing positions.

The fair value of the total derivative portfolio decreased in 2007 due to net interest rate decreases across the yield curve that negatively impacted the fair value of our interest-rate swap portfolio. These fair values losses were partially offset by

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fair value increases on our purchased call swaption derivative portfolio that resulted from a net increase in implied volatility and net interest rate decreases.

As interest rates decreased, the fair value of our pay-fixed swap portfolio decreased by $10.1 billion in 2007. This was partially offset by increases in the fair value of our receive-fixed swap portfolio of approximately $4.0 billion and our purchased call swaption portfolio of $3.1 billion. In 2007, we added to our portfolio of purchased call swaptions to manage convexity risk associated with the prepayment option in a decreasing interest rate environment. The notional amount of our pay-fixed swap portfolio increased because we enter into forward-starting pay-fixed swaps to mitigate the duration risk created when we enter into purchased call swaptions and to manage steepening yield curve effects on mortgage duration.

Table 33 summarizes the changes in derivative fair values.

Table 33 Changes in Derivative Fair Values

	2007[1]	Adjusted 2006[1]
	(in millions)	
Beginning balance, at January 1 Net asset (liability)	$ 7,720	$ 6,517
Net change in:		
Forward purchase and sale commitments	321	40
Credit derivatives	11	
Swap guarantee derivatives	(1)	(1)
Other derivatives:[2]		
Changes in fair value	(2,688)	2,008
Fair value of new contracts entered into during the period[3]	1,146	2,577
Contracts realized or otherwise settled during the period	(1,719)	(3,421)
Ending balance, at December 31 Net asset (liability)	$ 4,790	$ 7,720

(1) The value of derivatives on our consolidated balance sheets is reported as derivative asset, net and derivative liability, net, and includes net derivative interest receivable or payable and cash collateral held or posted. Fair value excludes net derivative interest receivable of $1.7 billion and net derivative collateral held of $6.2 billion at December 31, 2007. Fair value excludes net derivative interest receivable of $2.3 billion and net derivative collateral held of $9.5 billion at December 31, 2006. Fair value excludes net derivative interest receivable of $1.8 billion and net derivative collateral held of $8.5 billion at January 1, 2006.
(2) Includes fair value changes for interest-rate swaps, option-based derivatives, futures, foreign-currency swaps and interest-rate caps.
(3) Consists primarily of cash premiums paid or received on options.

Table 34 provides information on our outstanding written and purchased swaption and option premiums at December 31, 2007 and 2006, based on the original premium receipts or payments. We use written options primarily to mitigate convexity risk and reduce our overall hedging costs. See ANNUAL MD&A QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK Interest-Rate Risk and Other Market Risks *Sources of Interest-Rate Risk and Other Market Risks Duration Risk and Convexity Risk* for further discussion related to convexity risk.

Table 34 Outstanding Written and Purchased Swaption and Option Premiums

	Original Premium Amount (Paid) Received	Original Weighted Average Life to Expiration	Remaining Weighted Average Life
		(dollars in millions)	
Purchased:[1]			
At December 31, 2007	$ (5,478)	7.8 years	6.0 years
At December 31, 2006	$ (5,316)	7.5 years	6.1 years
Written:[2]			
At December 31, 2007	$ 87	3.0 years	2.6 years
At December 31, 2006	$ 21	0.2 years	0.1 years

(1) Purchased options exclude callable swaps.

(2) Excludes written options on guarantees of stated final maturity of Structured Securities.

Table 35 shows the fair value for each derivative type and the maturity profile of our derivative positions. A positive fair value in Table 35 for each derivative type is the estimated amount, prior to netting by counterparty, that we would be entitled to receive if we terminated the derivatives of that type. A negative fair value for a derivative type is the estimated amount, prior to netting by counterparty, that we would owe if we terminated the derivatives of that type. See Table 51 Derivative Counterparty Credit Exposure under ANNUAL MD&A QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK Interest-Rate Risk and Other Market Risks for additional information regarding derivative counterparty credit exposure. Table 35 also provides the weighted average fixed rate of our pay-fixed and receive-fixed swaps.

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Table 35 Derivative Fair Values and Maturities

	December 31, 2007					
			Fair Value[1]			
	Notional or Contractual Amount	Total Fair Value[2]	Less than 1 Year	1 to 3 Years	Greater than 3 and up to 5 Years	In Excess of 5 Years
	(dollars in millions)					
Interest-rate swaps:						
Receive-fixed:						
Swaps	$ 282,504	$ 3,266	$ 27	$ 1,557	$ 785	$ 897
Weighted-average fixed rate[3]			4.61%	4.46%	4.54%	5.47%
Forward-starting swaps[4]	19,145	382		5	19	358
Weighted-average fixed rate[3]				4.78%	5.02%	5.34%
Total receive-fixed	301,649	3,648	27	1,562	804	1,255
Basis (floating to floating)	498					
Pay-fixed:						
Swaps	322,316	(8,517)	(92)	(2,216)	(1,849)	(4,360)
Weighted-average fixed rate[3]			5.10%	4.77%	4.92%	5.15%
Forward-starting swaps[4]	87,366	(2,975)			(4)	(2,971)
Weighted-average fixed rate[3]					5.25%	5.66%
Total pay-fixed	409,682	(11,492)	(92)	(2,216)	(1,853)	(7,331)
Total interest-rate swaps	711,829	(7,844)	(65)	(654)	(1,049)	(6,076)
Option-based:						
Call swaptions						
Purchased	259,272	7,134	406	1,533	1,940	3,255
Written	1,900	(27)			(27)	
Put swaptions						
Purchased	18,725	631	31	68	61	471
Written	2,650	(74)	(4)	(49)	(21)	
Other option-based derivatives[5]	30,486	(23)			(1)	(22)
Total option-based	313,033	7,641	433	1,552	1,952	3,704
Futures	196,270	92	93	(1)		
Foreign-currency swaps	20,118	4,568	1,173	2,047	544	804
Forward purchase and sale commitments	72,662	327	327			
Swap guarantee derivatives	1,302	(4)				(4)

Subtotal	1,315,214	4,780	$ 1,961	$ 2,944	$ 1,447	$ (1,572)
Credit derivatives	7,667	10				
Total	$ 1,322,881	$ 4,790				

(1) Fair value is categorized based on the period from December 31, 2007 until the contractual maturity of the derivative.
(2) The value of derivatives on our consolidated balance sheets is reported as derivative asset, net and derivative liability, net, and includes net derivative interest receivable or payable and cash collateral held or posted. Fair value excludes net derivative interest receivable of $1.7 billion and net derivative collateral held of $6.2 billion at December 31, 2007.
(3) Represents the notional weighted average rate for the fixed leg of the swaps.
(4) Represents interest-rate swap agreements that are scheduled to begin on future dates ranging from less than one year to ten years.
(5) Primarily represents written options, including guarantees of stated final maturity of issued Structured Securities and written call options on PCs we issued.

Guarantee Asset

Table 36 summarizes changes in the guarantee asset balance.

Table 36 Changes in Guarantee Asset

	December 31,	
	2007	Adjusted 2006
	(in millions)	
Beginning balance	$ 7,389	$ 6,264
Additions, net	3,686	2,103
Return of investment on guarantee asset	(1,739)	(1,293)
Change in fair value of future management and guarantee fees	255	315
Gains (losses) on guarantee asset	(1,484)	(978)
Ending balance	$ 9,591	$ 7,389

The increase in additions, net, in 2007, as compared to 2006, is due to an increase in our management and guarantee fee rates for both adjustable rate and fixed-rate products, and to a lesser extent, the increase in our issuance volume in 2007.

The losses on guarantee assets in 2007 increased as compared to 2006. This increase is due to the return of investment associated with a higher guarantee asset balance. Gains on fair value of management and guarantee fees in 2007 resulted from an increase in interest rates during the second quarter. The increase in gains on fair value of management and guarantee fees in 2006 was due to an increase in interest rates throughout the year. See ANNUAL MD&A CONSOLIDATED

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RESULTS OF OPERATIONS Non-Interest Income (Loss) *Gains (Losses) on Guarantee Asset* for further discussion of gains (losses) on our guarantee asset.

Total Debt Securities, Net

Table 37 reconciles the par value of our debt securities to the amounts shown on our audited consolidated balance sheets. See ANNUAL MD&A LIQUIDITY AND CAPITAL RESOURCES for further discussion of our debt management activities.

Table 37 Reconciliation of the Par Value of Total Debt Securities to Our Consolidated Balance Sheets

	December 31,	
	2007	2006
	(in millions)	
Total debt securities:		
Par value[1]	$ 775,847	$ 778,418
Unamortized balance of discounts and premiums[2]	(43,540)	(41,814)
Foreign-currency-related and hedging-related basis adjustments[3]	6,250	7,737
Total debt securities, net	$ 738,557	$ 744,341

(1) Includes securities sold under agreements to repurchase and federal funds purchased.
(2) Primarily represents unamortized discounts on zero-coupon debt securities.
(3) Primarily represent deferrals related to the translation gain (loss) on foreign-currency denominated debt that was in hedge accounting relationships.

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Table 38 summarizes our senior debt, due within one year.

Table 38 Senior Debt, Due Within One Year

	2007				
	December 31,		Average Outstanding During the Year		Maximum Balance, Net Outstanding at Any Month End
	Balance, Net[1]	Weighted Average Effective Rate[2]	Balance, Net[3]	Weighted Average Effective Rate[4]	
	(dollars in millions)				
Reference Bills® securities and discount notes	$ 196,426	4.52%	$ 158,467	5.02%	$ 196,426
Medium-term notes	1,175	4.36	4,496	5.27	8,907
Securities sold under agreements to repurchase and federal funds purchased			112	5.42	804
Short-term debt securities	197,601	4.52			
Current portion of long-term debt	98,320	4.44			
Senior debt, due within one year	$ 295,921	4.49			

	2006				
	December 31,		Average Outstanding During the Year		Maximum Balance, Net Outstanding at Any Month End
	Balance, Net[1]	Weighted Average Effective Rate[2]	Balance, Net[3]	Weighted Average Effective Rate[4]	
	(dollars in millions)				
Reference Bills® securities and discount notes	$ 157,553	5.14%	$ 165,270	4.76%	$ 182,946
Medium-term notes	9,832	5.16	4,850	4.82	9,832
Securities sold under agreements to repurchase and federal funds purchased			81	5.48	2,200
Short-term debt securities	167,385	5.14			
Current portion of long-term debt	117,879	4.10			

Senior debt, due within one year	$ 285,264	4.71

	December 31,		2005 Average Outstanding During the Year		Maximum Balance, Net Outstanding at Any
	Balance, Net[1]	Weighted Average Effective Rate[2]	Balance, Net[3]	Weighted Average Effective Rate[4]	Month End
	(dollars in millions)				
Reference Bills® securities and discount notes	$ 181,468	4.00%	$ 181,878	3.11%	$ 194,578
Medium-term notes	2,032	4.17	850	3.35	2,032
Securities sold under agreements to repurchase and federal funds purchased	450	4.25	267	3.08	1,000
Hedging-related basis adjustments	(5)	N/A			
Short-term debt securities	183,945	4.00			
Current portion of long-term debt	95,819	3.42			
Senior debt, due within one year	$ 279,764	3.80			

(1) Represents par value, net of associated discounts, premiums and foreign-currency-related basis adjustments.
(2) Represents the approximate weighted average effective rate for each instrument outstanding at the end of the period, which includes the amortization of discounts or premiums and issuance costs, but excludes the amortization of hedging-related basis adjustments.
(3) Represents par value, net of associated discounts, premiums and issuance costs. Issuance costs are reported in the other assets caption on our consolidated balance sheets.
(4) Represents the approximate weighted average effective rate during the period, which includes the amortization of discounts or premiums and issuance costs, but excludes the amortization of foreign-currency-related basis adjustments.

Guarantee Obligation

Our guarantee obligation is comprised of the unamortized balance of our contractual obligation on the performance of our PCs and Structured Securities and the unamortized balance of deferred guarantee income. Table 39 summarizes the

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changes in our guarantee obligation balances for 2007 and 2006, as well as the balances of the components of our guarantee obligation at December 31, 2007 and 2006.

Table 39 Changes in Guarantee Obligation

	December 31,	
	2007	Adjusted 2006
	(in millions)	
Beginning balance	$ 9,482	$ 7,907
Transfer-out to the loan loss reserve[1]	(7)	(7)
Additions, net:		
Fair value of performance and other related costs of newly-issued guarantees	5,241	2,097
Deferred guarantee income of newly-issued guarantees	901	1,004
Amortization income:		
Performance and other related costs	(1,146)	(804)
Deferred guarantee income	(759)	(715)
Income on guarantee obligation	(1,905)	(1,519)
Ending balance	$ 13,712	$ 9,482
Components of the guarantee obligation, at period end:		
Unamortized balance of performance and other related costs	$ 9,930	$ 5,841
Unamortized balance of deferred guarantee income	3,782	3,641
Ending balance	$ 13,712	$ 9,482

(1) Represents portions of the guarantee obligation that correspond to incurred credit losses reclassified to reserve for guarantee losses on PCs.

The primary drivers affecting our guarantee obligation balances are our credit guarantee business volumes, fair values of performance obligations on new guarantees and expected profitability of new guarantee business at origination. Additions related to the performance obligations of our newly-issued PCs and Structured Securities increased in 2007, as compared to 2006, due to widening credit spreads of both fixed-rate and adjustable-rate products and higher volume of credit guarantee business. We issued $471 billion and $360 billion of our PCs and Structured Securities in 2007 and 2006, respectively. Deferred guarantee income related to newly-issued guarantees declined in 2007, as compared to 2006, due to a decrease in profitability expected on guarantees issued in 2007.

The increase in amortization income attributable to the performance and other related costs is primarily due to an increase in the guarantee obligation caused by higher expected default costs on newly-issued guarantees as well as a higher volume of credit guarantee business. See ANNUAL MD&A CONSOLIDATED RESULTS OF OPERATIONS Non-Interest Income (Loss) *Income on Guarantee Obligation* for additional discussion related to our guarantee obligation.

Total Stockholders Equity

Total stockholders equity decreased $0.2 billion during 2007. This decrease was primarily a result of a net loss of $3.1 billion, a $2.7 billion net increase in the AOCI loss, the repurchase of $1.0 billion of common stock and $1.6 billion of common and preferred stock dividends declared. These reductions were partially offset by a net increase of $8.0 billion in non-cumulative, perpetual preferred stock. We issued $8.6 billion of non-cumulative, perpetual preferred stock, consisting of $1.5 billion in connection with the planned replacement of common stock with an equal amount of preferred stock and $600 million to replace higher-cost preferred stock that we redeemed and additional issuances of $6.5 billion in the aggregate to bolster our capital base and for general corporate purposes. See ANNUAL MD&A LIQUIDITY AND CAPITAL RESOURCES Capital Resources *Core Capital* for additional information.

The balance of AOCI at December 31, 2007 was a net loss of approximately $11.1 billion, net of taxes, compared to a net loss of $8.5 billion, net of taxes, at December 31, 2006. The increase in the net loss in AOCI was primarily attributable to unrealized losses on our single-family non-agency mortgage-related securities backed by subprime loans and Alt-A loans with net unrealized losses, net of taxes, recorded in AOCI of $5.6 billion and $1.7 billion, respectively, at December 31, 2007. The increase in the net loss in AOCI was partially offset by an increase in the value of available-for-sale securities as medium- and long-term rates declined since December 31, 2006 and the reclassification to earnings of deferred losses related to closed cash flow hedge relationships. See ANNUAL MD&A CREDIT RISKS Mortgage Credit Risk for more information regarding mortgage-related securities backed by subprime loans and Alt-A loans.

CONSOLIDATED FAIR VALUE BALANCE SHEETS ANALYSIS

Our consolidated fair value balance sheets include the estimated fair values of financial instruments recorded on our consolidated balance sheets prepared in accordance with GAAP, as well as off-balance sheet financial instruments that represent our assets or liabilities that are not recorded on our GAAP consolidated balance sheets. See NOTE 16: FAIR VALUE DISCLOSURES Table 16.1 Consolidated Fair Value Balance Sheets to our audited consolidated financial statements for our fair value balance sheets.

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These off-balance sheet items predominantly consist of: (a) the unrecognized guarantee asset and guarantee obligation associated with our PCs issued through our guarantor swap program prior to the implementation of FIN 45, Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, an interpretation of FASB Statements No. 5, 57 and 107 and rescission of FASB Interpretation No. 34, (b) certain commitments to purchase mortgage loans and (c) certain credit enhancements on manufactured housing asset-backed securities. The fair value balance sheets also include certain assets and liabilities that are not financial instruments (such as property and equipment and real estate owned, which are included in other assets) at their carrying value in accordance with GAAP. During 2007 and 2006, our fair value results were impacted by several improvements in our approach for estimating the fair value of certain financial instruments. See ANNUAL MD&A OFF-BALANCE SHEET ARRANGEMENTS and ANNUAL MD&A CRITICAL ACCOUNTING POLICIES AND ESTIMATES as well as NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES and NOTE 16: FAIR VALUE DISCLOSURES to our audited consolidated financial statements for more information on fair values.

In conjunction with the preparation of our consolidated fair value balance sheets, we use a number of financial models. See ANNUAL MD&A OPERATIONAL RISKS and ANNUAL MD&A QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK Interest-Rate Risk and Other Market Risks for information concerning the risks associated with these models.

Key Components of Changes in Fair Value of Net Assets

Our attribution of changes in the fair value of net assets relies on models, assumptions, and other measurement techniques that will evolve over time. Changes in the fair value of net assets from period to period result from returns (measured on a fair value basis) and capital transactions and are primarily attributable to changes in a number of key components:

Core Spread Income

Core spread income on our retained portfolio is a fair value estimate of the net current period accrual of income from the spread between mortgage-related investments and debt, calculated on an option-adjusted basis. OAS is an estimate of the yield spread between a given financial instrument and a benchmark (LIBOR, agency or Treasury) yield curve, after consideration of potential variability in the instrument s cash flows resulting from any options embedded in the instrument, such as prepayment options.

Changes in Mortgage-To-Debt OAS

The fair value of our net assets can be significantly affected from period to period by changes in the net OAS between the mortgage and agency debt sectors. The fair value impact of changes in OAS for a given period represents an estimate of the net unrealized increase or decrease in fair value of net assets arising from net fluctuations in OAS during that period. We do not attempt to hedge or actively manage the basis risk represented by the impact of changes in mortgage-to-debt OAS because we generally hold a substantial portion of our mortgage assets for the long term and we do not believe that periodic increases or decreases in the fair value of net assets arising from fluctuations in OAS will significantly affect the long-term value of our retained portfolio. Our estimate of the effect of changes in OAS excludes the impact of other market risk factors we actively manage, or economically hedge, to keep interest-rate risk exposure within prescribed limits.

Asset-Liability Management Return

Asset-liability management return represents the estimated net increase or decrease in the fair value of net assets resulting from net exposures related to the market risks we actively manage. We do not hedge all of the interest-rate

risk that exists at the time a mortgage is purchased or that arises over its life. The market risks to which we are exposed as a result of our retained portfolio activities that we actively manage include duration and convexity risks, yield curve risk and volatility risk. We seek to manage these risk exposures within prescribed limits as part of our overall portfolio management strategy. Taking these risk positions and managing them within prudent limits is an integral part of our strategy to optimize the risk/return profile of our investment activity and generate fair value growth. We expect that the net exposures related to market risks we actively manage will generate fair value returns that contribute to meeting our long-term growth objectives, although those positions may result in a net increase or decrease in fair value for a given period. See ANNUAL MD&A QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK Interest-Rate Risk and Other Market Risks for more information.

Core Management and Guarantee Fees, Net

Core management and guarantee fees, net represents a fair value estimate of the annual income of the credit guarantee portfolio, based on current portfolio characteristics and market conditions. This estimate considers both contractual management and guarantee fees collected over the life of the credit guarantee portfolio and credit-related delivery fees collected up-front when pools are formed, and associated costs and obligations, which include default costs.

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Change in the Fair Value of the Credit Guarantee Portfolio

Change in the fair value of the credit guarantee portfolio represents the estimated impact on the fair value of the credit guarantee business resulting from additions to the portfolio (net difference between the fair values of the guarantee asset and guarantee obligation recorded when pools are formed) plus the effect of changes in interest rates, projections of the future credit outlook and other market factors (*e.g.*, impact of the passage of time on cash flow discounting).

We generally do not hedge changes in the fair value of our existing credit guarantee portfolio, with two exceptions discussed below. While periodic changes in the fair value of the credit guarantee portfolio may have a significant impact on the fair value of net assets, we believe that changes in the fair value of our existing credit guarantee portfolio are not the best indication of long-term fair value expectations because such changes do not reflect our expectation that, over time, replacement business will largely replenish management and guarantee fee income lost because of prepayments. However, to the extent that projections of the future credit outlook are realized our fair value results may be affected.

We hedge interest-rate exposure related to net buy-ups (up-front payments we made that increase the management and guarantee fee that we will receive over the life of the pool) and float (expected gains or losses resulting from our mortgage security program remittance cycles). These value changes are excluded from our estimate of the changes in fair value of the credit guarantee portfolio, so that it reflects only the impact of changes in interest rates and other market factors on the unhedged portion of the projected cash flows from the credit guarantee business. The fair value changes associated with net buy-ups and float are considered in asset-liability management return (described above) because they relate to hedged positions.

Fee Income

Fee income includes miscellaneous fees, such as resecuritization fees, fees generated by our automated underwriting service and delivery fees on some mortgage purchases.

Discussion of Fair Value Results

In 2007, the fair value of net assets attributable to common stockholders, before capital transactions, decreased by $23.6 billion compared to a $2.5 billion increase in 2006. The payment of common dividends and the repurchase of common shares, net of reissuance of treasury stock, reduced total fair value by $2.1 billion in 2007. The fair value of net assets attributable to common stockholders as of December 31, 2007 was $0.3 billion, compared to $26.0 billion as of December 31, 2006.

Table 40 summarizes the change in the fair value of net assets attributable to common stockholders for 2007 and 2006.

Table 40 Summary of Change in the Fair Value of Net Assets Attributable to Common Stockholders

	2007	2006
	(in billions)	
Beginning balance	$ 26.0	$ 26.8
Changes in fair value of net assets attributable to common stockholders, before capital transactions	(23.6)	2.5
Capital transactions:		

Common dividends, common share repurchases and issuances, net	(2.1)	(3.3)
Ending balance	$ 0.3	$ 26.0

Estimated Impact of Changes in Mortgage-To-Debt OAS on Fair Value Results

For the years ended December 31, 2007 and 2006, we estimate that on a pre-tax basis the changes in the fair value of net assets attributable to common stockholders, before capital transactions, included decreases of approximately $23.8 billion and $0.9 billion, respectively, due to a net widening of mortgage-to-debt OAS.

We believe disclosing the estimated impact of changes in mortgage-to-debt OAS on the fair value of net assets is helpful to understanding our current period fair value results in the context of our long-term fair value return objective. Due to the significant challenges that exist in the current market, we will not, in the near-term, achieve our objective of long-term returns, before capital transactions, on the average fair value of net assets attributable to common stockholders in the low-to mid-teens. Given the current level of uncertainty in the residential mortgage credit market, volatility in interest rates and our current capital constraints, we will not achieve our long-term objective until market conditions improve.

How We Estimate the Impact of Changes in Mortgage-To-Debt OAS on Fair Value Results

The impact of changes in OAS on fair value should be understood as an estimate rather than a precise measurement. To estimate the impact of OAS changes, we use models that involve the forecast of interest rates and prepayment behavior and other inputs. We also make assumptions about a variety of factors, including macroeconomic and security-specific data, interest-rate paths, cash flows and prepayment rates. We use these models and assumptions in running our business, and we rely on many of the models in producing our financial statements and measuring, managing and reporting interest-rate and other market risks. The use of different estimation methods or the application of different assumptions could result in a materially different estimate of OAS impact.

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An integral part of this framework includes the attribution of fair value changes to assess the performance of our investment activities. On a daily basis, all interest rate sensitive assets, liabilities and derivatives are modeled using our proprietary prepayment and interest rate models. Management uses interest-rate risk statistics generated from this process, along with daily market movements, coupon accruals and price changes, to estimate and attribute returns into various risk factors commonly used in the fixed income industry to quantify and understand sources of fair value return. One important risk factor is the change in fair value due to changes in mortgage-to-debt OAS.

Understanding Our Estimate of the Impact of Changes in Mortgage-To-Debt OAS on Fair Value Results

A number of important qualifications apply to our disclosed estimates. The estimated impact of the change in option-adjusted spreads on the fair value of our net assets in any given period does not depend on other components of the change in fair value. Although the fair values of our financial instruments will generally move toward their par values as the instruments approach maturity, investors should not expect that the effect of past changes in OAS will necessarily reverse through future changes in OAS. To the extent that actual prepayment or interest rate distributions differ from the forecasts contemplated in our models, changes in values reflected in mortgage-to-debt OAS may not be recovered in fair value returns at a later date.

When the OAS on a given asset widens, the fair value of that asset will typically decline, all other things being equal. However, we believe such OAS widening has the effect of increasing the likelihood that, in future periods, we will recognize income at a higher spread on this existing asset. The reverse is true when the OAS on a given asset tightens current period fair values for that asset typically increase due to the tightening in OAS, while future income recognized on the asset is more likely to be earned at a reduced spread. Although a widening of OAS is generally accompanied by lower current period fair values, it can also provide us with greater opportunity to purchase new assets for our retained portfolio at the wider mortgage-to-debt OAS.

For these reasons, our estimate of the impact of the change in OAS provides information regarding one component of the change in fair value for the particular period being evaluated. However, results for a single period should not be used to extrapolate long-term fair value returns. We believe the potential fair value return of our business over the long term depends primarily on our ability to add new assets at attractive mortgage-to-debt OAS and to effectively manage over time the risks associated with these assets, as well as the risks of our existing portfolio. In other words, to capture the fair value returns we expect, we have to apply accurate estimates of future prepayment rates and other performance characteristics at the time we purchase assets, and then manage successfully the range of market risks associated with a debt-funded mortgage portfolio over the life of these assets.

Estimated Impact of Credit Guarantee on Fair Value Results

Our credit guarantee activities, including multifamily and single-family whole loan credit exposure, decreased pre-tax fair value by an estimated $18.5 billion in 2007. This estimate includes an increase in the single-family guarantee obligation of approximately $22.2 billion, primarily attributable to the market s pricing of mortgage credit. Wider credit spreads on CMBS and whole loans also negatively impacted our multifamily guarantee obligation. These increases were partially offset by a fair value increase in the single-family guarantee asset of approximately $2.1 billion and cash receipts related to management and guarantee fees and other up-front fees.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

Our business activities require that we maintain adequate liquidity to make payments upon the maturity, redemption or repurchase of our debt securities; purchase mortgage loans, mortgage-related securities and other investments; make payments of principal and interest on our debt securities and on our PCs and Structured Securities; make net payments on derivative instruments; fund our general operations; and pay dividends on and repurchase our preferred and common stock.

We fund our cash requirements primarily by issuing short-term and long-term debt. Other sources of cash include:

- receipts of principal and interest payments on securities or mortgage loans we hold;
- sales of securities we hold;
- borrowings against mortgage-related securities and other investment securities we hold;
- other cash flows from operating activities, including guarantee activities; and
- issuances of common and preferred stock.

We measure our cash position on a daily basis, netting uses of cash with sources of cash. We manage the net cash position over a rolling forecasted 120-day period, with the goal of providing the amount of debt funding needed to cover expected net cash outflows without adversely affecting our overall funding levels. We maintain alternative sources of liquidity to allow normal operations for 120 days without relying upon the issuance of unsecured debt consistent with industry practices of sound liquidity management. The alternative sources of liquidity on which we rely for this purpose

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include primarily sales from our cash and investments portfolio and our ability to borrow against mortgage-related securities and other investment securities in our retained portfolio through repurchase transactions. A large majority of the assets held in our retained portfolio are currently unencumbered, so that the entire portfolio is potentially available for repurchase transactions if needed for short-term liquidity. Our internal liquidity management policy also requires us to hold non-Freddie Mac, floating rate, AAA-rated securities in an amount at least equal to the amount of our outstanding discount notes, and to maintain a portfolio of liquid, marketable, non-mortgage-related securities in an amount at least equal to the greater of $20 billion or our projected maximum cash liquidity needs over a rolling 10 business day period. These securities may be utilized as a source of liquidity through either sales or repurchase transactions. We monitor our compliance with the required levels on a daily basis, and periodically conduct tests of our ability to implement our liquidity plans in response to hypothetical liquidity events. Our daily liquidity management and monitoring activities are consistent with the liquidity component of our commitment with OFHEO to maintain alternative sources of liquidity to allow normal operations for 90 days without relying upon issuance of unsecured debt. See ANNUAL MD&A RISK MANAGEMENT AND DISCLOSURE COMMITMENTS for further information.

Effective December 2007, we established securitization trusts for the underlying assets of our PCs and Structured Securities. Consequently, we hold remittances in a segregated account and do not commingle those funds with our general operating funds. We now receive trust management income, which represents the fees we earn as master servicer, issuer and trustee for our PCs and Structured Securities. These fees are derived from interest earned on principal and interest cash flows between the time remitted to the trust by servicers and the date of distribution to our PC and Structured Securities holders.

Effective in July 2006, the Federal Reserve Board revised its payments system risk policy to restrict or eliminate daylight overdrafts by GSEs in connection with their use of the Fedwire system. The revised policy also includes a requirement that the GSEs fully fund their accounts in the system to the extent necessary to cover payments on their debt and mortgage-related securities each day, before the Federal Reserve Bank of New York, acting as fiscal agent for the GSEs, will initiate such payments. We have taken actions to fully fund our account as necessary, such as opening lines of credit with third parties. Certain of these lines of credit require that we post collateral that, in certain limited circumstances, the secured party has the right to repledge to other third parties, including the Federal Reserve Bank. As of December 31, 2007, we pledged approximately $16.8 billion of securities to these secured parties. These lines of credit, which provide additional intraday liquidity to fund our activities through the Fedwire system, are uncommitted intraday loan facilities. As a result, while we expect to continue to use these facilities, we may not be able to draw on them if and when needed. See NOTE 4: RETAINED PORTFOLIO AND CASH AND INVESTMENTS PORTFOLIO to our audited consolidated financial statements for further information.

To fund our business activities, we depend on the continuing willingness of investors to purchase our debt securities. Any change in applicable legislative or regulatory exemptions, including those described in BUSINESS Regulation and Supervision, could adversely affect our access to some debt investors, thereby potentially increasing our debt funding costs. However, because of our financial performance and our regular and significant participation as an issuer in the capital markets, our sources of liquidity have remained adequate to meet our needs and we anticipate that they will continue to be so.

Under our charter, the Secretary of the Treasury has discretionary authority to purchase our obligations up to a maximum of $2.25 billion principal balance outstanding at any one time. However, we do not rely on this authority as a source of liquidity to meet our obligations.

Depending on market conditions and the mix of derivatives we employ in connection with our ongoing risk management activities, our derivative portfolio can be either a net source or a net use of cash. For example, depending on the prevailing interest-rate environment, interest-rate swap agreements could cause us either to make interest

payments to counterparties or to receive interest payments from counterparties. Purchased options require us to pay a premium while written options allow us to receive a premium.

We are required to pledge collateral to third parties in connection with secured financing and daily trade activities. In accordance with contracts with certain derivative counterparties, we post collateral to those counterparties for derivatives in a net loss position, after netting by counterparty, above agreed-upon posting thresholds. See NOTE 4: RETAINED PORTFOLIO AND CASH AND INVESTMENTS PORTFOLIO to our audited consolidated financial statements for information about assets we pledge as collateral.

We are involved in various legal proceedings, including those discussed in LEGAL PROCEEDINGS, which may result in a use of cash.

Debt Securities

Because of our GSE status and the special attributes granted to us under our charter, our debt securities and those of other GSE issuers trade in the so-called agency sector of the debt markets. This highly liquid market segment exhibits its own yield curve reflecting our ability to borrow at lower rates than many other corporate debt issuers. As a result, we mainly

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compete for funds in the debt issuance markets with Fannie Mae and the Federal Home Loan Banks, which issue debt securities of comparable quality and ratings. However, we also compete for funding with other debt issuers. The demand for, and liquidity of, our debt securities benefit from their status as permitted investments for banks, investment companies and other financial institutions under their statutory and regulatory framework. Competition for funding can vary with economic, financial market and regulatory environments.

We fund our business activities primarily through the issuance of short- and long-term debt. Table 41 summarizes the par value of the debt securities we issued, based on settlement dates, during 2007 and 2006. We seek to maintain a variety of consistent, active funding programs that promote high-quality coverage by market makers and reach a broad group of institutional and retail investors. By diversifying our investor base and the types of debt securities we offer, we believe we enhance our ability to maintain continuous access to the debt markets under a variety of market conditions.

Table 41 Debt Security Issuances by Product, at Par Value[1]

	Year Ended December 31,	
	2007	2006
	(in millions)	
Short-term debt:		
Reference Bills® securities and discount notes	$ 597,587	$ 593,444
Medium-term notes callable	4,100	8,532
Medium-term notes non-callable	202	1,550
Total short-term debt	601,889	603,526
Long-term debt:		
Medium-term notes callable[2]	112,452	106,777
Medium-term notes non-callable[3]	25,096	17,721
U.S. dollar Reference Notes® securities non-callable	51,000	55,000
Freddie SUBS® securities[4]		3,299
Total long-term debt	188,548	182,797
Total debt securities issued	$ 790,437	$ 786,323

(1) Exclude securities sold under agreements to repurchase and federal funds purchased, lines of credit and securities sold but not yet purchased.
(2) Include $145 million and $100 million of medium-term notes callable issued for the years ended December 31, 2007 and 2006, respectively, which were accounted for as debt exchanges.
(3) Include $ and $1.0 billion of medium-term notes non-callable issued for the years ended December 31, 2007 and 2006, respectively, which were accounted for as debt exchanges.
(4) Include $ and $1.5 billion of Freddie SUBS® securities issued for the years ended December 31, 2007 and 2006, respectively, which were accounted for as debt exchanges.

Short-Term Debt

We fund our operating cash needs, in part, by issuing Reference Bills® securities and other discount notes, which are short-term instruments with maturities of one year or less that are sold on a discounted basis, paying only principal at maturity. Our Reference Bills® securities program consists of large issues of short-term debt that we auction to dealers on a regular schedule. We issue discount notes with maturities ranging from one day to one year in response to investor demand and our cash needs. Short-term debt also includes certain medium-term notes that have original maturities of one year or less.

Long-Term Debt

We issue debt with maturities greater than one year primarily through our medium-term notes program and our Reference Notes® securities program.

Medium-term Notes

We issue a variety of fixed- and variable-rate medium-term notes, including callable and non-callable fixed-rate securities, zero-coupon securities and variable-rate securities, with various maturities ranging up to 30 years. Medium-term notes with original maturities of one year or less are classified as short-term debt. Medium-term notes typically contain call provisions, effective as early as three months or as distant as ten years after the securities are issued.

Reference Notes® Securities

Through our Reference Notes® securities program, we sell large issues of long-term debt that provide investors worldwide with a high-quality, liquid investment vehicle. Reference Notes® securities are regularly issued, U.S. dollar denominated, non-callable fixed-rate securities, which we currently issue with original maturities ranging from two through ten years. We have also issued Reference Notes® securities denominated in Euros, but did not issue any such securities in 2007 or 2006. We hedge our exposure to changes in foreign-currency exchange rates by entering into swap transactions that convert foreign-currency denominated obligations to U.S. dollar-denominated obligations. See ANNUAL MD&A QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK Interest-Rate Risk and Other Market Risks *Sources of Interest-Rate Risk and Other Market Risks* for more information.

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The investor base for our debt is predominantly institutional. However, we also conduct weekly offerings of FreddieNotes® securities, a medium-term notes program designed to meet the investment needs of retail investors.

Subordinated Debt

During the year ended December 31, 2007, we called $1.9 billion of higher-cost Freddie SUBS® securities, while not issuing any new securities. During the year ended December 31, 2006, we issued approximately $3.3 billion of Freddie SUBS® securities. In addition, we called approximately $1.0 billion of previously issued Freddie SUBS® securities in August 2006. At December 31, 2007 and 2006, the balance of our subordinated debt outstanding was $4.5 billion and $6.4 billion, respectively. Our subordinated debt in the form of Freddie SUBS® securities is a component of our risk management and disclosure commitments with OFHEO (described in ANNUAL MD&A RISK MANAGEMENT AND DISCLOSURE COMMITMENTS).

Debt Retirement Activities

We repurchase or call our outstanding debt securities from time to time to help support the liquidity and predictability of the market for our debt securities and to manage our mix of liabilities funding our assets. When our debt securities become seasoned or one-time call options on our debt securities expire, they may become less liquid, which could cause their price to decline. By repurchasing debt securities, we help preserve the liquidity of our debt securities and improve their price performance, which helps to reduce our funding costs over the long-term. Our repurchase activities also help us manage the funding mismatch, or duration gap, created by changes in interest rates. For example, when interest rates decline, the expected lives of the mortgage-related securities held in our retained portfolio decrease, reducing the need for long-term debt. We use a number of different means to shorten the effective weighted average lives of our outstanding debt securities and thereby manage the duration gap, including retiring long-term debt through repurchases or calls; changing our debt funding mix between short-and long-term debt; or using derivative instruments, such as entering into receive-fixed swaps or terminating or assigning pay-fixed swaps. From time to time, we may also enter into transactions in which we exchange newly issued debt securities for similar outstanding debt securities held by investors. These transactions are accounted for as debt exchanges.

Table 42 provides the par value, based on settlement dates, of debt securities we repurchased, called and exchanged during 2007 and 2006.

Table 42 Debt Security Repurchases, Calls and Exchanges

	Year Ended December 31,	
	2007	2006
	(in millions)	
Repurchases of outstanding Reference Notes® securities	$ 3,965	$ 5,210
Repurchases of outstanding medium-term notes	10,986	28,560
Calls of callable medium-term notes	95,317	26,559
Calls of callable Freddie SUBS® securities	1,930	1,000
Exchanges of medium-term notes	145	1,074
Exchanges of Freddie SUBS® securities		1,480

Credit Ratings

Our ability to access the capital markets and other sources of funding, as well as our cost of funds, are highly dependent upon our credit ratings. Table 43 indicates our credit ratings at February 1, 2008.

Table 43 Freddie Mac Credit Ratings

	Nationally Recognized Statistical Rating Organization		
	S&P	Moody s	Fitch
Senior long-term debt(1)	AAA	Aaa	AAA
Short-term debt(2)	A-1+	P-1	F-1+
Subordinated debt(3)	AA /Negative	Aa2	AA
Preferred stock	AA /Negative	Aa3	A+

(1) Includes medium-term notes, U.S. dollar Reference Notes® securities and Reference Notes® securities.
(2) Includes Reference Bills® securities and discount notes.
(3) Includes Freddie SUBS® securities only.

In addition to the ratings described in Table 43, S&P provides a Risk-To-The-Government rating that measures our ability to meet our debt obligations and the value of our franchise in the absence of any implied government support. Our Risk-To-The-Government rating was AA with a negative outlook at February 1, 2008. See ANNUAL MD&A RISK MANAGEMENT AND DISCLOSURE COMMITMENTS. A S&P rating outlook assesses the potential direction of a long-term credit rating over the intermediate term (typically six months to two years). A modifier of negative means that a rating may be lowered.

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Moody s also provides a Bank Financial Strength rating that represents Moody s opinion of our intrinsic safety and soundness and, as such, excludes certain external credit risks and credit support elements. Ratings under this measure range from A, the highest, to E, the lowest rating. On January 9, 2008, Moody s placed our Bank Financial Strength rating on review for possible downgrade. Our Bank Financial Strength rating remained at A as of February 1, 2008. A security rating is not a recommendation to buy, sell or hold securities. It may be subject to revision or withdrawal at any time by the assigning rating organization. Each rating should be evaluated independently of any other rating.

Equity Securities

See Capital Resources *Core Capital* and MARKET PRICE OF AND DIVIDENDS ON THE REGISTRANT S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS for information about issuances of our equity securities.

Cash and Investments Portfolio

We maintain a cash and investments portfolio that is important to our financial management and our ability to provide liquidity and stability to the mortgage market. At December 31, 2007 and March 31, 2008, this portfolio consisted primarily of cash equivalents and non-mortgage-related securities, such as commercial paper and asset-backed securities, that we could sell or finance to provide us with an additional source of liquidity to fund our business operations. We also use the portfolio to help manage recurring cash flows and meet our other cash management needs. In addition, we use the portfolio to hold capital on a temporary basis until we can deploy it into retained portfolio investments or credit guarantee opportunities. We may also sell or finance the securities in this portfolio to maintain capital reserves to meet mortgage funding needs, provide diverse sources of liquidity or help manage the interest-rate risk inherent in mortgage-related assets. During the first quarter of 2008, we increased the balance of our cash and investments portfolio by $23.6 billion due to an increase in our investments in commercial paper, which we expect to use to increase our retained portfolio in the second quarter of 2008.

For additional information on our cash and investments portfolio, see ANNUAL MD&A CONSOLIDATED BALANCE SHEETS ANALYSIS Cash and Investments. The non-mortgage-related investments in this portfolio may expose us to institutional credit risk and the risk that the investments could decline in value due to market-driven events such as credit downgrades or changes in interest rates and other market conditions. See ANNUAL MD&A CREDIT RISKS Institutional Credit Risk for more information.

Cash Flows

Our cash and cash equivalents decreased $2.8 billion to $8.6 billion for the year ended December 31, 2007. Cash flows used for operating activities in 2007 were $7.4 billion, which reflected a reduction in cash due to a net loss of $3.1 billion and a decrease in liabilities to PC investors as a result of a change in our PC issuance process. See NOTE 20: CHANGES IN ACCOUNTING PRINCIPLES to our audited consolidated financial statements for additional information. Net cash used was primarily provided by net interest income, management and guarantee fees and changes in other operating assets and liabilities. Cash flows provided by investing activities in 2007 were $9.6 billion, primarily due to a net increase in cash flows as we reduced our balance of federal funds sold and eurodollars. See ANNUAL MD&A CONSOLIDATED BALANCE SHEETS ANALYSIS Cash and Investments for additional information. This was partially offset by an increase in cash used to purchase mortgage loans under financial guarantees as a result of increasing delinquencies. See ANNUAL MD&A CREDIT RISKS Mortgage Credit Risk *Performing and Non-Performing Assets* and *Delinquencies* for additional information. Cash flows used for financing activities in 2007 were $5.0 billion and resulted from a decrease in debt securities, net, preferred and common stock repurchases and dividends paid. Cash used was partially offset by proceeds from the issuance of preferred stock. See NOTE 8: STOCKHOLDERS EQUITY to our audited consolidated financial statements for more

information.

Our cash and cash equivalents increased $0.9 billion to $11.4 billion for the year ended December 31, 2006. Cash flows provided by operating activities in 2006 were $8.7 billion, which primarily reflected cash flows provided by net interest income, management and guarantee fees and changes in other operating assets and liabilities, partially offset by non-interest expenses. Cash flows used for investing activities in 2006 were $4.9 billion, primarily resulting from purchases of held-for-investment mortgages and available-for-sale securities, as well as a net decrease in cash flows from securities purchased under agreements to resell and federal funds sold, partially offset by proceeds from sales and maturities of available-for-sale securities and repayments of held-for-investment mortgages. Cash flows used for financing activities in 2006 were $2.9 billion and were primarily due to repayments of debt securities, repurchases of common stock, payment of cash dividends on preferred stock and common stock, and payments of housing tax credit partnerships notes payable, partially offset by proceeds from issuance of debt securities.

Our cash and cash equivalents decreased $24.8 billion to $10.5 billion for the year ended December 31, 2005. Cash flows provided by operating activities in 2005 were approximately $6.2 billion, which primarily reflected cash flows provided by net interest income, management and guarantee fees and changes to other operating assets and liabilities,

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partially offset by non-interest expenses as well as net cash flows used in purchases of held-for-sale mortgages. Cash flows used for investing activities were $58.4 billion, primarily resulting from purchases of held-for-investment mortgages and available-for-sale securities as we increased our retained portfolio in 2005 and the repayment of swap collateral obligations. These outflows were partially offset by proceeds from sales and maturities of available-for-sale securities and repayments of held-for-investment mortgages, as well as cash flows from securities purchased under agreements to resell and federal funds sold. Cash flows provided by financing activities in 2005 were $27.4 billion and were primarily due to proceeds from issuance of debt securities, partially offset by net cash flows used in repayments of debt securities, payment of cash dividends on preferred stock and common stock, and payments of housing tax credit partnerships notes payable.

Capital Resources

Capital Management

Our primary objective in managing capital is preserving our safety and soundness. We also seek to have sufficient capital to support our business and mission at attractive long-term returns. See NOTE 9: REGULATORY CAPITAL to our audited consolidated financial statements and NOTE 9: REGULATORY CAPITAL to our unaudited consolidated financial statements for more information regarding our regulatory capital requirements and OFHEO s capital monitoring framework. When appropriate, we will consider opportunities to return excess capital to shareholders (through dividends and share repurchases) and optimize our capital structure to lower our cost of capital.

We assess and project our capital adequacy relative to our regulatory requirements as well as our economic risks. This includes targeting a level of additional capital above each of our capital requirements, as well as the 30% mandatory target capital surplus to help support ongoing compliance and to accommodate future uncertainties. We evaluate the adequacy of our targeted additional capital in light of changes in our business, risk and economic environment.

We develop an annual capital plan that is approved by our board of directors and updated periodically. This plan provides projections of capital adequacy, taking into consideration our business plans, forecasted earnings, economic risks and regulatory requirements.

Capital Adequacy

We estimate at December 31, 2007 that we exceeded each of our regulatory capital requirements, in addition to the 30% mandatory target capital surplus. However, weakness in the housing market and volatility in the financial markets continue to adversely affect our capital, including our ability to manage to the 30% mandatory target capital surplus.

As a result of the impact of GAAP net losses on our core capital, we did not meet the 30% mandatory target capital surplus at the end of November 2007. In order to manage to the 30% mandatory target capital surplus and improve business flexibility, on December 4, 2007, we issued $6 billion of non-cumulative, perpetual preferred stock. In addition, during the fourth quarter of 2007, we reduced our common stock dividend by 50% and reduced the size of our cash and investments portfolio.

Other items positively affecting our capital position include: (a) certain operational changes in December 2007 for purchasing delinquent loans from our PCs, (b) changes in accounting principles we adopted, which increased core capital by $1.3 billion at December 31, 2007 and (c) as discussed in more detail below, our adoption of SFAS 159 on January 1, 2008, which increased core capital by an estimated $1.0 billion.

On March 19, 2008, OFHEO, Fannie Mae and Freddie Mac announced an initiative to increase mortgage market liquidity. In conjunction with this initiative, OFHEO reduced our mandatory target capital surplus to 20% above our statutory minimum capital requirement, and we announced that we will begin the process to raise capital and maintain overall capital levels well in excess of requirements while the mortgage markets recover. We estimated at March 31, 2008 that we exceeded each of our regulatory capital requirements, in addition to the 20% mandatory target capital surplus.

In connection with this initiative, we committed to OFHEO to raise $5.5 billion of new core capital through one or more offerings, which will include both common and preferred securities. The timing, amount and mix of securities to be offered will depend on a variety of factors, including prevailing market conditions and our SEC registration process, and is subject to approval by our board of directors. OFHEO has informed us that, upon completion of these offerings, our mandatory target capital surplus will be reduced from 20% to 15%. OFHEO has also informed us that it intends a further reduction of our mandatory target capital surplus from 15% to 10% upon completion of our SEC registration process, our completion of the remaining Consent Order requirement (*i.e.*, the separation of the positions of Chairman and Chief Executive Officer), our continued commitment to maintain capital well above OFHEO s regulatory requirement and no material adverse changes to ongoing regulatory compliance. We reduced the dividend on our common stock in December 2007.

The sharp decline in the housing market and volatility in financial markets continues to adversely affect our capital, including our ability to manage to our regulatory capital requirements and the 20% mandatory target capital surplus. Factors that could adversely affect the adequacy of our capital in future periods include our ability to execute our planned capital

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raising transaction; GAAP net losses; continued declines in home prices; increases in our credit and interest-rate risk profiles; adverse changes in interest-rate or implied volatility; adverse OAS changes; impairments of non-agency mortgage-related securities; counterparty downgrades; downgrades of non-agency mortgage-related securities (with respect to regulatory risk-based capital); legislative or regulatory actions that increase capital requirements; our ability to meet the requirements set by OFHEO for further reductions in the mandatory target capital surplus; or changes in accounting practices or standards. See NOTE 9: REGULATORY CAPITAL to our audited consolidated financial statements for further information regarding our regulatory capital requirements and NOTE 9: REGULATORY CAPITAL to our unaudited consolidated financial statements for further information regarding OFHEO s capital monitoring framework.

Also affecting our capital position was our adoption of SFAS 159 on January 1, 2008. Our election of the fair value option was made in an effort to better reflect, in the financial statements, the economic offsets that exist related to items that were not previously recognized as changes in fair value through our consolidated statements of income. We expect our adoption of the fair value option will reduce the effect of interest-rate changes on our net income (loss) and capital. This change will also increase the impact of spread changes on capital. For a further discussion of our adoption of SFAS 159 see NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Change in Accounting Principles to our unaudited consolidated financial statements. Beginning in the first quarter of 2008, we commenced our use of cash flow hedge accounting relationships to include hedging the changes in cash flows associated with our forecasted issuances of debt. We believe this expanded accounting strategy will reduce the effect of interest-rate changes on our capital. This accounting strategy had a positive impact on our financial results for the first quarter of 2008, and we expect our continued implementation of hedge accounting will have a greater positive effect on our interest rate sensitivity going forward. We also employed this accounting strategy while maintaining our disciplined approach to interest-rate risk management. See NOTE 10: DERIVATIVES to our unaudited consolidated financial statements for additional information about our derivatives designated as cash flow hedges.

To help manage to our regulatory capital requirements and the 20% mandatory target capital surplus, we may consider measures in the future such as reducing or rebalancing risk, limiting growth or reducing the size of our retained portfolio, slowing purchases into our credit guarantee portfolio, issuing additional preferred or convertible preferred stock and issuing common stock.

Our ability to execute additional actions or their effectiveness may be limited and we might not be able to manage to the 20% mandatory target capital surplus. If we are not able to manage to the 20% mandatory target capital surplus, OFHEO may, among other things, seek to require us to (a) submit a plan for remediation or (b) take other remedial steps. In addition, OFHEO has discretion to reduce our capital classification by one level if OFHEO determines that we are engaging in conduct OFHEO did not approve that could result in a rapid depletion of core capital or determines that the value of property subject to mortgage loans we hold or guarantee has decreased significantly. See BUSINESS Regulation and Supervision *Office of Federal Housing Enterprise Oversight Capital Standards and Dividend Restrictions* and NOTE 9: REGULATORY CAPITAL Classification to our audited consolidated financial statements and NOTE 9: REGULATORY CAPITAL to our unaudited consolidated financial statements for information regarding additional potential actions OFHEO may seek to take against us.

Core Capital

During 2007 and 2006, our core capital increased approximately $2.5 billion and $0.3 billion, respectively. The increase in 2007 was primarily due to a net increase in the balance of our non-cumulative, perpetual preferred stock of $8.0 billion and the cumulative effect of a change in accounting principle of $181 million, partially offset by a net loss of $3.1 billion, common stock repurchases of $1.0 billion, and common and preferred stock dividends declared of $1.6 billion. The increase in our core capital in 2006 was primarily from net income of $2.3 billion and a net increase in the balance of our non-cumulative, perpetual preferred stock of $1.5 billion, partially offset by common stock

repurchases of $2.0 billion and the payment of common stock and preferred stock dividends totaling $1.6 billion. See NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Recently Adopted Accounting Standards *Accounting for Uncertainty in Income Taxes* to our audited consolidated financial statements for further information regarding the cumulative effect of a change in accounting principle.

We completed five non-cumulative, perpetual preferred stock offerings during 2007. In these offerings, we issued an aggregate of $8.6 billion of non-cumulative, perpetual preferred stock, consisting of $1.5 billion in connection with the planned replacement of common stock with an equal amount of preferred stock and $600 million to replace higher-cost preferred stock that we redeemed and additional issuances of $6.5 billion in the aggregate to bolster our capital base and for general corporate purposes. We purchased a total of approximately 16.1 million shares of our outstanding common stock under the stock repurchase plan authorized in March 2007 at an average cost of $62.04 per share.

Our board of directors approved a dividend per common share of $0.25 for the fourth quarter of 2007, a decrease from the $0.50 per share common dividend that was paid for each of the first three quarters of 2007 and the fourth quarter of

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2006. Our common dividend per share was $0.47 for each of the first three quarters of 2006 and the fourth quarter of 2005. Our board of directors will determine the amount of future dividends, if any, after considering factors such as our capital position and our earnings and growth prospects. Our board of directors also approved an increase in the number of authorized shares of common stock from 726 million to 806 million in November 2007.

For the fourth quarter of 2005 through the fourth quarter of 2007, our board of directors also approved quarterly preferred stock dividends that were consistent with the contractual rates and terms of the preferred stock. See NOTE 8: STOCKHOLDERS EQUITY to our audited consolidated financial statements for information regarding our outstanding issuances of preferred stock.

PORTFOLIO BALANCES AND ACTIVITIES

Total Mortgage Portfolio

Our total mortgage portfolio includes mortgage loans and mortgage-related securities held in our retained portfolio as well as the balances of PCs and Structured Securities held by third parties. Guaranteed PCs and Structured Securities held by third parties are not included on our consolidated balance sheets.

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Table 44 provides information about our total mortgage portfolio at December 31, 2007, 2006 and 2005.

Table 44 Total Mortgage Portfolio and Segment Portfolio Composition[1][2]

	2007	December 31, 2006	2005
		(in millions)	
Total mortgage portfolio:			
Retained portfolio:			
Single-family mortgage loans	$ 24,589	$ 20,640	$ 20,396
Multifamily mortgage loans	57,569	45,207	41,085
Total mortgage loans	82,158	65,847	61,481
Guaranteed PCs and Structured Securities in the retained portfolio	356,970	354,262	361,324
Non-Freddie Mac mortgage-related securities, agency	47,836	45,385	44,626
Non-Freddie Mac mortgage-related securities, non-agency	233,849	238,465	242,915
Total non-Freddie Mac mortgage-related securities	281,685	283,850	287,541
Total retained portfolio[3]	720,813	703,959	710,346
Guaranteed PCs and Structured Securities held by third parties:			
Single-family Structured Transactions	9,351	8,424	10,489
Multifamily Structured Transactions	900	867	
Single-family PCs and other Structured Securities	1,363,613	1,105,437	949,599
Multifamily PCs and other Structured Securities	7,999	8,033	14,112
Total guaranteed PCs and Structured Securities held by third parties	1,381,863	1,122,761	974,200
Total mortgage portfolio	$ 2,102,676	$ 1,826,720	$ 1,684,546

	2007	December 31, 2006	2005
		(in millions)	
Segment portfolios:			
Investments Mortgage-related investment portfolio:			
Single-family mortgage loans	$ 24,589	$ 20,640	$ 20,396
Guaranteed PCs and Structured Securities in the retained portfolio	356,970	354,262	361,324
Non-Freddie Mac mortgage-related securities in the retained portfolio	281,685	283,850	287,541
Total Investments Mortgage-related investment portfolio[4]	$ 663,244	$ 658,752	$ 669,261

Single-family Guarantee Credit guarantee portfolio:			
Guaranteed PCs and Structured Securities in the retained portfolio	$ 343,071	$ 336,869	$ 344,922
Guaranteed PCs and Structured Securities held by third parties	1,363,613	1,105,437	949,599
Single-family Structured Transactions in the retained portfolio	11,240	17,011	16,011
Single-family Structured Transactions held by third parties	9,351	8,424	10,489
Total Single-family Guarantee Credit guarantee portfolio	$ 1,727,275	$ 1,467,741	$ 1,321,021
Multifamily Guarantee and loan portfolios:			
Multifamily loan portfolio	$ 57,569	$ 45,207	$ 41,085
Multifamily Structured Transactions	900	867	
Multifamily PCs and other Structured Securities(5)	10,658	8,415	14,503
Total multifamily guarantee portfolio	11,558	9,282	14,503
Total Multifamily Guarantee and loan portfolios	$ 69,127	$ 54,489	$ 55,588
Less: Guaranteed PCs and Structured Securities in the retained portfolio(6)	(356,970)	(354,262)	(361,324)
Total mortgage portfolio	$ 2,102,676	$ 1,826,720	$ 1,684,546

(1) Based on unpaid principal balance and excludes mortgage loans and mortgage-related securities traded, but not yet settled.
(2) Effective December 2007, we established securitization trusts for the underlying assets of our PCs and Structured Securities issued. As a result, we adjusted the reported balance of our mortgage portfolios to reflect the publicly-available security balances of our PCs and Structured Securities. Previously these balances were based on the unpaid principal balance of the underlying mortgage loans.
(3) See ANNUAL MD&A CONSOLIDATED BALANCE SHEETS ANALYSIS Table 20 Characteristics of Mortgage Loans and Mortgage-Related Securities in our Retained Portfolio for a reconciliation of the retained portfolio amounts shown in this table to the amounts shown under such caption in conformity with GAAP on our consolidated balance sheets.
(4) Includes certain assets related to Single-family Guarantee activities and Multifamily activities.
(5) Includes multifamily PCs and other Structured Securities both in the retained portfolio and held by third parties.
(6) The amount of our PCs and Structured Securities in the retained portfolio is included in both our segments mortgage-related and guarantee portfolios and thus deducted in order to reconcile to our total mortgage portfolio. These securities are managed by the Investments segment, which receives related interest income; however, the Single-family and Multifamily segments manage and receive associated management and guarantee fees.

In 2007 and 2006, our total mortgage portfolio grew at a rate of 15% and 8%, respectively. Our new business purchases consist of mortgage loans and non-Freddie Mac mortgage-related securities that are purchased for our retained portfolio or serve as collateral for our issued PCs and Structured Securities. We generate a significant portion of our mortgage purchase volume through several key mortgage lenders. See BUSINESS Our Charter and Mission *Types of Mortgages We Purchase* for information about these relationships and consequent risks. Table 45 summarizes purchases into our total mortgage portfolio.

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Table 45 Total Mortgage Portfolio Activity Detail(1)

	Year Ended December 31,					
	2007		2006		2005	
	Amount	% of Purchase Amounts	Amount	% of Purchase Amounts	Amount	% of Purchase Amounts
	(dollars in millions)					
New business purchases:						
Single-family mortgage purchases:						
Conventional:						
30-year amortizing fixed-rate(2)	$ 326,455	66%	$ 251,143	67%	$ 272,702	67%
15-year amortizing fixed-rate	28,910	6	21,556	6	40,963	10
ARMs/adjustable-rate(3)	12,465	3	18,854	5	35,677	9
Interest-only(4)	97,778	20	58,176	16	26,516	7
Option ARMs					3,918	1
Balloon/resets(5)	125		419		1,720	
FHA/VA(6)	157		946			
Rural Housing Service and other federally guaranteed loans	176		176		177	
Total single-family	466,066	95	351,270	94	381,673	94
Multifamily:						
Conventional and other	21,645	4	13,031	4	11,172	3
Total multifamily	21,645	4	13,031	4	11,172	3
Total mortgage purchases	487,711	99	364,301	98	392,845	97
Non-Freddie Mac mortgage-related securities purchased for Structured Securities:						
Ginnie Mae Certificates	48		48		37	
Structured Transactions(7)	3,431	1	8,592	2	14,331	3
Total Non-Freddie Mac mortgage-related securities purchased for Structured Securities	3,479	1	8,640	2	14,368	3
Total single-family and multifamily mortgage purchases and total non-Freddie Mac mortgage-related securities purchased for Structured Securities	$ 491,190	100%	$ 372,941	100%	$ 407,213	100%

Non-Freddie Mac mortgage-related securities purchased into the retained portfolio:			
Agency securities:			
Fannie Mae:			
Single-family:			
Fixed-rate	$ 2,170	$ 4,259	$ 2,854
Variable-rate	9,863	8,014	3,368
Total Fannie Mae	12,033	12,273	6,222
Ginnie Mae:			
Single-family:			
Fixed-rate			64
Total Ginnie Mae			64
Total agency mortgage-related securities	12,033	12,273	6,286
Non-agency securities:			
Single-family			
Single-family:			
Fixed-rate	881	718	2,154
Variable-rate	49,563	96,906	148,600
Total single-family	50,444	97,624	150,754
Commercial mortgage-backed securities:			
Fixed-rate	3,558	2,534	10,343
Variable-rate	18,526	13,432	4,497
Total commercial mortgage-backed securities	22,084	15,966	14,840
Mortgage revenue bonds:			
Single-family:			
Fixed-rate	1,813	3,062	2,374
Variable-rate			27
Multifamily:			
Fixed-rate		116	434
Variable-rate			5
Total mortgage revenue bonds	1,813	3,178	2,840
Manufactured Housing:			
Single-family:			
Variable-rate	127		

Total Manufactured Housing	127		
Total non-agency mortgage-related securities	74,468	116,768	168,434
Total non-Freddie Mac mortgage-related securities purchased into the retained portfolio	86,501	129,041	174,720
Total new business purchases	$ 577,691	$ 501,982	$ 581,933
Mortgage purchases with credit enhancements	21%	17%	17%
Mortgage liquidations[8]	$ 298,089	$ 339,814	$ 384,674
Mortgage liquidations rate[8]	16%	20%	26%
Freddie Mac securities repurchased into the retained portfolio:			
Single-family:			
Fixed-rate	$ 111,976	$ 76,378	$ 106,682
Variable-rate	26,800	27,146	29,805
Multifamily:			
Fixed-rate	2,283		
Total Freddie Mac securities repurchased into the retained portfolio	$ 141,059	$ 103,524	$ 136,487

(1) Based on unpaid principal balances. Excludes mortgage loans and mortgage-related securities traded but not yet settled. Also excludes net additions to the retained portfolio for delinquent mortgage loans and balloon reset mortgages purchased out of PC pools.
(2) Includes 40-year and 20-year fixed-rate mortgages.
(3) Includes ARMs with 1-, 3-, 5-, 7- and 10-year initial fixed-rate periods.
(4) Represents loans where the borrower pays interest only for a period of time before the borrower begins making principal payments.
(5) Represents mortgages whose terms require lump sum principal payments on contractually determined future dates unless the borrower qualifies for and elects an extension of the maturity date at an adjusted interest-rate.
(6) Excludes FHA/Department of Veterans Affairs, or VA, loans that back Structured Transactions.
(7) Includes $312 million, $6,908 million and $14,331 million of option ARM loans purchased for Structured Transactions in 2007, 2006 and 2005, respectively.
(8) Based on total mortgage portfolio.

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Guaranteed PCs and Structured Securities

Guaranteed PCs and Structured Securities represent the unpaid principal balances of the mortgage-related securities we issue or otherwise guarantee. Table 46 presents the distribution of underlying mortgage assets for our PCs and Structured Securities.

Table 46 Guaranteed PCs and Structured Securities[1][2]

	2007	December 31, 2006	2005
		(in millions)	
Single-family:			
Conventional:			
30-year fixed-rate[3]	$ 1,091,212	$ 882,398	$ 741,913
20-year fixed-rate	72,225	66,777	67,937
15-year fixed-rate	272,490	290,314	321,176
ARMs/adjustable-rate	91,219	100,808	106,644
Option ARMs	1,853	2,808	3,830
Interest-only[4]	159,028	76,114	25,697
Balloon/resets	17,242	21,551	26,321
FHA/VA	1,283	1,398	849
Rural Housing Service and other federally guaranteed loans	132	138	154
Total single-family	1,706,684	1,442,306	1,294,521
Multifamily:			
Conventional and other	10,658	8,415	14,503
Total multifamily	10,658	8,415	14,503
Structured Securities backed by non-Freddie Mac mortgage-related securities:			
Ginnie Mae Certificates[5]	1,268	1,510	2,021
Structured Transactions[6]	20,223	24,792	24,479
Total Structured Securities backed by non-Freddie Mac mortgage-related securities	21,491	26,302	26,500
Total guaranteed PCs and Structured Securities	$ 1,738,833	$ 1,477,023	$ 1,335,524

(1) Based on unpaid principal balances and excludes mortgage-related securities traded, but not yet settled.
(2) Effective December 2007, we established securitization trusts for the underlying assets of our PCs and Structured Securities. As a result, we adjusted the reported balance of our mortgage portfolios to reflect the publicly-available security balances of our PCs and Structured Securities. Previously we reported these balances based on the unpaid principal balance of the underlying mortgage loans.
(3) Portfolio balances include $1,762 million, $42 million and $ of 40-year fixed-rate mortgages at December 31, 2007 , 2006 and 2005, respectively.
(4) Includes both fixed and variable-rate interest only loans.

(5) Ginnie Mae Certificates that underlie the Structured Securities are backed by FHA/VA loans.
(6) Represents Structured Securities backed by non-agency securities that include prime, FHA/VA and subprime mortgage loan issuances.

Our guarantees of non-traditional mortgage products, including lower documentation loans, have increased in the last two years in response to newer products in the mortgage origination market. Interest-only loans represented approximately 20% and 16% of our securitization volume in 2007 and 2006, respectively. Other non-traditional mortgage products, including those designated as Alt-A loans, made up approximately 10% and 8% of our mortgage purchase volume in 2007 and 2006, respectively. We impose risk management thresholds on purchases of certain new products for which we have limited historical experience. See ANNUAL MD&A QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK and ANNUAL MD&A CREDIT RISKS for additional information regarding our non-traditional mortgage loans, including delinquency rate information.

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Table 47 provides additional detail regarding our PCs and Structured Securities.

Table 47 Single-Class and Multi-Class PCs and Structured Securities[1]

December 31, 2007	Retained Portfolio	Held by Third Parties	Total Guaranteed PCs and Structured Securities[6]
		(in millions)	
PCs and Structured Securities:			
Single-class[2]	$ 219,702	$ 817,353	$ 1,037,055
Multi-class[3][4]	137,268	526,604	663,872
Other[5]		37,906	37,906
Total PCs and Structured Securities[7]	$ 356,970	$ 1,381,863	$ 1,738,833
December 31, 2006			
PCs and Structured Securities:			
Single-class[2]	$ 194,057	$ 624,383	$ 818,440
Multi-class[3][4]	160,205	491,696	651,901
Other[5]		6,682	6,682
Total PCs and Structured Securities	$ 354,262	$ 1,122,761	$ 1,477,023

(1) Based on unpaid principal balances, and excludes Freddie Mac mortgage-related securities traded, but not yet settled.
(2) Includes single-class Structured Securities backed by PCs and Ginnie Mae Certificates.
(3) Includes multi-class Structured Securities that are backed by PCs, Ginnie Mae Certificates and non-agency mortgage-related securities.
(4) Principal-only strips backed by our PCs and held in the retained portfolio are classified as multi-class for the purpose of this table.
(5) See NOTE 2: FINANCIAL GUARANTEES AND TRANSFERS OF SECURITIZED INTERESTS IN MORTGAGE-RELATED ASSETS to our audited consolidated financial statements for a discussion of our other mortgage guarantees.
(6) Total PCs and Structured Securities exclude $1,519 billion and $1,240 billion at December 31, 2007 and 2006, respectively, of Structured Securities backed by resecuritized PCs and other previously issued Structured Securities. These excluded Structured Securities which do not increase our credit related exposure, consist of single-class Structured Securities backed by PCs, REMICs, and principal-only strips. The notional balances of interest-only strips are excluded because this table is based on unpaid principal balances. Also excluded are modifiable and combinable REMIC tranches and interest and principal classes, where the holder has the option to exchange the security tranches for other pre-defined security tranches.
(7) Effective December 2007, we established securitization trusts for the underlying assets of our PCs and Structured Securities issued. As a result, we adjusted the reported balance of our mortgage portfolios to reflect the publicly-available security balances of our PCs and Structured Securities. Previously, we reported these balances based on the unpaid principal balance of the underlying mortgage loans.

OFF-BALANCE SHEET ARRANGEMENTS

We enter into certain business arrangements that are not recorded on our consolidated balance sheets or may be recorded in amounts that differ from the full contract or notional amount of the transaction. Most of these arrangements relate to our financial guarantee and securitization activity for which we record guarantee assets and obligations, but the related securitized assets are owned by third parties. These off-balance sheet arrangements may expose us to potential losses in excess of the amounts recorded on our consolidated balance sheets.

Guarantee of PCs and Structured Securities

As discussed in BUSINESS Our Charter and Mission *Types of Mortgages We Purchase*, we guarantee the payment of principal and interest on PCs and Structured Securities we issue. Mortgage-related assets that back PCs and Structured Securities held by third parties are not reflected as assets on our consolidated balance sheets.

We manage the risks of our credit guarantee activity carefully, sharing the risk in some cases with third parties through the use of primary mortgage insurance, pool insurance and other credit enhancements. NOTE 2: FINANCIAL GUARANTEES AND TRANSFERS OF SECURITIZED INTERESTS IN MORTGAGE-RELATED ASSETS to our audited consolidated financial statements provides information about our guarantees, including details related to credit protections and maximum coverages that we obtain through credit enhancements. Also, see ANNUAL MD&A CREDIT RISKS for more information.

Our credit guarantee activities principally occur through our guarantor swap program in the form of mortgage swap transactions. In a mortgage swap transaction, a mortgage lender delivers mortgages to us in exchange for our PCs that represent undivided interests in those same mortgages. We receive various forms of consideration in exchange for providing our guarantee on issued PCs, including (a) the contractual right to receive a management and guarantee fee, (b) delivery or credit fees for higher-risk mortgages and (c) other forms of credit enhancements received from counterparties or mortgage loan insurers.

Credit guarantee activity also occurs through our cash window and our multilender swap program. Single-family mortgage loans we purchase for cash through the cash window are typically either retained by us in our retained portfolio or pooled together with other single-family mortgage loans we purchase in connection with PC swap-based transactions in our multilender program executed with various lenders. We may issue such PCs to these lenders in exchange for the mortgage loans we purchase from them or, to the extent these loans are pooled with loans purchased for cash, we may sell them to third parties for cash consideration through an auction.

We also sell PCs from our retained portfolio in resecuritized form. We issue single- and multi-class Structured Securities that are backed by securities held in our retained portfolio and subsequently transfer such Structured Securities to third

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parties in exchange for cash, PCs or other mortgage-related securities. We earn resecuritization fees in connection with the creation of certain Structured Securities. We resecuritized a total of $456.9 billion and $388.9 billion of single and multiclass Structured Securities during the year ended December 31, 2007 and 2006, respectively. The increase of our principal credit risk exposure on Structured Securities relates only to that portion of resecuritized assets that consists of non-Freddie Mac mortgage-related securities. For information about our purchase and securitization activities, see ANNUAL MD&A PORTFOLIO BALANCES AND ACTIVITIES.

In addition, we also enter into long-term standby commitments for mortgage assets held by third parties that require that we purchase loans from lenders when the loans subject to these commitments meet certain delinquency criteria. We have included these transactions in the reported activity and balances of our PCs and Structured Securities. Long-term standby commitments represented approximately 2% and less than 1% of the balance of our PCs and Structured Securities as of December 31, 2007 and 2006, respectively.

Our maximum potential off-balance sheet exposure to credit losses relating to our PCs and Structured Securities is primarily represented by the unpaid principal balance of those securities held by third parties, which was $1,382 billion and $1,123 billion at December 31, 2007 and 2006, respectively. Based on our historical credit losses, which in 2007 averaged approximately 3.0 basis points of the aggregate unpaid principal balance of our PCs and Structured Securities, we do not believe that the maximum exposure is representative of our actual exposure on these guarantees. The maximum exposure does not take into consideration the recovery we would receive through exercising our rights to the collateral backing the underlying loans nor the available credit enhancements, which include recourse and primary insurance with third parties.

The accounting policies and fair value estimation methodologies we apply to our credit guarantee activities significantly affect the volatility of our reported earnings. See ANNUAL MD&A CONSOLIDATED RESULTS OF OPERATIONS Non-Interest Income (Loss) for an analysis of the effects on our consolidated statements of income related to our credit guarantee activities. See ANNUAL MD&A CONSOLIDATED BALANCE SHEETS ANALYSIS for a description of our guarantee asset and guarantee obligation. The accounting for our securitization transactions and the significant assumptions used to determine the gains or losses from such transfers that are accounted for as sales are discussed in NOTE 2: FINANCIAL GUARANTEES AND TRANSFERS OF SECURITIZED INTERESTS IN MORTGAGE-RELATED ASSETS to our audited consolidated financial statements.

Other

We extend other guarantees and provide indemnification to counterparties for breaches of standard representations and warranties in contracts entered into in the normal course of business based on an assessment that the risk of loss would be remote. See NOTE 2: FINANCIAL GUARANTEES AND TRANSFERS OF SECURITIZED INTERESTS IN MORTGAGE-RELATED ASSETS to our audited consolidated financial statements for additional information.

We are a party to numerous entities that are considered to be variable interest entities, or VIEs, in accordance with FASB Interpretation No. 46 (Revised December 2003), *Consolidation of Variable Interest Entities (revised December 2003), an interpretation of APB No. 51*, or FIN 46(R). These variable interest entities include low-income multifamily housing tax credit partnerships, certain Structured Transactions and certain asset-backed investment trusts. See NOTE 3: VARIABLE INTEREST ENTITIES to our audited consolidated financial statements for additional information related to our significant variable interests in these VIEs.

As part of our credit guarantee business, we routinely enter into forward purchase and sale commitments for mortgage loans and mortgage-related securities. Some of these commitments are accounted for as derivatives. Their fair values are reported as either Derivative assets, net at fair value or Derivative liabilities, net at fair value on our consolidated balance sheets. See ANNUAL MD&A QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT

MARKET RISK Interest-Rate Risk and Other Market Risks for further information. Our non-derivative commitments are primarily related to commitments arising from mortgage swap transactions and, to a lesser extent, commitments to purchase certain multifamily mortgage loans that will be classified as held-for-investment. These non-derivative commitments totaled $173.4 billion and $264.4 billion at December 31, 2007 and 2006, respectively. Such commitments are not accounted for as derivatives and are not recorded on our consolidated balance sheets.

Effective December 2007 we established securitization trusts for the administration of cash remittances received on the underlying assets of our PCs and Structured Securities. We receive trust management income, which represents the fees we earn as master servicer, issuer, trustee and administrator for our PCs and Structured Securities. These fees, which are included in our non-interest income, are derived from interest earned on principal and interest cash flows between the time funds are remitted to the trust by servicers and the date of distribution to our PC and Structured Securities holders. The trust management income will be offset by interest expense we incur when a borrower prepays.

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CONTRACTUAL OBLIGATIONS

Table 48 provides aggregated information about the listed categories of our contractual obligations as of December 31, 2007. These contractual obligations affect our short- and long-term liquidity and capital resource needs. The table includes information about undiscounted future cash payments due under these contractual obligations, aggregated by type of contractual obligation, including the contractual maturity profile of our debt securities and other liabilities reported on our consolidated balance sheet and our operating leases at December 31, 2007. The timing of actual future payments may differ from those presented due to a number of factors, including discretionary debt repurchases. Our contractual obligations include other purchase obligations that are enforceable and legally binding. For purposes of this table, purchase obligations are included through the termination date specified in the respective agreements, even if the contract is renewable. Many of our purchase agreements for goods or services include clauses that would allow us to cancel the agreement prior to the expiration of the contract within a specified notice period; however, this table includes such obligations without regard to such termination clauses (unless we have provided the counterparty with actual notice of our intention to terminate the agreement).

In Table 48, the amounts of future interest payments on debt securities outstanding at December 31, 2007 are based on the contractual terms of our debt securities at that date. These amounts were determined using the key assumptions that (a) variable-rate debt continues to accrue interest at the contractual rates in effect at December 31, 2007 until maturity and (b) callable debt continues to accrue interest until its contractual maturity. The amounts of future interest payments on debt securities presented do not reflect certain factors that will change the amounts of interest payments on our debt securities after December 31, 2007, such as (a) changes in interest rates, (b) the call or retirement of any debt securities and (c) the issuance of new debt securities. Accordingly, the amounts presented in the table do not represent a forecast of our future cash interest payments or interest expense.

Table 48 excludes the following items:

- future payments related to our guarantee obligation, because the amount and timing of such payments are generally contingent upon the occurrence of future events and are therefore uncertain;
- future contributions to our Pension Plan, as we have not yet determined whether a contribution is required for 2008. See NOTE 14: EMPLOYEE BENEFITS to our audited consolidated financial statements for additional information about contributions to our Pension Plan;
- future cash settlements on derivative agreements not yet accrued, because the amount and timing of such payments are dependent upon changes in the underlying financial instruments and are therefore uncertain; and
- future dividends on the preferred stock we issued, because dividends on these securities are non-cumulative. In addition, the classes of preferred stock issued by our two consolidated real estate investment trust, or REIT, subsidiaries pay dividends that are cumulative. However, dividends on the REIT preferred stock are excluded because the timing of these payments is dependent upon declaration by the boards of directors of the REITs.

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Table 48 Contractual Obligations by Year at December 31, 2007

	Total	2008	2009	2010	2011	2012	Thereafter
				(in millions)			
Long-term debt securities[1]	$ 576,349	$ 97,262	$ 79,316	$ 63,911	$ 45,966	$ 52,317	$ 237,577
Short-term debt securities[1]	199,498	199,498					
Interest payable[2]	144,405	25,181	20,806	17,606	14,279	12,073	54,460
Other liabilities reflected on our consolidated balance sheet:							
Other contractual liabilities[3][4][5]	2,912	2,293	300	104	66	12	137
Purchase obligations:							
Purchase commitments[6]	38,013	38,013					
Other purchase obligations	401	262	54	27	21	18	19
Operating lease obligations	107	19	19	14	8	7	40
Capital lease obligations	1	1					
Total specified contractual obligations	$ 961,686	$ 362,529	$ 100,495	$ 81,662	$ 60,340	$ 64,427	$ 292,233

(1) Represent par value. Callable debt is included in this table at its contractual maturity. For additional information about our debt securities, see NOTE 7: DEBT SECURITIES AND SUBORDINATED BORROWINGS to our audited consolidated financial statements.

(2) Includes estimated future interest payments on our short-term and long-term debt securities. Also includes accrued interest payable recorded on our consolidated balance sheet, which consists primarily of the accrual of interest on short-term and long-term debt as well as the accrual of periodic cash settlements of derivatives, netted by counterparty.

(3) Other contractual liabilities primarily represent future cash payments due under our contractual obligations to make delayed equity contributions to LIHTC partnerships and payables to the trust established for the administration of cash remittances received related to the underlying assets of our PCs and Structured Securities issued.

(4) Accrued obligations related to our defined benefit plans, defined contribution plans and executive deferred compensation plan are included in the Total and 2008 columns. However, the timing of payments due under these obligations is uncertain. See NOTE 14: EMPLOYEE BENEFITS to our audited consolidated financial statements for additional information.

(5) As of December 31, 2007, we have recorded tax liabilities for unrecognized tax benefits totaling $563 million and allocated interest of $137 million. These amounts have been excluded from this table because we cannot estimate the years in which these liabilities may be settled. See NOTE 13: INCOME TAXES to our audited consolidated financial statements for additional information.

(6) Purchase commitments represent our obligations to purchase mortgage loans and mortgage-related securities from third parties. The majority of purchase commitments included in this caption are accounted for as derivatives in accordance with SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, or

SFAS 133.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in accordance with GAAP requires us to make a number of judgments, estimates and assumptions that affect the reported amounts of our assets, liabilities, income, and expenses. Certain of our accounting policies, as well as estimates we make, are critical to the presentation of our financial condition and results of operations. They often require management to make difficult, complex or subjective judgments and estimates, at times, regarding matters that are inherently uncertain. The accounting policies discussed in this section are particularly critical to understanding our consolidated financial statements. Actual results could differ from our estimates and different judgments and assumptions related to these policies and estimates could have a material impact on our audited consolidated financial statements.

Our critical accounting policies and estimates relate to: (a) valuation of a significant portion of assets and liabilities; (b) allowances for loan losses and reserve for guarantee losses; (c) application of the static effective yield method to amortize the guarantee obligation; (d) application of the effective interest method; and (e) impairment recognition on investments in securities. For additional information about these and other significant accounting policies, including recently issued accounting pronouncements, see NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES to our audited consolidated financial statements.

Valuation of a Significant Portion of Assets and Liabilities

A significant portion of our assets and liabilities are measured on our audited consolidated financial statements based on fair value, including (i) mortgage-related and non-mortgage related securities, (ii) mortgage loans held-for-sale, (iii) derivative instruments, (iv) guarantee asset, and (v) guarantee obligation. For certain of these assets and liabilities which are complex in nature, the measurement of fair value requires significant management judgments and assumptions. These judgments and assumptions, as well as changes in market conditions, may have a material effect on our GAAP consolidated balance sheets and statements of income as well as our consolidated fair value balance sheets.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in a transaction between market participants at the measurement date. The selection of a technique to measure fair value for each type of these assets and liabilities depends on both the reliability and the availability of relevant market data. The amount of judgment involved in measuring the fair value is affected by a number of factors, such as the type of instrument, the liquidity of the markets for the instrument and the contractual characteristics of the instrument. We measure fair value according to the following fair value hierarchy of inputs to valuation techniques:

quoted market prices for identical and similar instruments;

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industry standard models that consider market inputs such as yield curves, duration, volatility factors and prepayment speeds; and

internally developed models that consider inputs based on management s judgment of market-based assumptions.

Financial instruments with active markets and readily available market prices are valued based on independent price quotations obtained from third party sources, such as pricing services, dealer quotes or direct market observations. During the second half of 2007, the market for non-agency securities has become significantly less liquid, which has resulted in lower transaction volumes, wider credit spreads and less transparency with pricing for these assets. In addition, we have observed more variability in the quotations received from dealers and third-party pricing services. However we believe that these quotations provide reasonable estimates of fair value. Independent price quotations obtained from pricing services are valuations estimated by a service provider using available market information. Dealer quotes are prices obtained from dealers that generally make markets in the relevant products and are an indication of the price at which the dealer would consider transacting in normal market conditions. Market observable prices are prices that are retrieved from sources in which market trades are executed, such as electronic trading platforms. When quoted prices are not readily available, we utilize models, including industry standard models and internally-developed models. These models use observable market inputs such as interest rate curves, market volatilities and pricing spreads. We maximize the use of observable inputs to the extent available. Certain complex assets and liabilities have significant data inputs that cannot be validated by reference to the market. These assets and liabilities are typically illiquid or unique in nature and require the use of management s judgment of market-based assumptions. The use of different pricing models or assumptions could produce materially different measurements of fair value.

Fair value affects our statement of income in the following ways:

For certain financial instruments that are recorded in the GAAP consolidated balance sheets at fair value, changes in fair value are recognized in current period earnings. These include:

mortgage-related securities classified as trading, which are recorded in gains (losses) on investment activity;

derivatives with no hedge designation, which are recorded in derivative gains (losses); and

the guarantee asset, which is recorded in gains (losses) on guarantee asset.

For other financial instruments that are recorded in the GAAP consolidated balance sheets at fair value, changes in fair value are deferred, net of tax, in AOCI. These include:

mortgage-related and non-mortgage related securities classified as available-for-sale, which are initially measured at fair value with deferred gains and losses recognized in AOCI. These deferred gains and losses affect earnings over time through amortization, sale or impairment recognition; and

changes in derivatives that are designated in cash flow hedge accounting relationships.

Our guarantee obligation is initially measured at fair value, but is not remeasured at fair value on a periodic basis. This initial estimate results in losses on certain guarantees when the fair value of the guarantee obligation exceeds the fair value of the related guarantee asset and credit enhancement-related assets at issuance. This obligation also affects earnings over time through amortization to income on guarantee obligation.

Mortgage loans purchased under our financial guarantees result in recognition of losses on loans purchased when fair values are less than our acquisition basis at the date of purchase.

Mortgage loans that are held-for-sale are recorded at the lower-of-cost-or-market with changes in fair value recorded through earnings in gains (losses) on investment activity.

We periodically evaluate our valuation techniques and may change them to improve our fair value estimates, to accommodate market developments or to compensate for changes in data availability and reliability or other operational constraints.

To ensure that fair value measurements are appropriate and reliable, we employ control processes to validate the techniques and models we use. These control processes include review and approval of new transaction types, price verification and review of valuation judgments, methods and models. Where applicable, valuations are back tested comparing the settlement prices to the estimated fair values. Where models are employed to assist in the measurement of fair value, no material changes were made to those models during the periods presented. However, inputs used by those models are regularly updated for changes in the underlying data, assumptions, valuation inputs, or market conditions.

Groups independent of our trading and investing function participate in the review and validation process. These groups perform monthly independent verification of prices and model inputs against sources other than those utilized in the primary pricing methodology, and review and approve of the pricing models used in our fair value measurements. The monthly independent reviews of these groups are concentrated on higher risk/impact valuations and are performed on a sample/targeted basis for portions of our retained portfolio investments.

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See ANNUAL MD&A QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK Interest-Rate Risk and Other Market Risks for discussion of market risks and our interest-rate sensitivity measures, Portfolio Market Value Sensitivity or PMVS, and duration gap.

Mortgage-Related and Non-Mortgage Related Securities

Mortgage-related securities represent pass-throughs and other mortgage-related securities issued by us, Fannie Mae and Ginnie Mae, as well as non-agency mortgage-related securities. They are classified as available-for-sale or trading, and are carried at fair value. The fair value of securities with readily available third-party market prices is based on market prices obtained from broker/dealers or reliable third-party pricing service providers.

At December 31, 2007 and 2006, the fair values for approximately 99% of our mortgage-related securities were based on prices obtained from third parties or were determined using models with significant observable inputs. The fair values for the remainder of our mortgage-related securities were obtained from internal models with few or no observable inputs. All of the fair values for our non-mortgage-related securities at December 31, 2007, and the majority of them at December 31, 2006, were based on prices obtained from third parties. The majority of our derivative positions were valued using internally developed models that used market inputs because few of the derivative contracts we used were listed on exchanges. At December 31, 2007 and 2006, approximately 71% and 65%, respectively, of the gross fair value of our derivative portfolio related to interest-rate and foreign-currency swaps that did not have embedded options. These derivatives were valued using a discounted cash flow model that projects future cash flows and discounts them at the spot rate related to each cash flow. The remaining 29% and 35%, respectively, of our derivatives portfolio was valued based on prices obtained from third parties or using models with significant observable inputs.

When we purchase Freddie Mac PCs or Structured Securities, we do not extinguish our guarantee obligation, because our guarantee remains outstanding to an unconsolidated securitization trust. As a result, the fair value of Freddie Mac PCs and Structured Securities we own is consistent with the legal structure of the guarantee transaction, which includes the Freddie Mac guarantee to the securitization trust. When we own Freddie Mac PCs and Structured Securities, we do not derecognize any components of the guarantee asset, guarantee obligation, reserve for guarantee losses, or any other outstanding recorded amounts associated with the guarantee transaction. Further, this fair value is consistent with how a market participant would value the securities in an orderly transaction.

At December 31, 2007 and 2006, the total unpaid principal balances of PCs and Structured Securities outstanding were $1,738,833 million and $1,477,023 million, respectively. At December 31, 2007 and 2006, we owned $356,970 million and $354,262 million, respectively, of PCs and Structured Securities, or 21% and 24%, respectively, of the total PCs and Structured Securities outstanding.

The fair values of our total guarantee asset and guarantee obligation are disclosed in NOTE 16: FAIR VALUE DISCLOSURES. There are inherent limitations when trying to extrapolate an amount of the total fair value of the guarantee asset and obligation attributable to the PCs and Structured Securities we own. The credit performance of each pool differs, based on the underlying characteristics of the loans, vintage, seasoning, and other factors that cannot be accurately factored into a pro-rata allocation. As a result, a simple pro-rata allocation of the fair value of our guarantee asset and obligation based on the percentage of PCs and Structured Securities we hold relative to total PCs and Structured Securities outstanding will not necessarily provide a reasonable proxy for the adjustment to the fair value of our PCs and Structured Securities necessary to derive the fair value of an unguaranteed security.

Mortgage Loans Held-for-Sale

Mortgage loans held-for-sale consist of single-family mortgage loans in our retained portfolio that we intend to securitize. For GAAP purposes, we must determine the fair value of these mortgage loans to calculate lower-of-cost-or-market adjustments. We determine the fair value of mortgage loans held-for-sale based on comparisons to actively traded mortgage-related securities with similar characteristics, with adjustments for yield, credit and liquidity differences.

Derivative Instruments

We discontinued substantially all of our hedge accounting relationships by December 31, 2006. During 2006 and 2005, our hedge accounting relationships primarily consisted of hedging benchmark interest-rate risk related to the forecasted issuances of debt that were designated as cash flow hedges, and fair value hedges of benchmark interest-rate risk and/or foreign currency risk on existing fixed-rate debt.

The changes in fair value of the derivatives in these cash flow hedge relationships were recorded as a separate component of AOCI to the extent the hedge relationships were effective, and amounts are reclassified to earnings when the forecasted transaction affects earnings.

When a cash flow hedge is discontinued, the net derivative gain or loss remains in AOCI unless it is probable that the hedged transaction will not occur. This requires estimates based on our expectation of future funding needs and the

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composition of future debt issuances. Our expectations about future funding needs are based upon projected growth and historical activity.

We believe that the forecasted issuances of debt previously hedged in cash flow hedging relationships have not become probable of not occurring; therefore, we may continue to include previously deferred amounts in AOCI. In the event that these forecasted issuances of debt do not occur or become probable of not occurring, potentially material amounts that are currently deferred and reported in AOCI would then be immediately recognized in our consolidated statements of income under derivative gains (losses).

The change in fair value of the derivatives in fair value hedge relationships were recorded in earnings along with the change in fair value of the hedged debt. Any difference was reflected as hedge ineffectiveness in other income.

Derivatives largely consist of interest-rate swaps, option-based derivatives, futures and forward purchase and sale commitments that we account for as derivatives. The carrying value of our derivatives on our consolidated balance sheets is equal to their fair value, including net derivative interest receivable or payable and is net of cash collateral held or posted, where allowable by a master netting agreement.

The majority of our derivative positions were valued using internally developed models that used market inputs because few of the derivative contracts we used were listed on exchanges. At December 31, 2007 and 2006, approximately 71% and 65%, respectively, of the gross fair value of our derivative portfolio related to interest-rate and foreign-currency swaps that did not have embedded options. These derivatives were valued using a discounted cash flow model that projects future cash flows and discounts them at the spot rate related to each cash flow. The remaining 29% and 35%, respectively, of our derivatives portfolio was valued based on prices obtained from third parties or using models with significant observable inputs.

For additional discussion of our use of derivatives and summaries of derivative positions, see ANNUAL MD&A CONSOLIDATED RESULTS OF OPERATIONS Non-Interest Income (Loss) *Derivative Overview* and NOTE 11: DERIVATIVES to our audited consolidated financial statements.

Guarantee Asset

Upon issuance of a guarantee of securitized assets, we record a guarantee asset on our consolidated balance sheets representing the fair value of the management and guarantee fees we expect to receive over the life of our PCs or Structured Securities.

Our approach for estimating the fair value of the guarantee asset at December 31, 2007 uses third-party market data as practicable. For approximately 74% of the fair value of the guarantee asset, the valuation approach involved obtaining dealer quotes on proxy securities with collateral similar to aggregated characteristics of our portfolio, effectively equating the guarantee asset with current, or spot, market values for excess servicing interest-only, or IO, securities. The remaining 26% of the fair value of the guarantee asset related to underlying loan products for which comparable market prices were not readily available. This portion of the guarantee asset was valued using an expected cash flow approach including only those cash flows expected to result from our contractual right to receive management and guarantee fees, with market input assumptions extracted from the dealer quotes provided on the more liquid products, reduced by an estimated liquidity discount.

Guarantee Obligation

Our guarantee obligation represents the recognized liability associated with our guarantee of PCs and Structured Securities net of cumulative amortization. As discussed in NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING

POLICIES to our audited consolidated financial statements, at inception of an executed guarantee, we recognize a guarantee obligation at fair value. Subsequently we amortize our guarantee obligation under the static effective yield method. Our approach for estimating the fair value of the guarantee obligation makes use of third-party market data as practicable. We divide the credit aspects of our guarantee obligation portfolio into three primary components: performing loans, non-performing loans and manufactured housing. For each component, we developed a specific market-based valuation approach for capturing its unique characteristics.

For performing loans, we use capital markets information and rating agency models to estimate subordination levels and dealer price quotes on proxy non-agency securities with collateral characteristics matched to our portfolio to value the expected credit losses and the risk premium for unexpected losses related to our guarantee portfolio. We segmented the portfolio into distinct loan cohorts to differentiate between product types, coupon rate, seasoning, and interests retained by us versus those held by third parties.

For nonperforming loans, we utilize a different method for estimating the fair value of the guarantee obligation. For loans that are extremely delinquent and have been purchased out of pools, we obtained dealer indications that reflect their non-performing status. For delinquent loans remaining in PCs, we began with the market driven performing loan and non-

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performing whole loan values and used empirically observed delinquency transition rates to interpolate the appropriate values in each phase of delinquency (*i.e.*, 30 days, 60 days, 90 days).

For manufactured housing, we developed an approach, subject to our judgment, for estimating the incremental credit costs associated with the manufactured housing portfolio. For approximately 0.5% of our total guarantee portfolio and 9.3% of the fair value of the guarantee obligation, we determined that there is not sufficiently reliable market data to estimate the appropriate credit costs associated with the guarantee obligation for the manufactured housing portfolio. As such, we estimated the ratio of realized credit losses for performing loans and manufactured housing loans to determine a loss history ratio. We then applied the loss history ratio to market implied performing loan guarantee obligation fair value estimates to calculate the implied credit costs for the manufactured housing portfolio. We undertook a similar process for estimating the fair value of seriously delinquent manufactured housing loans.

The components of the guarantee obligation associated with administering the collection and distribution of payments on the mortgage loans underlying a PC are estimated based upon amounts we believe other market participants would charge. Also included in the valuation of our guarantee obligation is an estimate of the present value of net cash flows related to security program cycles. Our securities are on either a 45-day delay (for fixed-rate PCs) or 75-day delay (for ARM PCs) cycle. For each of these security program cycles our servicers remit borrower payments at staggered dates. The timing of these net cash flows are reflected in the valuation of the guarantee obligation.

Allowance for Loan Losses and Reserve for Guarantee Losses

We maintain an allowance for loan losses on mortgage loans held-for-investment and a reserve for guarantee losses on PCs, collectively referred to as our loan loss reserves, to provide for credit losses when it is probable that a loss has been incurred. We use the same methodology to determine our allowance for loan losses and reserve for guarantee losses, as the relevant factors affecting credit risk are the same.

To calculate the loan loss reserves for the single-family loan portfolio, we aggregate homogenous loans into pools based on common underlying characteristics, using statistically based models to evaluate relevant factors affecting loan collectibility, and determine the best estimate of loss. To calculate loan loss reserves for the multifamily loan portfolio, we also use models, evaluate certain larger loans for impairment, and review repayment prospects and collateral values underlying individual loans.

We regularly evaluate the underlying estimates and models we use when determining the loan loss reserves and update our assumptions to reflect our historical experience and current view of economic factors. No material changes were made to the loan loss reserve model during the periods presented. However, inputs used by those models are regularly updated for changes in the underlying data, assumptions, valuation inputs, or market conditions.

Determining the adequacy of the loan loss reserves is a complex process that is subject to numerous estimates and assumptions requiring significant judgment. Key estimates and assumptions that impact our loan loss reserves include:

- loss severity trends;
- default experience;
- expected proceeds from credit enhancements;
- collateral valuation; and
- identification and impact assessment of macroeconomic factors.

No single statistic or measurement determines the adequacy of the loan loss reserves. Changes in one or more of the estimates or assumptions used to calculate the loan loss reserves could have a material impact on the loan loss reserves and provisions for credit losses.

We believe the level of our loan loss reserves is reasonable based on internal reviews of the factors and methodologies used. A management committee reviews the overall level of loan loss reserves, as well as the factors and methodologies that give rise to the estimate, and submits the best point estimate for review by senior management.

Application of the Static Effective Yield Method

We amortize our guarantee obligation under the static effective yield method. The static effective yield will be calculated and fixed at inception of the guarantee based on forecasted unpaid principal balances. The static effective yield will be evaluated and adjusted when significant changes in economic events cause a shift in the pattern of our economic release from risk. For example, certain market environments may lead to sharp and sustained changes in home prices or prepayments of mortgages, leading to the need for an adjustment in the static effective yield for specific mortgage pools underlying the guarantee. When a change is required, a cumulative catch-up adjustment, which could be significant in a given period, will be recognized and a new static effective yield will be used to determine our guarantee obligation amortization. See NOTE 20: CHANGES IN ACCOUNTING PRINCIPLES to our audited consolidated financial statements for further information.

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Application of the Effective Interest Method

As described in NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES to our audited consolidated financial statements, we use the effective interest method to: (a) recognize interest income on our investments in debt securities; and (b) amortize related deferred items into interest income. The application of the effective interest method requires us to estimate the effective yield at each period end using our current estimate of future prepayments. Determination of these estimates requires significant judgment, as expected prepayment behavior is inherently uncertain. Estimates of future prepayments are derived from market sources and our internal prepayment models. Judgment is involved in making initial determinations about prepayment expectations and in updating those expectations over time in response to changes in market conditions, such as interest rates and other macroeconomic factors. See the discussion of market risks and our interest-rate sensitivity measures under ANNUAL MD&A QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK Interest-Rate Risk and Other Market Risks. We believe that our current estimates of future prepayments are reasonable and comparable to those used by other market participants.

Impairment Recognition on Investments in Securities

We recognize impairment losses on available-for-sale securities through the income statement when we have concluded that a decrease in the fair value of a security is not temporary. For securities accounted for under Emerging Issues Task Force 99-20, *Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests That Continue to Be Held by a Transferor in Securitized Financial Assets*, or EITF 99-20, an impairment loss is recognized when there is both a decline in fair value below the carrying amount and an adverse change in expected cash flows. Determination of whether an adverse change has occurred involves judgment about expected prepayments and credit events. Further, we review securities all for potential impairment whenever the security s fair value is less than its amortized cost to determine whether we have the intent and ability to hold the investments until a forecasted recovery. This review considers a number of factors, including the severity of the decline in fair value, credit ratings, the length of time the investment has been in an unrealized loss position, and the likelihood of sale in the near term. While market prices and rating agency actions are factors that are considered in the impairment analysis, cash flow analysis based on default and prepayment assumptions serves as an important factor in determining if an other than temporary impairment has occurred. We recognize impairment losses when quantitative and qualitative factors indicate that it is probable that the security will suffer a contractual principal loss or interest shortfall. We apply significant judgment in determining whether impairment loss recognition is appropriate. We believe our judgments are reasonable. However, different judgments could have resulted in materially different impairment loss recognition. See NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES to our audited consolidated financial statements and ANNUAL MD&A CONSOLIDATED BALANCE SHEETS ANALYSIS Retained Portfolio for more information on impairment recognition on securities.

Accounting Changes and Recently Issued Accounting Pronouncements

See NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES to our audited consolidated financial statements for more information concerning our accounting policies and recently issued accounting pronouncements, including those that we have not yet adopted and that will likely affect our consolidated financial statements.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to risks that include interest-rate and other market risks, including those described in RISK FACTORS. While we consider both our day-to-day and long-term management of interest-rate and other market risks to be satisfactory, we identified weaknesses in prior years in our overall risk governance framework. We created an executive management enterprise risk committee to provide a company-wide view of risk and have formed five

subcommittees to focus on credit, market, models, operational and regulatory risks. Our board of directors has also assigned primary responsibility for oversight of enterprise risk management to the Governance, Nominating and Risk Oversight Committee of the board of directors.

Interest-Rate Risk and Other Market Risks

Our interest-rate risk management objective is to serve our mission by protecting shareholder value in all interest-rate environments. Our disciplined approach to interest-rate risk management is essential to maintaining a strong and durable capital base and uninterrupted access to debt and equity capital markets.

Sources of Interest-Rate Risk and Other Market Risks

Our retained portfolio activities expose us to interest-rate risk and other market risks arising primarily from the uncertainty as to when borrowers will pay the outstanding principal balance of mortgage loans and mortgage-related securities held in our retained portfolio, known as prepayment risk, and the resulting potential mismatch in the timing of our receipt of cash flows related to our assets versus the timing of payment of cash flows related to our liabilities. For the vast majority of our mortgage-related investments, the mortgage borrower has the option to make unscheduled payments of

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additional principal or to completely pay off a mortgage loan at any time before its scheduled maturity date (without having to pay a prepayment penalty) or make principal payments in accordance with their contractual obligation.

Our credit guarantee activities also expose us to interest-rate risk because changes in interest rates can cause fluctuations in the fair value of our existing credit guarantee portfolio. We generally do not hedge these changes in fair value except for interest-rate exposure related to net buy-ups and float. Float, which arises from timing differences between when the borrower makes principal payments on the loan and the reduction of the PC balance, can lead to significant interest expense if the interest rate paid to a PC investor is higher than the reinvestment rate earned by the securitization trusts on payments received from mortgage borrowers and paid to us as trust management income.

The types of interest-rate risk and other market risks to which we are exposed are described below.

Duration Risk and Convexity Risk

Duration is a measure of a financial instrument s price sensitivity to changes in interest rates. Convexity is a measure of how much a financial instrument s duration changes as interest rates change. Our convexity risk primarily results from prepayment risk. We actively manage duration risk and convexity risk through asset selection and structuring (that is, by identifying or structuring mortgage-related securities with attractive prepayment and other characteristics), by issuing a broad range of both callable and non-callable debt instruments and by using interest-rate derivatives and written options. Managing the impact of duration risk and convexity risk is the principal focus of our daily market risk management activities. These risks are encompassed in our PMVS and duration gap risk measures, discussed in greater detail below. We use prepayment models to determine the estimated duration and convexity of mortgage assets for our PMVS and duration gap measures. Expected results can be affected by differences between prepayments forecasted by the models and actual prepayments.

Yield Curve Risk

Yield curve risk is the risk that non-parallel shifts in the yield curve (such as a flattening or steepening) will adversely affect shareholder value. Because changes in the shape, or slope, of the yield curve often arise due to changes in the market s expectation of future interest rates at different points along the yield curve, we evaluate our exposure to yield curve risk by examining potential reshaping scenarios at various points along the yield curve. Our yield curve risk under a specified yield curve scenario is reflected in our PMVS-Yield Curve, or PMVS-YC, disclosure.

Volatility Risk

Volatility risk is the risk that changes in the market s expectation of the magnitude of future variations in interest rates will adversely affect shareholder value. Implied volatility is a key determinant of the value of an interest-rate option. Since prepayment risk is generally inherent in mortgage assets, changes in implied volatility affect the value of mortgage assets. We manage volatility risk through asset selection and by maintaining a consistently high percentage of option-embedded liabilities relative to our mortgage assets. We monitor volatility risk by measuring exposure levels on a daily basis and we maintain internal limits on the amount of volatility risk exposure that is acceptable to us.

Basis Risk

Basis risk is the risk that interest rates in different market sectors will not move in tandem and will adversely affect shareholder value. This risk arises principally because we generally hedge mortgage-related investments with debt securities. We do not actively manage the basis risk arising from funding retained portfolio investments with our debt securities, also referred to as mortgage-to-debt OAS risk. See ANNUAL MD&A CONSOLIDATED FAIR VALUE

BALANCE SHEETS ANALYSIS Key Components of Changes in Fair Value of Net Assets *Changes in Mortgage-To-Debt OAS* for additional information. We also incur basis risk when we use LIBOR- or Treasury-based instruments in our risk management activities.

Foreign-Currency Risk

Foreign-currency risk is the risk that fluctuations in currency exchange rates (*e.g.*, foreign currencies to the U.S. dollar) will adversely affect shareholder value. We are exposed to foreign-currency risk because we have debt denominated in currencies other than the U.S. dollar, our functional currency. We eliminate virtually all of our foreign-currency risk by entering into swap transactions that effectively convert foreign-currency denominated obligations into U.S. dollar-denominated obligations.

Portfolio Market Value Sensitivity and Measurement of Interest-Rate Risk

We employ a risk management strategy that seeks to substantially match the duration characteristics of our assets and liabilities. To accomplish this, we employ an integrated strategy encompassing asset selection and structuring and asset and liability management.

Through our asset selection process, we seek to purchase mortgage assets with desirable prepayment expectations based on our evaluation of their yield-to-maturity, option-adjusted spreads and credit characteristics. Through this selection process

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and the restructuring of mortgage assets, we seek to retain cash flows with more stable risk and investment return characteristics while selling off the cash flows that do not meet our investment profile.

Through our asset and liability management process, we mitigate interest-rate risk by issuing a wide variety of debt products. The prepayment option held by mortgage borrowers drives the fair value of our mortgage assets such that the combined fair value of our mortgage assets and non-callable debt will decline if interest rates move significantly in either direction. We mitigate much of our exposure to changes in interest rates by funding a significant portion of our mortgage portfolio with callable debt. When interest rates change, our option to redeem this debt offsets a large portion of the fair value change driven by the mortgage prepayment option. At December 31, 2007, approximately 44% of our fixed-rate mortgage assets were funded and economically hedged with callable debt. However, because the mortgage prepayment option is not fully hedged by callable debt, the combined fair value of our mortgage assets and debt will be affected by changes in interest rates.

To further reduce our exposure to changes in interest rates, we hedge a significant portion of the remaining prepayment risk with option-based derivatives. These derivatives primarily consist of call swaptions, which tend to increase in value as interest rates decline, and put swaptions, which tend to increase in value as interest rates increase. With the addition of these option-based derivatives, a greater portion of our prepayment risk has been hedged. We also manage interest-rate risk by rebalancing the portfolio, primarily using interest-rate swaps. Although we do not hedge all of our exposure to changes in interest rates, these exposures are generally well understood, are subject to established limits, and are monitored and controlled through our disciplined risk management process. These limits are refined and updated from time to time. See ANNUAL MD&A CONSOLIDATED FAIR VALUE BALANCE SHEETS ANALYSIS Key Components of Changes in Fair Value of Net Assets *Changes in Mortgage-To-Debt OAS* for further information.

PMVS and Duration Gap

Our primary interest-rate risk measures are PMVS and duration gap. PMVS is measured in two ways, one measuring the estimated sensitivity of our portfolio market value (as defined below) to parallel moves in interest rates (Portfolio Market Value Sensitivity-Level or (PMVS-L)) and the other to nonparallel movements (PMVS-YC). In December 2007, we changed our PMVS reporting to represent estimated dollars-at-risk, rather than expressed as a percentage of fair value to common equity. We believe this change provides more relevant information and better represents our overall level and low-exposure to adverse interest-rate movements given the substantial reduction in the fair value of common equity that occurred during 2007.

Our PMVS and duration gap estimates are determined using models that involve our best judgment of interest-rate and prepayment assumptions. Accordingly, while we believe that PMVS and duration gap are useful risk management tools, they should be understood as estimates rather than as precise measurements.

While PMVS and duration gap estimate the exposure to changes in interest rates, they do not capture the potential impact of certain other market risks, such as changes in volatility, basis, prepayment model, mortgage-to-debt option-adjusted spreads and foreign-currency risk. The impact of these other market risks can be significant. See *Sources of Interest-Rate Risk and Other Market Risks* discussed above for further information. Definitions of our primary interest rate risk measures follow:

PMVS-L shows the estimated loss in pre-tax portfolio market value from an immediate adverse 50 basis point parallel shift in the level of LIBOR rates (*i.e.*, when the yield at each point on the LIBOR yield curve increases or decreases by 50 basis points).

PMVS-YC shows the estimated loss in pre-tax portfolio market value from an immediate adverse 25 basis point change in the slope (up and down) of the LIBOR yield curve. The 25 basis point change in slope for the PMVS-YC measure is obtained by shifting the two-year and ten-year LIBOR rates by an equal amount (12.5 basis points), but in opposite directions. LIBOR rate shifts between the two-year and ten-year points are interpolated.

We calculate our exposure to changes in interest rates using effective duration. Effective duration measures the percentage change in price of financial instruments to a one percent change in interest rates. Financial instruments with positive duration increase in value as interest rates decline. Conversely, financial instruments with negative duration increase in value as interest rates rise.

Duration gap measures the difference in price sensitivity to interest rate changes between our assets and liabilities, and it is expressed in months relative to the market value of assets. For example, assets with a six month duration and liabilities with a five month duration would result in a positive duration gap of one month. A duration gap of zero implies that the duration of our assets equals the duration of our liabilities. As a result, the change in value of assets from an instantaneous move in interest rates, either up or down, will be accompanied by an equal and offsetting change in the value of liabilities, thus leaving the fair value of equity unchanged. A positive duration gap indicates that the duration of our assets exceeds the duration of our liabilities which, from a net perspective, implies that the fair value of equity will increase in value when interest rates fall and decrease in value when interest rates rise. A

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negative duration gap indicates that the duration of our liabilities exceeds the duration of our assets which, from a net perspective, implies that the fair value of equity will increase in value when interest rates rise and decrease in value when interest rates fall. Multiplying duration gap (expressed as a percentage of a year) by the fair value of our assets will provide an indication of the change in the fair value of our equity resulting from a one percent change in interest rates.

The convexity of a financial instrument measures the extent to which the duration or price sensitivity of an instrument changes for a one percent change in interest rates. As a result of convexity, actual changes in fair value from interest changes may differ from those implied by duration gap alone. For that reason, we believe duration gap is most useful when used in conjunction with PMVS-L.

The 50 basis point shift and 25 basis point change in slope of the LIBOR yield curve used for our PMVS measures represent events that are expected to have an approximately 5% probability of occurring over a one-month time horizon. We believe that our PMVS measures represent conservative measures of interest-rate risk because these assumed scenarios are unlikely and because the scenarios assume instantaneous shocks. Therefore, these PMVS measures do not consider the effects on fair value of any rebalancing actions that we would typically take to reduce our risk exposure.

The expected loss in portfolio market value is an estimate of the sensitivity to changes in interest rates of the fair value of all interest-earning assets, interest-bearing liabilities and derivatives on a pre-tax basis. When we calculate the expected loss in portfolio market value and duration gap, we also take into account the cash flows related to certain credit guarantee-related items, including net buy-ups and expected gains or losses due to net interest from float. In making these calculations, we do not consider the sensitivity to interest-rate changes of the following assets and liabilities:

Credit guarantee portfolio. We do not consider the sensitivity of the fair value of the credit guarantee portfolio to changes in interest rates except for the guarantee-related items mentioned above (*i.e.*, net buy-ups and float), because we believe the expected benefits from replacement business provide an adequate hedge against interest-rate changes over time.

Other assets with minimal interest-rate sensitivity. We do not include other assets, primarily non-financial instruments such as fixed assets and REO, because we estimate their impact on PMVS and duration gap to be minimal.

PMVS Results

Table 49 provides estimated point-in-time PMVS-L and PMVS-YC results at December 31, 2007 and 2006. Table 49 also provides PMVS-L estimates assuming an immediate 100 basis point shift in the LIBOR yield curve. Because we do not hedge all prepayment option risk, the duration of our mortgage assets changes more rapidly as changes in interest rates increase. Accordingly, as shown in Table 49, the PMVS-L results based on a 100 basis point shift in the LIBOR curve are disproportionately higher than the PMVS-L results based on a 50 basis point shift in the LIBOR curve.

Table 49 PMVS Assuming Shifts of the LIBOR Yield Curve

	Potential Pre-Tax Loss in Portfolio Market Value	
	PMVS-YC	PMVS-L

	25 bps	50 bps	100 bps
		(in millions)	
At:			
December 31, 2007	$ 42	$ 533	$ 1,681
December 31, 2006	$ 27	$ 146	$ 560

There are several reasons for a greater increase in PMVS-L compared to PMVS-YC. First, PMVS-L considers our convexity exposure, whereas PMVS-YC does not. Our convexity exposure increased in 2007 as rates declined, increasing our expected mortgage prepayments, and as we shifted our portfolio mix to more conventional fixed-rate mortgage related securities. Second, our duration risk, as measured by PMVS-YC, was not significantly affected as our risk continued to be positioned in a manner along the yield curve in which fair value losses due to nonparallel shifts in the yield curve were limited. Third, as a result of the change in our portfolio mix and the decline in interest rates, we hedged the change in the risk of our assets by increasing our position in pay-fixed swaps, while allowing for slightly more interest rate risk exposure.

Derivatives have enabled us to keep our interest-rate risk exposure at consistently low levels in a wide range of interest-rate environments. Table 50 shows that the low PMVS-L risk levels for the periods presented would generally have been higher if we had not used derivatives to manage our interest-rate risk exposure.

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Table 50 Derivative Impact on PMVS-L (50 bps)

	Before Derivatives	After Derivatives	Effect of Derivatives
		(in millions)	
At:			
December 31, 2007	$ 1,371	$ 533	$ (838)
December 31, 2006	$ 541	$ 146	$ (395)

Duration Gap Results

Our estimated average duration gap for the months of December 2007 and 2006 was zero months.

The disclosure in our Monthly Volume Summary reports, which are available on our website at www.freddiemac.com, reflects the average of the daily PMVS-L, PMVS-YC and duration gap estimates for a given reporting period (a month, quarter or year).

Use of Derivatives and Interest-Rate Risk Management

Use of Derivatives

We use derivatives primarily to:

hedge forecasted issuances of debt and synthetically create callable and non-callable funding;

regularly adjust or rebalance our funding mix in order to more closely match changes in the interest-rate characteristics of our mortgage assets; and

hedge foreign-currency exposure (see *Sources of Interest-Rate Risk and Other Market Risks Foreign-Currency Risk.*)

Hedge Forecasted Debt Issuances and Create Synthetic Funding

We typically commit to purchase mortgage investments on an opportunistic basis for a future settlement, typically ranging from two weeks to three months after the date of the commitment. To facilitate larger and more predictable debt issuances that contribute to lower funding costs, we use interest-rate derivatives to economically hedge the interest-rate risk exposure from the time we commit to purchase a mortgage to the time the related debt is issued. We also use derivatives to synthetically create the substantive economic equivalent of various debt funding structures. For example, the combination of a series of short-term debt issuances over a defined period and a pay-fixed swap with the same maturity as the last debt issuance is the substantive economic equivalent of a long-term fixed-rate debt instrument of comparable maturity. Similarly, the combination of non-callable debt and a call swaption, or option to enter into a receive-fixed swap, with the same maturity as the non-callable debt, is the substantive economic equivalent of callable debt. These derivatives strategies increase our funding flexibility and allow us to better match asset and liability cash flows, often reducing overall funding costs.

Adjust Funding Mix

We generally use interest-rate swaps to mitigate contractual funding mismatches between our assets and liabilities. We also use swaptions and other option-based derivatives to adjust the contractual funding of our debt in response to changes in the expected lives of mortgage-related assets in our retained portfolio. As market conditions dictate, we take rebalancing actions to keep our interest-rate risk exposure within management-set limits. In a declining interest-rate environment, we typically enter into receive-fixed swaps or purchase Treasury-based derivatives to shorten the duration of our funding to offset the declining duration of our mortgage assets. In a rising interest-rate environment, we typically enter into pay-fixed swaps or sell Treasury-based derivatives in order to lengthen the duration of our funding to offset the increasing duration of our mortgage assets.

Types of Derivatives

The derivatives we use to hedge interest-rate and foreign-currency risk are common in the financial markets. We principally use the following types of derivatives:

LIBOR- and the Euro Interbank Offered Rate, or Euribor-, based interest-rate swaps;

LIBOR- and Treasury-based options (including swaptions);

LIBOR- and Treasury-based exchange-traded futures; and

Foreign-currency swaps.

In addition to swaps, futures and purchased options, our derivative positions include the following:

Written Options and Swaptions

Written call and put swaptions are sold to counterparties allowing them the option to enter into receive- and pay-fixed swaps, respectively. Written call and put options on mortgage-related securities give the counterparty the right to execute a contract under specified terms, which generally occurs when we are in a liability position. We use these written options and

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swaptions to manage convexity risk over a wide range of interest rates. Written options lower our overall hedging costs, allow us to hedge the same economic risk we assume when selling guaranteed final maturity REMICs with a more liquid instrument and allow us to rebalance the options in our callable debt and REMIC portfolios. We may, from time to time, write other derivative contracts such as caps, floors, interest-rate futures and options on buy-up and buy-down commitments.

Forward Purchase and Sale Commitments

We routinely enter into forward purchase and sale commitments for mortgage loans and mortgage-related securities. Most of these commitments are derivatives subject to the requirements of SFAS 133.

Swap Guarantee Derivatives

We issue swap guarantee derivatives that guarantee the payments on (a) multifamily mortgage loans that are originated and held by state and municipal housing finance agencies to support tax-exempt multifamily housing revenue bonds and (b) Freddie Mac pass-through certificates which are backed by tax-exempt multifamily housing revenue bonds and related taxable bonds and/or loans. In connection with some of these guarantees, we may also guarantee the sponsor s or the borrower s performance as a counterparty on any related interest-rate swaps used to mitigate interest-rate risk.

Credit Derivatives

We entered into credit derivatives during 2007, including risk-sharing agreements. Under these risk-sharing agreements, default losses on specific mortgage loans delivered by sellers are compared to default losses on reference pools of mortgage loans with similar characteristics. Based upon the results of that comparison, we remit or receive payments based upon the default performance of the referenced pools of mortgage loans. In addition, we entered into an agreement whereby we assume credit risk for mortgage loans held by third parties for up to a 90-day period in exchange for a monthly fee. Should the mortgage loans become delinquent we are obligated to purchase the loans.

In addition, we have also purchased mortgage loans containing debt cancellation contracts, which provide mortgage debt or payment cancellation for borrowers who experience unanticipated losses of income dependent on a covered event. The rights and obligations under these agreements have been assigned to the servicers. However, in the event the servicer does not perform as required by contract, under our guarantee, we would be obligated to make the required contractual payments.

Derivative-Related Risks

Our use of derivatives exposes us to derivative market liquidity risk and counterparty credit risk.

Derivative Market Liquidity Risk

Derivative market liquidity risk is the risk that we may not be able to enter into or exit out of derivative transactions at a reasonable cost. A lack of sufficient capacity or liquidity in the derivatives market could limit our risk management activities, increasing our exposure to interest-rate risk. To help maintain continuous access to derivative markets, we use a variety of products and transact with many different derivative counterparties. In addition to over-the-counter, or OTC, derivatives, we also use exchange-traded derivatives, asset securitization activities, callable debt and short-term debt to rebalance our portfolio.

We limit our duration and convexity exposure to each counterparty. At December 31, 2007, the largest single uncollateralized exposure of our 27 approved OTC counterparties listed in Table 51 Derivative Counterparty Credit Exposure under ANNUAL MD&A QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK Interest-Rate Risk and Other Market Risks was related to a AAA-rated counterparty, constituting $174 million, or 51%, of the total uncollateralized exposure of our OTC interest-rate swaps, option-based derivatives and foreign-currency swaps.

Derivative Counterparty Credit Risk

Counterparty credit risk arises from the possibility that the derivative counterparty will not be able to meet its contractual obligations. Exchange-traded derivatives, such as futures contracts, do not measurably increase our counterparty credit risk because changes in the value of open exchange-traded contracts are settled daily through a financial clearinghouse established by each exchange. OTC derivatives, however, expose us to counterparty credit risk because transactions are executed and settled between us and the counterparty. When our net position with an OTC counterparty subject to a master netting agreement has a market value above zero at a given date (*i.e.*, it is an asset reported as derivative assets, net on our consolidated balance sheets), then the counterparty could potentially be obligated to deliver cash, securities or a combination of both having that market value to satisfy its obligation to us under the derivative.

We actively manage our exposure to counterparty credit risk using several tools, including:

review of external rating analyses;

strict standards for approving new derivative counterparties;

ongoing monitoring of our positions with each counterparty;

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managing diversification mix among counterparties;

master netting agreements and collateral agreements; and

stress-testing to evaluate potential exposure under possible adverse market scenarios.

On an ongoing basis, we review the credit fundamentals of all of our OTC derivative counterparties to confirm that they continue to meet our internal standards. We assign internal ratings, credit capital and exposure limits to each counterparty based on quantitative and qualitative analysis, which we update and monitor on a regular basis. We conduct additional reviews when market conditions dictate or events affecting an individual counterparty occur.

Derivative Counterparties

Our use of OTC interest-rate swaps, option-based derivatives and foreign-currency swaps is subject to rigorous internal credit and legal reviews. Our derivative counterparties carry external credit ratings among the highest available from major rating agencies. All of these counterparties are major financial institutions and are experienced participants in the OTC derivatives market.

Master Netting and Collateral Agreements

We use master netting and collateral agreements to reduce our credit risk exposure to our active OTC derivative counterparties for interest-rate swaps, option-based derivatives and foreign-currency swaps. See NOTE 17: CONCENTRATION OF CREDIT AND OTHER RISKS to our audited consolidated financial statements for additional information.

Table 51 summarizes our exposure to counterparty credit risk in our derivatives, which represents the net positive fair value of derivative contracts, related accrued interest and collateral held by us from our counterparties, after netting by counterparty as applicable (*i.e.*, net amounts due to us under derivative contracts). This table is useful in understanding the counterparty credit risk related to our derivative portfolio.

Table 51 Derivative Counterparty Credit Exposure

	December 31, 2007					
Rating[1]	**Number of Counterparties[2]**	**Notional Amount**	**Total Exposure at Fair Value[3]**	**Exposure, Net of Collateral[4]**	**Weighted Average Contractual Maturity (in years)**	**Collateral Posting Threshold**
		(dollars in millions)				
AAA	2	$ 1,173	$ 174	$ 174	3.4	Mutually agreed upon
AA+	3	180,939	945		4.4	$10 million or less
AA	9	463,163	1,347	62	5.3	$10 million or less
AA−	6	160,678	2,230	30	5.8	$10 million or less

A+	5	168,680	1,770	54	6.1	$1 million or less
A	2	35,391	239	19	5.7	$1 million or less
Subtotal[5]	27	1,010,024	6,705	339	5.4	
Other derivatives[6]		238,893				
Forward purchase and sale commitments		72,662	465	465		
Swap guarantee derivatives		1,302				
Total derivatives		$ 1,322,881	$ 7,170	$ 804		

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	December 31, 2006					
Rating[1]	Number of Counterparties[2]	Notional Amount	Adjusted Total Exposure at Fair Value[3]	Exposure, Net of Collateral[4]	Weighted Average Contractual Maturity (in years)	Collateral Posting Threshold
			(dollars in millions)			
AAA	2	$ 3,408	$ 411	$ 411	1.6	Mutually agreed upon
AA	8	269,126	2,134	92	4.7	$10 million or less
AA−	12	278,993	6,264	161	5.2	$10 million or less
A+	4	142,332	1,393	7	6.1	$1 million or less
A−	1	210	1	1	5.0	$1 million or less
Subtotal[5]	27	694,069	10,203	672	5.2	
Other derivatives[6]		53,071				
Forward purchase and sale commitments		10,012	18	18		
Swap guarantee derivatives		957				
Total derivatives		$ 758,109	$ 10,221	$ 690		

(1) We use the lower of S&P and Moody s ratings to manage collateral requirements. In this table, the rating of the legal entity is stated in terms of the S&P equivalent.
(2) Based on legal entities. Affiliated legal entities are reported separately.
(3) For each counterparty, this amount includes derivatives with a net positive fair value (recorded as derivative assets, net), including the related accrued interest receivable/payable (net).
(4) Total Exposure at Fair Value less collateral held as determined at the counterparty level.
(5) Consists of OTC derivative agreements for interest-rate swaps, option-based derivatives (excluding written options), foreign-currency swaps and purchased interest-rate caps. Written options do not present counterparty credit exposure, because we receive a one-time up-front premium in exchange for giving the holder the right to execute a contract under specified terms, which generally puts us in a liability position.
(6) Consists primarily of exchange-traded contracts, certain written options and certain credit derivatives.

Over time, our exposure to individual counterparties for OTC interest-rate swaps, option-based derivatives and foreign-currency swaps varies depending on changes in fair values, which are affected by changes in period-end interest rates, the implied volatility of interest rates, foreign-currency exchange rates and the amount of derivatives held. Our uncollateralized exposure to counterparties for these derivatives, after applying netting agreements and collateral, decreased to $339 million at December 31, 2007 from $672 million at December 31, 2006. This decrease was primarily due to a significant decrease in uncollateralized exposure to AAA-rated counterparties, which typically are not required to post collateral given their low risk profile.

At December 31, 2007, the uncollateralized exposure to non-AAA-rated counterparties was primarily due to exposure amounts below the applicable counterparty collateral posting threshold as well as market movements during the time period between when a derivative was marked to fair value and the date we received the related collateral. Collateral is

typically transferred within one business day based on the values of the related derivatives.

As indicated in Table 51, approximately 95% of our counterparty credit exposure for OTC interest-rate swaps, option-based derivatives and foreign-currency swaps was collateralized at December 31, 2007. If all of our counterparties for these derivatives had defaulted simultaneously on December 31, 2007, our maximum loss for accounting purposes would have been approximately $339 million. As of December 31, 2007, one of our AAA-rated counterparties, Kreditanstalt fur Wiederaufbau, accounted for 22% of our uncollateralized exposure to derivatives counterparties, due to a single foreign currency denominated interest rate swap that matured on February 2008. At maturity, we received all cash that was due to us.

In the event of counterparty default our economic loss may be higher than the uncollateralized exposure of our derivatives if we were not able to replace the defaulted derivatives in a timely fashion. We monitor the risk that our uncollateralized exposure to each of our OTC counterparties for interest-rate swaps, option-based derivatives and foreign-currency swaps will increase under certain adverse market conditions by performing daily market stress tests. These tests evaluate the potential additional uncollateralized exposure we would have to each of these derivative counterparties assuming changes in the level and implied volatility of interest rates and changes in foreign-currency exchange rates over a brief time period.

As of February 28, 2008, we have not incurred any credit losses on OTC derivative counterparties or set aside specific reserves for institutional credit risk exposure. We do not believe such reserves are necessary, given our counterparty credit risk management policies and collateral requirements.

As indicated in Table 51, the total exposure to our forward purchase and sale commitments of $465 million and $18 million at December 31, 2007 and 2006, respectively, was uncollateralized. Because the typical maturity of our forward purchase and sale commitments is less than one year, we do not require master netting and collateral agreements for the counterparties of these commitments. However, we monitor the credit fundamentals of the counterparties to our forward purchase and sale commitments on an ongoing basis to ensure that they continue to meet our internal risk-management standards. At December 31, 2007, we had a large volume of purchase and sale commitments related to our retained portfolio

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that increased our exposure to the counterparties to our forward purchase and sale commitment. These commitments settled in January 2008.

CREDIT RISKS

Our credit guarantee portfolio is subject primarily to two types of credit risk: mortgage credit risk and institutional credit risk. Mortgage credit risk is the risk that a borrower will fail to make timely payments on a mortgage or security we own or guarantee. We are exposed to mortgage credit risk on our total mortgage portfolio because we either hold the mortgage assets or have guaranteed mortgages in connection with the issuance of a PC, Structured Security or other borrower performance commitment. Institutional credit risk is the risk that a counterparty that has entered into a business contract or arrangement with us will fail to meet its obligations.

Mortgage and credit market conditions deteriorated rapidly in the second half of 2007 and have continued in 2008. These conditions were brought about by several factors, which increased our exposure to both mortgage credit and institutional credit risks. Factors negatively affecting the mortgage and credit markets in recent months include:

- significant volatility;
- lower levels of liquidity;
- wider credit spreads;
- rating agency downgrades of mortgage-related securities or counterparties;
- declines in home prices nationally;
- higher incidence of institutional insolvencies; and
- higher levels of foreclosures and delinquencies, particularly with respect to non-traditional and subprime mortgage loans.

Mortgage Credit Risk

Mortgage Credit Risk Management Strategies

Mortgage credit risk is primarily influenced by the credit profile of the borrower on the mortgage, the features of the mortgage itself, the type of property securing the mortgage, home price trends, apartment demand in the area, the number of competing properties in the area (including properties under construction) and the general economy. To manage our mortgage credit risk, we focus on three key areas: underwriting requirements and quality control standards; portfolio diversification; and portfolio management activities, including loss mitigation and the use of credit enhancements.

Underwriting Requirements and Quality Control Standards

All mortgages that we purchase for our retained portfolio or our credit guarantee portfolio have an inherent risk of default. We seek to manage the underlying risk by using our underwriting and quality control processes and adequately pricing for the risk.

We use a process of delegated underwriting for the single-family mortgages we purchase or securitize. In this process, we provide originators with a series of mortgage underwriting standards and the originators represent and warrant to us that the mortgages sold to us meet these requirements. We subsequently review a sample of these loans and, if we determine that any loan is not in compliance with our contractual standards, we may require the seller/servicer to repurchase that mortgage or make us whole in the event of a default. We provide originators with written standards and/or automated underwriting software tools, such as Loan Prospector.® We use other quantitative credit risk management tools that are designed to evaluate single-family mortgages and monitor the related mortgage credit risk for loans we may purchase. Loan Prospector® generates a credit risk classification by evaluating information on significant indicators of mortgage default risk, such as LTV ratios, credit scores and other mortgage and borrower characteristics. These statistically-based risk assessment tools increase our ability to distinguish among single-family loans based on their expected risk, return and importance to our mission. In many cases, underwriting standards are tailored under contracts with individual customers. We have been expanding the share of mortgages we purchase that were underwritten by our seller/servicers using alternative automated underwriting systems or agreed-upon underwriting standards that differ from our system or guidelines, which may increase our credit risk and may result in increased losses. We regularly monitor the performance of mortgages purchased using these systems and standards, and if they underperform mortgages originated using Loan Prospector®, we may seek additional management and guarantee fee compensation for future purchases of similar mortgages.

The percentage of our single-family mortgage purchase volume evaluated using Loan Prospector® prior to purchase has declined over the last three years. As part of our post-purchase quality control review process, we use Loan Prospector® to evaluate the credit quality of virtually all single-family mortgages that were not evaluated by Loan Prospector® prior to purchase. Loan Prospector® risk classifications influence both the price we charge to guarantee loans and the loans we review in quality control.

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For multifamily mortgage loans, we use an intensive pre-purchase underwriting process for the mortgages we purchase, unless the mortgage loans have significant credit enhancements. Our underwriting process includes assessments of the local market, the borrower, the property manager, the property s historical and projected financial performance and the property s physical condition, which may include a physical inspection of the property. In addition to our own inspections, we rely on third-party appraisals and environmental and engineering reports. We have also engaged third-party underwriters to underwrite mortgages on our behalf. During 2007, we also began a program of delegated underwriting for certain multifamily mortgages we purchase or securitize.

Credit Enhancements

Our charter requires that single-family mortgages with LTV ratios above 80% at the time of purchase must be covered by one or more of the following: (a) primary mortgage insurance on the portion above 80% guaranteed or insured by a qualified insurer as we determined; (b) a seller s agreement to repurchase or replace any mortgage in default (for such period and under such circumstances as we may require); or (c) retention by the seller of at least a 10% participation interest in the mortgages. In addition, for some mortgage loans, we elect to share the default risk by transferring a portion of that risk to various third parties through a variety of other credit enhancements. In many cases, the lender s or third party s risk is limited to a specific level of losses at the time the credit enhancement becomes effective.

At December 31, 2007 and 2006, credit-enhanced single-family mortgages and mortgage-related securities represented approximately 17% and 16% of the $1,819 billion and $1,541 billion, respectively, unpaid principal balance of the total mortgage portfolio, excluding non-Freddie Mac mortgage-related securities and that portion of issued Structured Securities that is backed by Ginnie Mae Certificates. We recognized recovery proceeds of $421.3 million, $282.2 million and $292.5 million in 2007, 2006 and 2005, respectively, under our primary and pool mortgage insurance policies and other credit enhancements related to our single-family loan portfolios. We exclude from the numbers, the amounts related to the underlying mortgage loans related to Structured Transactions because the securities in these structures remain subject to previously established guarantees or credit enhancements. See ANNUAL MD&A CONSOLIDATED BALANCE SHEETS ANALYSIS Table 20 Characteristics of Mortgage Loans and Mortgage-Related Securities in our Retained Portfolio for additional information about our non-Freddie Mac mortgage-related securities.

Our ability and desire to expand or reduce the portion of our total mortgage portfolio with credit enhancements will depend on our evaluation of the credit quality of new business purchase opportunities, the risk profile of our portfolio and the future availability of effective credit enhancements at prices that permit an attractive return. While the use of credit enhancements reduces our exposure to mortgage credit risk, it increases our exposure to institutional credit risk. As guarantor, we remain responsible for the payment of principal and interest if a mortgage insurer fails to meet its obligations to reimburse us for claims. If an entity that provides credit enhancement fails to fulfill its obligation, the result would be increased credit related costs and a possible reduction in the fair values associated with our guaranteed PCs or Structured Securities. See RISK FACTORS Competitive and Market Risks for additional information regarding the effects of increased credit losses. In the event one of our mortgage insurers was to become insolvent, the insurer s future premiums paid by the borrower would be available to partially offset costs. As of February 28, 2008, no mortgage insurer has failed to meet its obligations to us.

Primary mortgage insurance is the most prevalent type of credit enhancement protecting our total mortgage portfolio and is typically provided on a loan-level basis for certain single-family mortgages. Primary mortgage insurance transfers varying portions of the credit risk associated with a mortgage to a third-party insurer. The amount of insurance we obtain on any mortgage depends on our requirements and our assessment of risk. We may, from time to time, agree with the insurer to reduce the amount of coverage that is in excess of our charter s minimum requirement and may also furnish certain services to the insurer in exchange for fees paid by the insurer. As is the case with credit enhancement agreements generally, these agreements often improve the overall value of purchased mortgages and

thus may allow us to offer lower management and guarantee fees to sellers.

In order to file a claim under a primary mortgage insurance policy, the insured loan must be in default or the borrower s interest in the underlying property must have been extinguished, such as through a foreclosure action. The mortgage insurer has a prescribed period of time within which to process a claim and make a determination as to its validity and amount. It typically takes two months from the time a claim is filed to receive a primary mortgage insurance payment. The timeframe has remained relatively constant over the past two years. As of December 31, 2007 and 2006, in connection with PCs and Structured Securities backed by single-family mortgage loans, excluding the loans that are underlying Structured Transactions, we had maximum coverage totaling $51.9 billion and $40.2 billion, respectively, in primary mortgage insurance.

Other prevalent types of credit enhancement that we use are lender recourse and indemnification agreements (under which we may require a lender to reimburse us for credit losses realized on mortgages), as well as pool insurance. Pool insurance provides insurance on a pool of loans up to a stated aggregate loss limit. In addition to a pool-level loss coverage

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limit, some pool insurance contracts may have limits on coverage at the loan level. For pool insurance contracts that expire before the completion of the contractual term of the mortgage loan, we seek to ensure that the contracts cover the period of time during which we believe the mortgage loans are most likely to default.

Recently the mortgage insurance industry has been subject to increased public and regulatory scrutiny. In addition, certain large insurers have been downgraded by nationally recognized rating agencies. We have institutional credit risk relating to the potential insolvency or non-performance of mortgage insurers that insure mortgages we purchase or guarantee. We manage this risk by establishing eligibility standards for mortgage insurers and by regularly monitoring our exposure to individual mortgage insurers. Our monitoring includes regularly performing analysis of the estimated financial capacity of mortgage insurers under different adverse economic conditions. We also monitor the mortgage insurers credit ratings, as provided by nationally recognized statistical rating organizations, and we periodically review the methods used by the nationally recognized statistical rating organizations. To the extent there are downgrades in the credit rating of a mortgage insurer, we consider whether the downgrade will have an impact on our guarantee losses. As of February 28, 2008, downgrades have had no impact on our guarantee losses.

We announced that effective June 1, 2008, our private mortgage insurer counterparties may not cede new risk if the gross risk or gross premium ceded to captive reinsurers is greater than 25%. We also announced that we are temporarily suspending certain requirements for our mortgage insurance counterparties that are downgraded below AA or Aa3 by any one of the rating agencies, provided the mortgage insurer commits to providing a remediation plan for our approval within 90 days of the downgrade. We periodically perform on-site reviews of mortgage insurers to confirm compliance with our eligibility requirements and to evaluate their management and control practices. In addition, state insurance authorities regulate mortgage insurers. See NOTE 17: CONCENTRATION OF CREDIT AND OTHER RISKS to our audited consolidated financial statements for additional information.

In order to file a claim under a pool insurance policy, we generally must have finalized the primary mortgage claim, disposed of the foreclosed property, and quantified the net loss payable with respect to the insured loan to determine the amount due under the pool insurance policy so that a claim can be filed. Certain pool mortgage insurance policies have specified loss deductibles that must be met before we are entitled to recover under the policy. Pool insurance proceeds are generally received five to six months after disposition of the underlying property. At December 31, 2007 and 2006, in connection with PCs and Structured Securities backed by single-family mortgage loans, excluding the loans that are underlying Structured Transactions, we had maximum coverage totaling $12.1 billion, and $10.5 billion, respectively, in lender recourse and indemnification agreements; and $3.8 billion and $3.7 billion, respectively, in pool insurance. See Institutional Credit Risk *Mortgage Insurers* for further discussion about our mortgage loan insurers.

Other forms of credit enhancements on single-family mortgage loans include government guarantees, collateral (including cash or high-quality marketable securities) pledged by a lender, excess interest and subordinated security structures. As of December 31, 2007 and 2006, in connection with PCs and Structured Securities backed by single-family mortgage loans, excluding the loans that are underlying Structured Transactions, we had maximum coverage totaling $0.5 billion and $0.8 billion, respectively, in other credit enhancements.

We occasionally use credit enhancements to mitigate risk on multifamily mortgages. These mortgages are in almost all cases without recourse to the borrower, absent borrower misconduct. The types of credit enhancements used for multifamily mortgage loans include recourse to the mortgage seller, third-party guarantees or letters of credit, cash escrows, subordinated participations in mortgage loans or structured pools, sharing of losses with sellers, and cross-default and cross-collateralization provisions. Cross-default and cross-collateralization provisions typically work in tandem. With a cross-default provision, if the loan on a property goes into default, we have the right to declare specified other mortgage loans of the same borrower or certain of its affiliates to be in default and to foreclose those other mortgages. In cases where the borrower agrees to cross-collateralization, we have the additional right to apply

excess proceeds from the foreclosure of one mortgage to amounts owed to us by the same borrower or its specified affiliates relating to other multifamily mortgage loans we own. We also receive similar credit enhancements for multifamily PC guarantor swaps; for tax-exempt multifamily housing revenue bonds that support pass-through certificates issued by third parties for which we provide our guarantee of the payment of principal and interest; for Freddie Mac pass-through certificates that are backed by tax-exempt multifamily housing revenue bonds and related taxable bonds and/or loans; and for multifamily mortgage loans that are originated and held by state and municipal agencies to support tax-exempt multifamily housing revenue bonds for which we provide our guarantee of the payment of principal and interest. As of December 31, 2007 and 2006, in connection with PCs and Structured Securities backed by multifamily mortgage loans, excluding the loans that are underlying Structured Transactions, we had maximum coverage totaling $1.2 billion and $1.1 billion, respectively.

Other Credit Risk Management Activities

To compensate us for unusual levels of risk in some mortgage products, we may charge incremental fees above a base management and guarantee fee calculated based on credit risk factors such as the mortgage product type, loan purpose, LTV

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ratio, and other loan or borrower attributes. In addition, we occasionally use financial incentives and credit derivatives, as described below, in situations where we believe they will benefit our credit risk management strategy. These arrangements are intended to reduce our credit-related expenses, thereby improving our overall returns.

In some cases, we provide financial incentives in the form of lump sum payments to selected seller/servicers if they deliver a specified volume or percentage of mortgage loans meeting specified credit risk standards over a defined period of time. These financial incentives may also take the form of a fee payable to us by the seller if the mortgages delivered to us do not meet certain credit standards.

We have also entered into credit derivatives. All credit derivatives were classified as no hedge designation. The fair value of these credit derivatives was not material at either December 31, 2007 or 2006. See ANNUAL MD&A QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK *Use of Derivatives and Interest-Rate Risk Management* *Credit Derivatives* for further discussion.

Although these arrangements are part of our overall credit risk management strategy, we have not treated them as credit enhancements for purposes of describing our total mortgage portfolio characteristics because the risk-sharing and credit derivative agreements may require us to make payments to the seller/servicer.

Portfolio Diversification

A key characteristic of our credit risk portfolio is diversification along a number of critical risk dimensions. We continually monitor a variety of mortgage loan characteristics such as product mix, LTV ratios and geographic concentrations, which may affect the default experience on our overall mortgage portfolio. As part of our risk management practices, we have adopted a set of limits on our purchases and holdings of certain types of non-traditional mortgage products that are deemed to have higher risks or lack sufficient historical experience to confidently forecast performance expectations over a full housing cycle. These loan products include option ARMs and loans with high LTV ratios, and mortgages originated with limited or no underwriting documentation.

Product mix affects the credit risk profile of our total mortgage portfolio. In general, 15-year amortizing fixed-rate mortgages exhibit the lowest default rate among the types of mortgage loans we securitize and purchase, due to the accelerated rate of principal amortization on these mortgages and the credit profiles of borrowers who seek and qualify for them. In a rising interest rate environment, balloon/reset mortgages and ARMs typically default at a higher rate than fixed-rate mortgages, although default rates for different types of ARMs may vary.

The primary mortgage products within our mortgage loan and guaranteed PC and Structured Securities portfolios are conventional first lien, fixed-rate mortgage loans. We have not purchased any second lien mortgage loans in 2007 or 2006. Any second lien mortgage loans that we do own constitute less than 0.1% of our guaranteed PC and Structured Securities portfolio as of December 31, 2007. However, during the past several years, there was a rapid proliferation of non-traditional mortgage product types designed to address a variety of borrower and lender needs, including issues of affordability and reduced income documentation requirements. While features of these products have been on the market for some time, their prevalence in the market and our total mortgage portfolio increased in 2007 and 2006. See BUSINESS Regulation and Supervision *Office of Federal Housing Enterprise Oversight* *Guidance on Non-traditional Mortgage Product Risks and Subprime Lending* and RISK FACTORS Legal and Regulatory Risks for more information on these products. Despite an increase in the purchase of adjustable-rate mortgages in the last few years, single-family traditional long-term fixed-rate mortgages comprised approximately 80% and 82% of our mortgage loans and loans underlying our PCs and Structured Securities at December 31, 2007 and 2006, respectively.

Adjustable-Rate, Interest-Only and Option ARM Loans

These mortgages are designed to offer borrowers greater choices in their payment terms. Interest-only mortgages allow the borrower to pay only interest for a fixed period of time before the loan begins to amortize. Option ARM loans permit a variety of repayment options, which include minimum, interest only, fully amortizing 30-year and fully amortizing 15-year payments. Minimum payment option loans allow the borrower to make monthly payments that are less than the interest accrued for the period. The unpaid interest, known as negative amortization, is added to the principal balance of the loan, which increases the outstanding loan balance. Our purchases of interest-only mortgage products increased in 2007, representing approximately 20% of our total mortgage portfolio purchases as compared to approximately 16% in 2006. Our purchase of option ARM mortgage products decreased in 2007, representing less than 1% and approximately 2% of our total mortgage portfolio purchases in 2007 and 2006, respectively. Interest-only and option ARM loans are considered non-traditional mortgage products as defined by the October 2006 Guidance on Non-traditional Mortgage Product Risks. At December 31, 2007 and 2006, interest-only and option ARM loans collectively represented approximately 10% and 6%, respectively, of the unpaid principal balance of the total mortgage portfolio. We will continue to monitor the growth of these products in our portfolio and, if appropriate, may seek credit enhancements to further manage the incremental risk.

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Table 52 presents scheduled reset information for single-family mortgage loans underlying our PCs and Structured Securities, excluding Structured Transactions, at December 31, 2007 that contain adjustable payment terms. The reported balances in the table are based on the unpaid principal balances of these loans, aggregated by adjustable-rate loan product type and categorized by year of the next scheduled contractual reset date. The timing of the actual reset dates may differ from those presented due to a number of factors, including refinancing or exercising of other provisions within the terms of the mortgage.

Table 52 Single-Family Scheduled Adjustable-Rate Resets by Year at December 31, 2007[1]

	2008	2009	2010	2011	2012	Thereafter	Total
				(in millions)			
ARMs/amortizing	$ 20,258	$ 17,945	$ 16,751	$ 12,420	$ 8,516	$ 14,437	$ 90,327
ARMs/interest-only	2,382	3,529	18,822	30,105	32,909	33,857	121,604
Balloon/resets	3,236	3,004	6,863	2,821	880	318	17,122
Adjustable-rate loans[2]	$ 25,876	$ 24,478	$ 42,436	$ 45,346	$ 42,305	$ 48,612	$ 229,053

(1) Based on the unpaid principal balances of mortgage products that contain adjustable-rate interest provisions, excluding $1.9 billion of option ARM loans, as of December 31, 2007. These reported balances are based on the unpaid principal balance of the underlying mortgage loans and do not reflect the publicly-available security balances we use to report the composition of our PCs and Structured Securities.

(2) Represents the portion of the unpaid principal balances that are scheduled to reset during the period specified above.

Adjustable-rate mortgages typically have initial periods during which the interest rate is fixed. After this initial period, which can typically range from two to ten years, the interest rate on the loan will then periodically reset based on a current market rate. As of December 31, 2007, approximately 22% of the adjustable-rate single-family mortgage loans within our PCs and Structured Securities are scheduled to have interest rates that reset in 2008 or 2009.

Subprime Loans

Participants in the mortgage market often characterize single-family loans based upon their overall credit quality at the time of origination, generally considering them to be prime or subprime. There is no universally accepted definition of subprime. The subprime segment of the mortgage market primarily serves borrowers with poorer credit payment histories and such loans typically have a mix of credit characteristics that indicate a higher likelihood of default and higher loss severities than prime loans. Such characteristics might include a combination of high LTV ratios, low credit scores or originations using lower underwriting standards such as limited or no documentation of a borrower s income. The subprime market helps certain borrowers by broadening the availability of mortgage credit.

While we have not historically characterized the single-family loans underlying our PCs and Structured Securities as either prime or subprime, we do monitor the amount of loans we have guaranteed with characteristics that indicate a higher degree of credit risk. See *Mortgage Portfolio Characteristics Higher Risk Combinations* for further information. We estimate that approximately $6 billion and $3 billion of loans underlying our Structured Transactions at December 31, 2007 and 2006, respectively, were classified as subprime mortgage loans. To support our mission, we announced in April 2007 that we will purchase up to $20 billion in fixed-rate and hybrid ARM products that will provide lenders with more choices to offer subprime borrowers. The products are intended to be consumer-friendly mortgages for borrowers that will limit payment shock by offering reduced adjustable-rate margins, longer fixed-rate

terms and longer reset periods than existing similar products. Subsequent to our announcement, we have entered into purchase commitments of $207 million of mortgages on primary residence, single-family properties specifically pursuant to this commitment. We also fulfill this commitment through purchases of refinance mortgages made to credit challenged borrowers, who may have previously been served by the subprime mortgage market. As of December 31, 2007, we have purchased approximately $43 billion of conventional mortgages made to borrowers who otherwise might have been limited to subprime products, including approximately $23 billion of refinance mortgages meeting our criteria.

With respect to our retained portfolio, at December 31, 2007 and 2006, we held investments of approximately $101 billion and $122 billion, respectively, of non-agency mortgage-related securities backed by subprime loans. These securities include significant credit enhancement, particularly through subordination, and 81% of these securities were AAA-rated at February 25, 2008. During 2007, we recognized $10 million of credit losses as impairment expense on these securities related to four positions that were below AAA-rated at acquisition. The net unrealized losses, net of tax, on the remaining securities that are below AAA-rated are included in AOCI and totaled $504 million as of December 31, 2007. Between December 31, 2007 and February 25, 2008, credit ratings for mortgage-related securities backed by subprime loans with an aggregate unpaid principal balance of $16 billion were downgraded by at least one nationally recognized statistical rating organization. In addition, there were $5 billion of unrealized losses, net of tax, associated with AAA-rated, non-agency mortgage-related securities backed by subprime collateral that are principally a result of decreased liquidity in the subprime market. The extent and duration of the decline in fair value of these securities relative to our cost have met our criteria that indicate the impairment of these securities is temporary. However, if market conditions continue to deteriorate, further credit

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downgrades to our non-agency mortgage-related securities backed by subprime loans could occur and may result in additional declines in their fair value.

Alt-A Loans

Many mortgage market participants classify single-family loans with credit characteristics that range between their prime and subprime categories as Alt-A because these loans have a combination of characteristics of each category or may be underwritten with lower or alternative documentation than a full documentation mortgage loan. Although there is no universally accepted definition of Alt-A, industry participants have used this classification principally to describe loans for which the underwriting process has been streamlined in order to reduce the documentation requirements of the borrower or allow alternative documentation.

We principally acquire Alt-A mortgage loans from our traditional lenders that largely specialize in originating prime mortgage loans. These lenders typically originate Alt-A loans as a complementary product offering and generally follow an origination path similar to that used for their prime origination process. In determining our exposure to Alt-A loans in our PC and Structured Securities portfolio, we have classified mortgage loans as Alt-A if the lender that delivers them to us has classified the loans as Alt-A, or if the loans had reduced documentation requirements which indicate that the loans should be classified as Alt-A. We estimate that approximately $154 billion, or 9%, of our single-family PCs and Structured Securities at December 31, 2007 were backed by Alt-A mortgage loans. For these loans, our average credit score was 719, our estimated current average LTV ratio was 72% and our delinquency rate, excluding certain Structured Transactions, was 1.86% at December 31, 2007.

We also invest in non-agency mortgage-related securities backed by Alt-A loans in our retained portfolio. We have classified these securities as Alt-A if the securities were labeled as Alt-A when sold to us or we believe the underlying collateral includes a significant amount of Alt-A loans. We believe that $51 billion and $56 billion of our single-family non-agency mortgage-related securities that are not backed by subprime loans are generally backed by Alt-A mortgage loans at December 31, 2007 and 2006, respectively. We have focused our purchases on credit-enhanced, senior tranches of these securities and more than 99% of these securities were AAA-rated as of December 31, 2007. Between December 31, 2007 and February 25, 2008, credit ratings for mortgage-related securities backed by Alt-A loans with an aggregate unpaid principal balance of $1.1 billion were downgraded from AAA by at least one nationally recognized statistical rating organization.

Guidance on Non-traditional Mortgage Product Risks and Subprime Mortgage Lending

In October 2006, five federal financial institution regulatory agencies jointly issued Interagency Guidance that clarified how financial institutions should offer non-traditional mortgage products in a safe and sound manner and in a way that clearly discloses the risks that borrowers may assume. In June 2007, the same financial institution regulatory agencies published the final interagency Subprime Statement, which addressed risks relating to subprime short-term hybrid ARMs. The Interagency Guidance and the Subprime Statement set forth principles that regulate financial institutions originating certain non-traditional mortgages and subprime short-term hybrid ARMs with respect to their underwriting practices. These principles included providing borrowers with clear and balanced information about the relative benefits and risks of these products sufficiently early in the process to enable them to make informed decisions.

OFHEO has directed us to adopt practices consistent with the risk management, underwriting and consumer protection guidelines of the Interagency Guidance and the Subprime Statement. These principles apply to our purchase of non-traditional mortgages and subprime short-term hybrid ARMs and our related investment activities. In response, in July 2007, we informed our customers of new underwriting and disclosure requirements for non-traditional mortgages. In September 2007, we informed our customers and other counterparties of similar new requirements for

subprime short-term hybrid ARMs. These new requirements are consistent with our announcement in February 2007 that we would implement stricter investment standards for certain subprime ARMs originated after September 1, 2007, and develop new mortgage products providing lenders with more choices to offer subprime borrowers. See RISK FACTORS Legal and Regulatory Risks for further discussion

Mortgage Portfolio Characteristics

As previously noted, all mortgages that we purchase for our retained portfolio or that we guarantee have an inherent risk of default. We seek to manage the underlying risk by adequately pricing for the risk we assume using our underwriting and quality control processes. Our underwriting process evaluates mortgage loans using several critical risk characteristics, such as credit score, LTV ratio and occupancy type. Table 53 provides characteristics of our single-family new business purchases in 2007 and 2006, and of our single-family mortgage portfolio at December 31, 2007 and 2006.

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Table 53 Characteristics of Single-Family Mortgage Portfolio[1]

	Purchases During the Year Ended December 31,			Portfolio at December 31,		
	2007	2006	2005	2007	2006	2005
Original LTV Ratio Range[2]						
Less than 60%	18%	19%	21%	22%	24%	25%
Above 60% to 70%	14	14	16	16	16	17
Above 70% to 80%	49	54	50	47	46	44
Above 80% to 90%	8	7	7	8	7	8
Above 90% to 100%	11	6	6	7	7	6
Above 100%						
Total	100%	100%	100%	100%	100%	100%
Weighted average original ratio	74%	73%	71%	71%	70%	70%
Estimated Current LTV Ratio Range[3]						
Less than 60%				41%	52%	56%
Above 60% to 70%				15	18	18
Above 70% to 80%				19	20	18
Above 80% to 90%				15	8	6
Above 90% to 100%				7	2	2
Above 100%				3		
Total				100%	100%	100%
Weighted average estimated current LTV ratio				63%	57%	56%
Credit Score[4]						
740 and above	42%	42%	44%	45%	45%	45%
700 to 739	22	24	23	23	23	23
660 to 699	19	19	19	18	18	18
620 to 659	11	10	10	9	9	9
Less than 620	6	5	4	4	4	4
Not available				1	1	1
Total	100%	100%	100%	100%	100%	100%
Weighted average credit score	718	720	722	723	725	725
Loan Purpose						

Purchase	47%	53%	44%	40%	37%	32%
Cash-out refinance	32	32	35	30	29	29
Other refinance	21	15	21	30	34	39
Total	100%	100%	100%	100%	100%	100%
Property Type						
1 unit	97%	97%	97%	97%	97%	97%
2-4 units	3	3	3	3	3	3
Total	100%	100%	100%	100%	100%	100%
Occupancy Type						
Primary residence	89%	89%	91%	91%	92%	93%
Second/vacation home	5	6	5	5	5	4
Investment	6	5	4	4	3	3
Total	100%	100%	100%	100%	100%	100%

(1) Purchases and ending balances are based on the unpaid principal balance of the single-family mortgage portfolio. Purchases included in the data totaled $467 billion, $358 billion and $396 billion in 2007, 2006 and 2005, respectively. Ending balances included in the data totaled $1,718 billion, $1,482 billion and $1,333 billion at December 31, 2007, 2006 and 2005, respectively. Ending balances exclude $6.4 billion, $5.4 billion, and $6.7 billion for 2007, 2006, and 2005, respectively, for certain Structured Transactions backed by non-Freddie Mac securities issued for which the loan characteristics data was not available because we are not the servicer of the underlying securities or the mortgage loans underlying those securities, or where there were substantial credit enhancements that reduced the expected exposure to loss to such an extent that disclosure of the underlying loan characteristics was not considered meaningful.

(2) Original LTV ratios are calculated as the amount of the mortgage we guarantee, including any portion covered by credit enhancement, divided by the lesser of the appraised value of the property at time of mortgage origination or the mortgage borrower s purchase price. Second liens not owned or guaranteed by us are excluded from the LTV ratio calculation.

(3) Current market values are estimated by adjusting the value of the property at origination based on changes in the market value of homes since origination. Estimated current LTV ratio range is not applicable to purchases made during the year and excludes any secondary financing by third parties. Including secondary financing, the total LTV ratios above 90% have risen to 14% as of December 31, 2007.

(4) Credit score data is as of mortgage loan origination for all loans within mortgage pools underlying our issued PCs and Structured Securities, as well as mortgage loans held in our retained portfolio, and is based on the rating system scale developed by Fair, Isaac and Co., Inc., or FICO®, scores.

Loan-to-Value Ratios. An important safeguard against credit losses for mortgage loans in our single-family non-credit-enhanced portfolio is provided by the borrowers equity in the underlying properties. Our charter requires that single-family mortgages with LTV ratios above 80% at the time of purchase be covered by one or more of the following: (a) mortgage insurance for mortgage amounts above the 80% threshold; (b) a seller s agreement to

repurchase or replace any mortgage upon default; or (c) retention by the seller of at least a 10% participation interest in the mortgages. In addition, we employ

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other types of credit enhancements, including pool insurance, indemnification agreements, collateral pledged by lenders and subordinated security structures.

The likelihood of single-family mortgage default depends not only on the initial credit quality of the loan, but also on events that occur after origination. Accordingly, we monitor changes in home prices across the country and the impact of these home price changes on the underlying LTV ratio of mortgages in our portfolio. While home prices rose significantly during the years prior to 2006, growth slowed significantly during 2006 and home prices generally declined in 2007 across the United States. We monitor regional geographic markets for changes in these trends, particularly with respect to new loans originated in regional markets that have had significant home price appreciation, and we may seek to reinsure a portion of our risk. Historical experience has shown that defaults are less likely to occur on mortgages with lower estimated current LTV ratios. At December 31, 2007, 2006 and 2005, single-family mortgage portfolio loans with 80% or less in estimated current LTV ratio, totaled 75%, 90% and 92%, respectively, which indicates an increase in our exposure to losses in the event of default.

Credit Score. Credit scores are a useful measure for assessing the credit quality of a borrower. Credit scores are numbers reported by credit repositories, based on statistical models, that summarize an individual s credit record and predict the likelihood that a borrower will repay future obligations as expected. FICO scores are the most commonly used credit scores today. FICO scores are ranked on a scale of approximately 300 to 850 points. Statistically, consumers with higher credit scores are more likely to repay their debts as expected than those with lower scores. At December 31, 2007, 2006 and 2005, the weighted average credit score for single-family mortgage portfolio (based on the credit score at origination) remained high at 723, 725 and 725, respectively, indicating borrowers with strong credit quality.

Loan Purpose. Mortgage loan purpose indicates how the borrower intends to use the funds from a mortgage loan. The three general categories are purchase, cash-out refinance and other refinance. In a purchase transaction, funds are used to acquire a property. In a cash-out refinance transaction, in addition to paying off an existing first mortgage lien, the borrower obtains additional funds that may be used for other purposes, including paying off subordinate mortgage liens and providing unrestricted cash proceeds to the borrower. In other refinance transactions, the funds are used to pay off an existing first mortgage lien and may be used in limited amounts for certain specified purposes; such refinances are generally referred to as no cash-out or rate and term refinances. Other refinance transactions also include refinance mortgages for which the delivery data provided was not sufficient for us to determine whether the mortgage was a cash-out or a no cash-out refinance transaction. Given similar loan characteristics (*e.g.*, LTV ratios), purchase transactions have the lowest likelihood of default followed by no cash-out refinances and then cash-out refinances. The amount of purchase mortgages in our single-family mortgage portfolio has been increasing in each of the last three years as homeownership rates in the U.S. have also increased.

Property Type. Single-family mortgage loans are defined as mortgages secured by housing with up to four living units. Mortgages on one-unit properties tend to have lower credit risk than mortgages on multiple-unit properties.

Occupancy Type. Borrowers may purchase a home as a primary residence, second/vacation home or investment property that is typically a rental property. Mortgage loans on properties occupied by the borrower as a primary or secondary residence tend to have a lower credit risk than mortgages on investment properties.

Geographic Concentration. Because our business involves purchasing mortgages from every geographic region in the U.S., we maintain a geographically diverse single-family mortgage portfolio. This diversification generally mitigates credit risks arising from changing local economic conditions. Our single-family mortgage portfolio s geographic distribution was relatively stable from 2005 to 2007, and remains broadly diversified across these regions. See NOTE 17: CONCENTRATION OF CREDIT AND OTHER RISKS to our audited consolidated financial statements for more information concerning the distribution of our single-family mortgage portfolio by geographic region.

Higher Risk Combinations. Combining certain loan characteristics often can indicate a higher degree of credit risk. For example, mortgages with both high LTV ratios and borrowers who have lower credit scores typically experience higher rates of delinquency, default and credit losses. As of December 31, 2007, approximately 1% of single-family mortgage loans we have guaranteed were made to borrowers with credit scores below 620 and had original LTV ratios above 90% at the time of mortgage origination. In addition, as of December 31, 2007, 4% of Alt-A and interest-only single-family loans we have guaranteed have been made to borrowers with credit scores below 620 at mortgage origination. These combinations of loans represent categories that have inherently greater credit risk, but reflect our efforts to meet increasingly demanding affordable housing goals. For the 25% of single-family mortgage loans with greater than 80% estimated current LTV ratios, the borrowers had a weighted average credit score at origination of 708 and 705 at December 31, 2007 and 2006, respectively. Similarly, for the 14% of single-family mortgage loans where the average credit score at origination was less than 660, the average estimated current LTV ratios were 71% and 63% at December 31, 2007 and 2006, respectively. As home prices increased during 2006 and prior years, many borrowers used second liens at the time of purchase to potentially reduce their

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LTV ratio to below 80%. Including this secondary financing, we estimate that the percentage of loans we have guaranteed with total LTV ratios above 90% has risen to 14% as of December 31, 2007.

Loss Mitigation Activities

Loss mitigation activities are a key component of our strategy for managing and resolving troubled assets and lowering credit losses. Our single-family loss mitigation strategy emphasizes early intervention in delinquent mortgages and providing alternatives to foreclosure. Other single-family loss mitigation activities include providing our single-family servicers with default management tools designed to help them manage non-performing loans more effectively and support fulfillment of our mission by assisting borrowers in retaining homeownership. Foreclosure alternatives are intended to reduce the number of delinquent mortgages that proceed to foreclosure and, ultimately, mitigate our total credit losses by reducing or eliminating a portion of the costs related to foreclosed properties and avoiding the credit loss in REO.

Our foreclosure alternatives include:

Repayment plans are contractual plans to make up past due amounts. They mitigate our credit losses because they assist borrowers in returning to compliance with the original terms of their mortgages.

Loan modifications, which involve adding delinquent interest to the original unpaid principal balance of the loan or changing other terms of a mortgage as an alternative to foreclosure. We examine the borrower s capacity to make payments under the new terms by reviewing the borrower s qualifications, including income and other indebtedness.

Forbearance agreements, under which reduced payments or no payments are required during a defined period. They provide a temporary suspension of the foreclosure process to allow additional time for the borrower to return to compliance with the original terms of the borrower s mortgage or to implement another foreclosure alternative.

Pre-foreclosure sales, in which the borrower, working with the servicer, sells the home and pays off all or part of the outstanding loan, accrued interest and other expenses from the sale proceeds.

Table 54 presents the number of loans with foreclosure alternatives for the years ended December 31, 2007, 2006 and 2005.

Table 54 Single-Family Foreclosure Alternatives[1]

	December 31,		
	2007	**2006**	**2005**
	(number of loans)		
Repayment plans	38,809	36,996	38,740
Loan modifications	8,105	9,348	6,232
Forbearance agreements	3,108	11,152	13,403
Pre-foreclosure sales	2,009	1,575	1,672
Foreclosure alternatives	52,031	59,071	60,047

(1) Based on the single-family mortgage portfolio, excluding non-Freddie Mac mortgage-related securities, Structured Transactions, and that portion of Structured Securities that is backed by Ginnie Mae Certificates.

The total number of loans with foreclosure alternatives decreased in 2007, as compared to 2006 and 2005, due to a significant reduction in the number of forbearance agreements that were extended to single-family borrowers affected by Hurricane Katrina in 2005 and 2006. Absent the impact of Hurricane Katrina, the number of foreclosure alternatives increased slightly due to the deterioration of the residential mortgage market during 2007.

We require multifamily seller/servicers to closely manage mortgage loans they have sold us in order to mitigate potential losses. For loans over $1 million, servicers must generally submit an annual assessment of the mortgaged property to us based on the servicer s analysis of financial and other information about the property and, except for certain higher performing loans, an inspection of the property. We evaluate these assessments internally and may direct the servicer to take specific actions to reduce the likelihood of delinquency or default. If a loan defaults despite these actions, we may offer a foreclosure alternative to the borrower. For example, we may modify the terms of a multifamily mortgage loan, which gives the borrower an opportunity to bring the loan current and retain ownership of the property. Because the activities of multifamily seller/servicers are an important part of our loss mitigation process, we rate their performance regularly and conduct on-site reviews of their servicing operations to confirm compliance with our standards.

Performing and Non-Performing Assets

We have classified loans in our single-family mortgage portfolio that are past due for 90 days or more (seriously delinquent) or whose contractual terms have been modified due to the financial difficulties of the borrower as non-performing assets. Similarly, multifamily loans are classified as non-performing assets if they are 60 days or more past due (seriously delinquent), if collectibility of principal and interest is not reasonably assured based on an individual loan level assessment, or if their contractual terms have been modified due to financial difficulties of the borrower. Table 55 provides detail on performing and non-performing assets in our total mortgage portfolio.

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Table 55 Performing and Non-Performing Assets[1]

	December 31, 2007			
		Non-Performing Assets		
	Performing Assets[2]	Less Than 90 Days Past Due[3]	Seriously Delinquent[4]	Total
	(in millions)			
Mortgage loans in retained portfolio				
Multifamily	$ 57,295	$	$ 3	$ 57,298
Multifamily troubled debt restructurings		264	7	271
Subtotal, mortgage loans in retained portfolio, multifamily	57,295	264	10	57,569
Single-family	13,591		698	14,289
Single-family loans purchased under financial guarantees[5]	2,399		4,602	7,001
Single-family troubled debt restructurings		2,690	609	3,299
Subtotal, mortgage loans in retained portfolio, single-family	15,990	2,690	5,909	24,589
Subtotal, mortgage loans in retained portfolio	73,285	2,954	5,919	82,158
Guaranteed PCs and Structured Securities				
Multifamily	10,607	51		10,658
Single-family[6]	1,700,543		6,141	1,706,684
Structured Securities backed by non-Freddie Mac mortgage-related securities[7]	19,846		1,645	21,491
Subtotal, guaranteed PCs and Structured Securities	1,730,996	51	7,786	1,738,833
REO, Net			1,736	1,736
Totals	$ 1,804,281	$ 3,005	$ 15,441	$ 1,822,727

	December 31, 2006 (Adjusted)		
	Non-Performing Assets		
	Less Than 90		

	Performing Assets[2]	Days Past Due[3]	Seriously Delinquent[4]	Total
		(in millions)		
Mortgage loans in retained portfolio				
Multifamily	$ 44,845	$	$	$ 44,845
Multifamily troubled debt restructurings		362		362
Subtotal, mortgage loans in retained portfolio, multifamily	44,845	362		45,207
Single-family	13,843		1,125	14,968
Single-family loans purchased under financial guarantees[5]	1,156		1,827	2,983
Single-family troubled debt restructurings		2,219	470	2,689
Subtotal, mortgage loans in retained portfolio, single-family	14,999	2,219	3,422	20,640
Subtotal, mortgage loans in retained portfolio	59,844	2,581	3,422	65,847
Guaranteed PCs and Structured Securities				
Multifamily	8,333	52	30	8,415
Single-family[6]	1,440,585		1,721	1,442,306
Structured Securities backed by non-Freddie Mac mortgage-related securities[7]	25,305		997	26,302
Subtotal, guaranteed PCs and Structured Securities	1,474,223	52	2,748	1,477,023
REO, Net			743	743
Totals	$ 1,534,067	$ 2,633	$ 6,913	$ 1,543,613

(1) Based on unpaid principal balance. Effective December 2007, we established securitization trusts for the underlying assets of our PCs and Structured Securities issued. As a result, we adjusted the reported balance of our mortgage portfolios to reflect the publicly-available security balances of our PCs and Structured Securities. Previously we reported these balances based on the unpaid principal balance of the underlying mortgage loans.

(2) Consists of single-family loans that are less than 90 days past due and multifamily loans less than 60 days past due under the original terms of the mortgage as of period end and have not had loan terms modified.

(3) Includes single-family loans that were previously reported as seriously delinquent and for which the original loan terms have been modified.

(4) Consists of single-family loans 90 days or more delinquent or in foreclosure and multifamily loans 60 days or more delinquent at period end. Delinquency status does not apply to REO; however, REO is included in non-performing assets.

(5) Represents those loans purchased from the mortgage pools underlying our PCs, Structured Securities or long-term standby agreements due to the borrower s delinquency. Once we purchase a loan under our financial guarantee it is placed on non-accrual status as long as it remains greater than 90 days past due. Through November 2007, our general practice was to purchase the mortgage loans out of PCs after the loans became 120 days delinquent. Effective December 2007, our practice changed to purchase these impaired loans out of our PC pools when the loans have been modified, foreclosure sales occur, or when the loans have been delinquent for 24 months, unless

we determine it is economically beneficial to do so sooner.

(6) Excludes our Structured Securities that we classify separately as Structured Transactions.

(7) Consists of our Structured Transactions and that portion of Structured Securities that are backed by Ginnie Mae Certificates.

The amount of non-performing assets increased 93% at December 31, 2007, to approximately $18.4 billion, from $9.5 billion at December 31, 2006, due to the continued deterioration in single-family housing market fundamentals which has resulted in higher delinquency transition rates in 2007. This rate increased in 2007, compared to 2006. The changes in these delinquency transition rates, as compared to our historical experience, have been progressively worse for loans originated in 2006 and 2007. We believe this trend is, in part, due to greater origination volume of non-traditional loans, such as interest-only mortgages, as well as an increase in total LTV ratios for mortgage loans originated in those years. In addition, the average size of the unpaid principal balance related to non-performing assets in our portfolio rose in 2007. As a

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result, the balance of our REO, net, increased 134% in 2007. Until nationwide home prices return to historical appreciation rates or selected regional economies improve, we expect to continue to experience higher delinquency transition rates than those experienced in 2006 and an increase in non-performing assets.

Delinquencies

We report single-family delinquency information based on the number of loans that are 90 days or more past due or in foreclosure. For multifamily loans, we report the delinquency when payment is 60 days or more past due. We include all the single-family loans that we own and those that are collateral for our PCs and Structured Securities, including those with significant credit enhancement, in the calculation of delinquency information; however, we exclude that portion of our Structured Securities that is backed by Ginnie Mae Certificates and our Structured Transactions. We exclude Structured Securities backed by Ginnie Mae Certificates because these securities do not expose us to meaningful amounts of credit risk due to the guarantee provided on these securities by the U.S. government. Structured Transactions represented 1%, 2% and 2% of our total mortgage portfolio at December 31, 2007, 2006 and 2005, respectively. We exclude Structured Transactions from the delinquency rates of our single-family mortgage portfolio because these are backed by non-Freddie Mac securities and consequently, we do not service the underlying loans and do not perform principal loss mitigation. Many of these securities are significantly credit enhanced through subordination and are not representative of the loans for which we have primary, or first loss exposure. Multifamily delinquencies may include mortgage loans where the borrowers are not paying as agreed, but principal and interest are being paid to us under the terms of a credit enhancement agreement. Table 56 presents delinquency information for the single-family loans underlying our total mortgage portfolio.

Table 56 Single-Family Delinquency Rates, Excluding Structured Transactions by Region

	December 31, 2007		December 31, 2006		December 31, 2005	
	Percent of Unpaid Principal Balance[2]	Delinquency Rate[3]	Percent of Unpaid Principal Balance[2]	Delinquency Rate[3]	Percent of Unpaid Principal Balance[2]	Delinquency Rate[3]
Northeast[1]	24%	0.39%	24%	0.24%	24%	0.22%
Southeast[1]	18	0.59	18	0.30	18	0.38
North Central[1]	20	0.48	21	0.32	22	0.30
Southwest[1]	13	0.32	13	0.26	13	0.64
West[1]	25	0.42	24	0.12	23	0.11
	100%		100%		100%	
Total non-credit-enhanced all regions		0.45		0.25		0.30
Total credit-enhanced all regions		1.62		1.30		1.61
Total single-family portfolio		0.65		0.42		0.53

(1) Presentation of non-credit-enhanced delinquency rates with the following regional designation: West (AK, AZ, CA, GU, HI, ID, MT, NV, OR, UT, WA); Northeast (CT, DE, DC, MA, ME, MD, NH, NJ, NY, PA, RI, VT, VA, WV); North Central (IL, IN, IA, MI, MN, ND, OH, SD, WI); Southeast (AL, FL, GA, KY, MS, NC, PR, SC, TN, VI); and Southwest (AR, CO, KS, LA, MO, NE, NM, OK, TX, WY).

(2) Percentages are based on mortgage loans in the retained portfolio and total PCs and Structured Securities issued, excluding that portion of our Structured Securities that is backed by Ginnie Mae Certificates.
(3) Percentages are based on number of loans and excluding Structured Transactions.

During 2007 and continuing into 2008, home prices have continued to decline. In some geographical areas, particularly in the North Central region, this decline has been combined with increased rates of unemployment and weakness in home sales, which has resulted in increases in delinquency rates throughout 2007. We have also experienced increases in delinquency rates in the Northeast, Southeast and West regions in 2007.

Although Structured Transactions generally have underlying mortgage loans with a variety of risk characteristics, many of them may afford us credit protection from losses due to the underlying structure employed and additional credit enhancement features. Delinquency rates on Structured Transactions were 9.86%, 8.36% and 12.34% at December 31, 2007, 2006 and 2005, respectively. The delinquency rate of the total single-family portfolio, including Structured Transactions, was 0.76%, 0.54% and 0.71% at December 31, 2007, 2006 and 2005, respectively.

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Table 57 Single-Family Mortgages by Year of Origination Percentage of Mortgage Portfolio and Non-Credit-Enhanced Delinquency Rates(1)

	December 31,					
	2007		2006		2005	
Year of Origination	Percent of Single-Family Unpaid Principal Balance	Non-Credit-Enhanced Delinquency Rate	Percent of Single-Family Unpaid Principal Balance	Non-Credit-Enhanced Delinquency Rate	Percent of Single-Family Unpaid Principal Balance	Non-Credit-Enhanced Delinquency Rate
Pre-2000	3%	0.64%	4%	0.58%	6%	0.73%
2000	< 1	1.63	< 1	1.83	< 1	2.09
2001	2	0.60	3	0.60	4	0.75
2002	6	0.37	9	0.32	11	0.38
2003	20	0.20	26	0.15	34	0.17
2004	13	0.35	16	0.22	21	0.21
2005	18	0.51	23	0.19	24	0.08
2006	18	0.89	19	0.09		
2007	20	0.35				
Total	100%	0.45	100%	0.25	100%	0.30

(1) Excludes Structured Transactions.

Our single-family mortgage portfolio was affected by heavy refinance volumes, which have contributed to higher liquidation rates during the last five years. At December 31, 2007, approximately 56% of our single-family mortgage portfolio consisted of mortgage loans originated in 2007, 2006 or 2005. The single-family loans in our retained portfolio and underlying our PCs and Structured Securities that were originated in 2007, 2006 and 2005 have experienced higher rates of delinquency in the earlier years of their terms as compared to our historical experience for newer originations. We attribute this increase to a number of factors, including the expansion of credit terms under which loans are underwritten and an increase in our purchases of adjustable-rate and non-traditional mortgage products that have higher inherent credit risk than traditional fixed-rate mortgage products. Table 58 presents the delinquency rates of our single-family retained mortgages and those that underlie our PCs and Structured Securities categorized by product type.

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Table 58 Single-Family Delinquency Rates By Product

	Non-Credit-Enhanced, December 31,					
	2007		2006		2005	
	Percent of Number of Single-Family Loans	Delinquency Rate	Percent of Number of Single-Family Loans	Delinquency Rate	Percent of Number of Single-Family Loans	Delinquency Rate
Conventional:						
30-year amortizing fixed-rate[1]	60%	0.46%	55%	0.31%	52%	0.40%
15-year amortizing fixed-rate	29	0.18	34	0.14	38	0.19
ARMs/adjustable-rate	4	0.36	6	0.26	6	0.22
Interest-only	5	1.85	3	0.30	1	0.04
Balloon/resets	1	0.33	1	0.19	2	0.19
Total mortgage loans, PCs and Structured Securities	99	0.45	99	0.25	99	0.30
Structured Transactions	1	1.88	1	0.22	1	0.10
Total mortgage portfolio	100%	0.45	100%	0.25	100%	0.30
Number of single-family loans (in millions)	10.10		9.23		8.67	

	Credit-Enhanced[4], December 31,					
	2007		2006		2005	
	Percent of Number of Single-Family Loans	Delinquency Rate	Percent of Number of Single-Family Loans	Delinquency Rate	Percent of Number of Single-Family Loans	Delinquency Rate
Conventional:						
30-year amortizing fixed-rate[1]	80%	1.60%	75%	1.32%	72%	1.74%
15-year amortizing fixed-rate	5	0.63	7	0.64	9	0.81
ARMs/adjustable-rate	4	1.14	6	1.21	8	1.05
Interest-only	4	3.11	3	1.05	2	0.23
Balloon/resets	< 1	1.55	1	0.98	1	0.91
FHA/VA	2	2.96	2	2.99	2	4.03
Rural Housing Service and other federally guaranteed loans	1	2.85	1	2.65	1	3.34

Total mortgage loans, PCs and Structured Securities	96	1.62	95	1.30	95	1.61
Structured Transactions[2]	4	13.79	5	14.43	5	19.65
Total mortgage portfolio	100%	2.14	100%	1.93	100%	2.54
Number of single-family loans (in millions)	2.23		1.95		1.92	

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	Total, December 31,					
	2007		2006		2005	
	Percent of Number of Single-Family Loans	Delinquency Rate	Percent of Number of Single-Family Loans	Delinquency Rate	Percent of Number of Single-Family Loans	Delinquency Rate
Conventional:						
30-year amortizing fixed-rate[1]	64%	0.72%	60%	0.54%	56%	0.72%
15-year amortizing fixed-rate	25	0.20	29	0.16	33	0.22
ARMs/adjustable-rate	4	0.50	6	0.44	7	0.39
Interest-only	5	2.03	3	0.44	1	0.10
Balloon/resets	1	0.41	1	0.25	2	0.25
FHA/VA	< 1	2.96	< 1	2.99	< 1	4.03
Rural Housing Service and other federally guaranteed loans	< 1	2.85	< 1	2.65	< 1	3.34
Total mortgage loans, PCs and Structured Securities	99	0.65	99	0.42	99	0.53
Structured Transactions[2][3]	1	9.86	1	8.36	1	12.34
Total mortgage portfolio	100%	0.76	100%	0.54	100%	0.71
Number of single-family loans (in millions)	12.33		11.18		10.59	
Net charge-offs (dollars in millions)						
Mortgage loans, PCs and Structured Securities	$289		$141		$101	
Structured Transactions[2][3][5]	1		1			
Total mortgage portfolio	$290		$142		$101	

(1) Includes 40-year and 20-year fixed-rate mortgages.

(2) Structured Transactions generally have underlying mortgage loans with a variety of risk characteristics. However, we purchase the more senior tranches. We do not purchase the subordinated tranches. Further, the securities have certain features designed to provide credit protection to the senior tranches, including excess interest and overcollateralization, which are retained by the seller.

(3) Includes $13 billion, $19 billion and $18 billion of option ARM loans that are underlying our Structured Transactions as of December 31, 2007, 2006 and 2005, respectively.

(4) Credit-enhanced loans are primarily those mortgage loans for which a third party has primary default risk. The total credit-enhanced unpaid principal balance as of December 31, 2007, 2006 and 2005 was $326 billion, $266 billion and $253 billion, respectively, for which the maximum coverage of third party primary liability was $55 billion, $58 billion and $53 billion, respectively.

(5) Does not include credit losses related to Structured Transactions that were held in our retained portfolio.

Increases in delinquency rates occurred in all product types in 2007, but were most significant for interest-only and option ARM mortgages. Delinquency rates for interest-only and option ARM products, increased to 203 and 224 basis points, respectively, compared to 44 and 31 basis points at December 31, 2006, respectively. The delinquency rate on our total single-family portfolio, excluding that portion of Structured Securities that is backed by Ginnie Mae Certificates and Structured Transactions, was 65 basis points at December 31, 2007, as compared to 42 basis points as of December 31, 2006. Although we believe our delinquency rates have remained low relative to conforming loan delinquency rates of other industry participants, we expect our delinquency rates to continue to rise in 2008. Our multifamily delinquency rate remained very low at 0.02%, 0.06% and % at the end of 2007, 2006 and 2005, respectively.

Table 59 presents activities related to loans acquired under financial guarantees in 2007.

Table 59 Changes in Loans Purchased Under Financial Guarantees[1]

	2007			
	Unpaid Principal Balance	Purchase Discount	Loan Loss Reserves	Net Investment
	(in millions)			
Beginning balance	$ 2,983	$ (220)	$	$ 2,763
Purchases of loans	8,833	(2,364)		6,469
Provision for credit losses			(12)	(12)
Principal repayments	(1,486)	197	4	(1,285)
Troubled debt restructurings[2]	(694)	129		(565)
Foreclosures, transferred to REO	(2,635)	491	6	(2,138)
Ending balance[3]	$ 7,001	$ (1,767)	$ (2)	$ 5,232

(1) Consists of seriously delinquent loans purchased at our option in performance of our financial guarantees since January 1, 2006.
(2) Consist of loans that have transitioned into troubled debt restructurings during the stated period.
(3) Includes loans that have subsequently returned to current status under the original loan terms at December 31, 2007.

As securities administrator, we are required to purchase a mortgage loan from a mortgage pool if a court of competent jurisdiction or a federal government agency, duly authorized to oversee or regulate our mortgage purchase business, determines that our original purchase of the mortgage from the seller was unauthorized and a cure is not practicable without unreasonable effort or expense, or if such a court or government agency requires us to repurchase the mortgage. To date, we have never been required to repurchase a mortgage loan at the direction of such a court or government agency. Additionally,

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we are required to purchase all convertible ARMs when the borrower exercises the option to convert the interest rate from an adjustable rate to a fixed rate; and in the case of balloon loans, shortly before the mortgage reaches its scheduled balloon repayment date. For 2007 and 2006, we purchased $593 million and $173 million, respectively, of such convertible ARMs and balloon loans. We have the right to purchase mortgages that back our PCs and Structured Securities from the underlying loan pools when they are significantly past due. This right to repurchase collateral is known as our repurchase option. Through November 2007, our general practice was to purchase the mortgage loans out of PCs after the loans became 120 days delinquent. Effective December 2007, our practice changed to purchase these loans out of our PCs when the loans have been modified, foreclosure sales occur, or when the loans have been delinquent for 24 months, unless we determine it is economically beneficial to do so sooner. Consequently, we purchased relatively few impaired loans under our repurchase option in December 2007. We record at fair value loans that we purchase out of our guaranteed PCs and Structured Securities in connection with our repurchase option. We record losses on loans purchased on our consolidated statements of income in order to reduce our net investment in acquired loans to their fair value.

The unpaid principal balance of non-performing loans that have been purchased under our financial guarantees and that have not been modified under troubled debt restructurings increased approximately 135% in 2007. This increase is attributable to an increase in the volume of delinquent loans in 2007 as well as an increase in the average size of the unpaid principal balance of those loans. We purchased approximately $8.8 billion in unpaid principal balances of these loans with a fair value at acquisition of $6.5 billion.

Loans acquired in 2007 added approximately $2.4 billion of purchase discount, which is comprised of $0.5 billion that was previously recorded on our consolidated balance sheets as loan loss reserve and $1.9 billion of losses on loans purchased as shown on our consolidated statements of income during 2007. We expect that we will continue to incur losses on the purchase of non-performing loans in 2008. However, the volume and severity of these losses is dependent on many factors, including the effects of our change in practice for repurchases and regional changes in home prices.

Recoveries on loans impaired upon purchase represent the recapture into income of previously recognized losses on loans purchased and provision for credit losses associated with purchases of delinquent loans from our PCs and Structured Securities in conjunction with our guarantee activities. Recoveries occur when a non-performing loan is repaid in full or when at the time of foreclosure the estimated fair value of the acquired property, less costs to sell, exceeds the carrying value of the loan. During 2007, we recognized recoveries on loans impaired upon purchase of $505 million. For impaired loans where the borrower has made required payments that return to current status, the basis adjustments are accreted into interest income over time as periodic payments are received. As of December 31, 2007, the cure rate for non-performing loans purchased out of PCs during 2007 and 2006 was approximately 34% and 56%, respectively. The cure rate is the percentage of non-performing loans purchased from PCs under our financial guarantee that have returned to current status, paid off, or have been modified, divided by the total non-performing loans purchased from PCs under our financial guarantee. A modified mortgage loan is classified as performing to the extent it is 90 days or less past due. We believe, based on our historical experience with 2006 and 2007 purchases, as well as our access to credit enhancement remedies that we will continue to recognize recoveries in future periods on loans impaired upon purchase during 2007.

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Table 60 shows the status of delinquent Single-family loans purchased under financial guarantees.

Table 60 Status of Delinquent Single-Family Loans Purchased Under Financial Guarantees[1]

Status as of December 31, 2007

	2007						
	Q4	Q3	Q2	Q1	2007[2]	2006[2]	2005[2]
Cured, with modifications[2]	3%	5%	6%	7%	5%	8%	8%
Cured, without modifications[3]							50[6]
Returned to less than 90 days past due	16	18	20	25	20	23	
Loans repaid in full or repurchased by lenders	3	8	13	17	9	24	
Total cured	22	31	39	49	34	55	58
90 days or more delinquent	69	46	31	21	43	14	8
REO/Foreclosure Alternatives[4]	9	23	30	30	23	31	34
Total	100%	100%	100%	100%	100%	100%	100%

Status as of the End of Each Respective Period

	2007						
	Q4	Q3	Q2	Q1	2007[2]	2006[2]	2005[2]
Cured, with modifications[2]	3%	2%	3%	3%	5%	6%	5%
Cured, without modifications[3]							38[6]
Returned to less than 90 days past due	16	15	18	22	20	25	
Loans repaid in full or repurchased by lenders	3	3	5	4	9	14	
Total cured	22	20	26	29	34	45	43
90 days or more delinquent	69	73	67	65	43	38	40
REO/Foreclosure Alternatives[4]	9	7	7	6	23	17	17
Total	100%	100%	100%	100%	100%	100%	100%
Number of delinquent loans purchased[5]	15,700	16,700	12,700	13,800	58,900	42,000	42,500

(1) Percentages are based on number of single-family delinquent loans purchased under our guarantee during each respective period.

(2) Consists of loans that are less than 90 days past due under modified terms. Of the percentage of loans reported as cured in the table, approximately 99%, for each year presented, represent loans for which we believe we will ultimately collect the full original contractual principal and interest payments.

(3) Consists of the following: (a) loans that have returned to less than 90 days past due; (b) loans that have been repaid in full; (c) loans that have been repurchased by lenders.
(4) Consists of foreclosures, pre-foreclosure sales, sales of real estate owned to third parties, and deeds in lieu of foreclosure.
(5) Represents the number of single-family delinquent loans purchased under our guarantee during each respective period, rounded to hundreds of units.
(6) The detailed percentages for loans returned to less than 90 days past due and loans repaid in full and repurchased by lenders were not available, so only the total for both categories is presented.

We have experienced increases in the rate at which loans transition from delinquency to foreclosure and have added to our REO balances as evidenced by the increase of the REO rate of our 2007 purchases. As discussed below, we believe that our cure rate statistics have certain limitations due to both the lag effect inherent in delinquent loans as well as the poorer performance of loans that were originated during 2007. Throughout 2007 and continuing into 2008, consistent with most mortgage loan servicers, we have increasingly expanded our use of loan modifications and other foreclosure alternatives to reduce the incidents of default and foreclosure. However, due to the significant lag between the time a loan is purchased from our PCs and the conclusion of the loan resolution process, these statistics, particularly for more recent loan purchases, do not fully reflect our current modification efforts. Additionally, they are likely to change significantly and may not be indicative of the ultimate performance of these loans. We believe our recent efforts have only helped partially offset the increases in volumes of delinquent loan purchases during each successive period during 2007.

As discussed above, beginning in December 2007, we significantly decreased our purchases of delinquent loans from our PCs. Although this action decreased the number of loans we purchase it had no effect on our loss mitigation efforts nor our ultimate credit losses and cure rates. However, we believe this will have significant impacts to our cure rate statistics for the sub-population of loans purchased under financial guarantees in 2008, because loans that in prior years that would have been purchased from the pools after a serious delinquency will now generally remain in the pools until the loans have been modified. Other loans for which foreclosure sale occurs or that have been delinquent for 24 months are now purchased from the pools at dates generally later than before. Accordingly, while the number of loans we purchase will decrease in the near term, we anticipate the percentage of Cured, with modifications and REO/Foreclosure Alternatives for loans purchased under financial guarantees in 2008 will increase substantially, with a corresponding decrease in the percentage of Cured, without modifications and 90 days or more delinquent.

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Credit Loss Performance

Table 61 provides detail on our credit loss performance associated with mortgage loans in our retained portfolio, including those purchased out of PCs and Structured Securities.

Table 61 Credit Loss Performance

	December 31,		
	2007	2006	2005
	(dollars in millions)		
REO			
REO balances:			
Single-family	$ 1,736	$ 734	$ 611
Multifamily		9	18
Total	$ 1,736	$ 743	$ 629
REO activity (number of properties):[1]			
Beginning property inventory	8,785	8,070	9,604
Properties acquired	22,840	16,387	15,861
Properties disposed	(17,231)	(15,672)	(17,395)
Ending property inventory	14,394	8,785	8,070
Average holding period (in days)[2]	167	175	186
REO operations income (expense):			
Single-family	$ (205)	$ (61)	$ (40)
Multifamily	(1)	1	
Total	$ (206)	$ (60)	$ (40)
CHARGE-OFFS			
Single-family:			
Foreclosure alternatives, gross	$ (57)	$ (50)	$ (44)
Recoveries[3]	19	11	23
Foreclosure alternatives, net	(38)	(39)	(21)
REO acquisitions, gross	(471)	(258)	(242)
Recoveries[3]	219	155	162
REO acquisitions, net	(252)	(103)	(80)
Single-family totals:			
Charge-offs, gross[4] (including $372 million, $308 million and $286 million relating to loan loss reserves, respectively)	(528)	(308)	(286)
Recoveries[3]	238	166	185

Single-family charge-offs, net	(290)	(142)	(101)
Multifamily:			
Charge-offs, gross[4] (including $4 million, $5 million and $8 million relating to loan loss reserves, respectively)	(4)	(5)	(8)
Recoveries[3]	1		
Multifamily charge-offs, net	(3)	(5)	(8)
Total Charge-offs:			
Charge-offs, gross[4] (including $376 million, $313 million and $294 million relating to loan loss reserves, respectively)	(532)	(313)	(294)
Recoveries:			
Related to primary mortgage insurance	156	112	119
Related to other credit enhancements	83	54	66
Total recoveries[3]	239	166	185
Charge-offs, net	$ (293)	$ (147)	$ (109)
CREDIT LOSSES[5]			
Single-family	$ (495)	$ (203)	$ (141)
Multifamily	(4)	(4)	(8)
Total	$ (499)	$ (207)	$ (149)
In basis points[6]			
Single-family	(3.0)	(1.4)	(1.1)
Multifamily			
Total	(3.0)	(1.4)	(1.1)

(1) Includes single-family and multifamily REO properties.
(2) Represents weighted average holding period for single-family and multifamily properties based on number of REO properties.
(3) Includes recoveries of charge-offs primarily resulting from foreclosure alternatives and REO acquisitions on loans where a share of default risk has been assumed by mortgage insurers, servicers, or other third parties through credit enhancements.
(4) Charge-offs represent the amount of the unpaid principal balance of a loan that has been discharged in order to remove the loan from our retained portfolio at the time of resolution, regardless of when the impact of the credit loss was recorded on our consolidated statements of income through the provision for credit losses or losses on loans purchased. The amount of charge-offs for credit loss performance is generally derived as the contractual balance of a loan at the date it is discharged less the estimated value in final disposition.
(5) Equal to REO operations income (expense) plus charge-offs, net.
(6) Calculated as credit losses divided by the average total mortgage portfolio, excluding non-Freddie Mac mortgage-related securities and that portion of Structured Securities that is backed by Ginnie Mae Certificates.

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Our credit loss performance is a historic metric that measures losses at the conclusion of the loan resolution process. Our credit loss performance does not include our provision for credit losses and losses on loans purchased. We expect our credit losses to continue to increase in 2008, especially if market conditions, such as home prices and the rate of home sales, continue to deteriorate.

Table 62 and Table 63 provide detail by region for two credit performance statistics, REO activity and charge-offs. Regional REO acquisition and charge-off trends generally follow a pattern that is similar to, but lags, that of regional delinquency trends.

Table 62 REO Activity by Region(1)

	December 31,		
	2007	2006	2005
	(number of properties)		
REO Inventory			
Beginning property inventory	8,785	8,070	9,604
Properties acquired by region:			
Northeast	2,336	1,253	1,306
Southeast	4,942	3,970	4,504
North Central	9,175	7,236	5,790
Southwest	3,977	3,498	3,412
West	2,410	430	849
Total properties acquired	22,840	16,387	15,861
Properties disposed by region:			
Northeast	(1,484)	(1,260)	(1,384)
Southeast	(4,009)	(4,132)	(5,221)
North Central	(7,520)	(6,294)	(5,715)
Southwest	(3,488)	(3,441)	(3,820)
West	(730)	(545)	(1,255)
Total properties disposed	(17,231)	(15,672)	(17,395)
Ending property inventory	14,394	8,785	8,070

(1) See Table 56 Single-Family Delinquency Rates, Excluding Structured Transactions By Region for a description of these regions.

Our REO property inventories increased 64% in 2007 reflecting the impact of the weakening housing market and tightening credit standards. In addition, the impact of a national decline in home prices and a decrease in the volume of home sales activity during 2007 lessens the alternatives to foreclosure for homeowners exposed to temporary deterioration in their financial condition. Increases in our REO inventories have been most severe in areas of the country where unemployment rates continue to be high, such as the North Central region. The East and West coastal areas of the country also experienced significant increases in REO in 2007.

Table 63 Single-Family Charge-offs and Recoveries by Region(1)(2)

	Year Ended December 31,								
	2007			2006			2005		
	Charge-offs, gross	Recoveries	Charge-offs, net	Charge-offs, gross	Recoveries	Charge-offs, net	Charge-offs, gross	Recoveries	Charge-offs, net
	(in millions)								
Northeast	$ 50	$ (21)	$ 29	$ 22	$ (9)	$ 13	$ 21	$ (10)	$ 11
Southeast	112	(60)	52	72	(42)	30	76	(54)	22
North Central	219	(92)	127	133	(66)	67	102	(66)	36
Southwest	90	(45)	45	73	(44)	29	68	(44)	24
West	57	(20)	37	8	(5)	3	19	(11)	8
Total	$ 528	$ (238)	$ 290	$ 308	$ (166)	$ 142	$ 286	$ (185)	$ 101

(1) See Table 56 Single-Family Delinquency Rates, Excluding Structured Transactions By Region for a description of these regions.

(2) Includes recoveries of charge-offs primarily resulting from foreclosure alternatives and REO acquisitions on loans where a share of default risk has been assumed by mortgage insurers, servicers, or other third parties through credit enhancements. Recoveries of charge-offs through credit enhancements are limited in some instances to amounts less than the full amount of the loss.

Single-family charge-offs, gross, increased 71% in 2007 compared to 2006, primarily due to a considerable increase in the volume of REO properties acquired at foreclosure. We expect that the volume of our REO properties will continue to increase if the economic condition of the residential mortgage market does not improve. Higher volumes of foreclosures and higher average loan balances resulted in higher charge-offs, on a per property basis, during 2007.

We maintain two loan loss reserves reserve for losses on mortgage loans held-for-investment and reserve for guarantee losses on Participation Certificates at levels we deem adequate to absorb probable incurred losses on mortgage loans held-for-investment in the retained portfolio and mortgages underlying our PCs and Structured Securities. See ANNUAL MD&A CRITICAL ACCOUNTING POLICIES AND ESTIMATES Allowance for Loan Losses and Reserve for Guarantee Losses and NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES and NOTE 5:

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MORTGAGE LOANS AND LOAN LOSS RESERVES to our audited consolidated financial statements for further information. Table 64 summarizes our loan loss reserves activity for both reserves in total.

Table 64 Loan Loss Reserves Activity

	Year Ended December 31,				
			Adjusted		
	2007	2006	2005	2004	2003
	(in millions)				
Total loan loss reserves:[1]					
Beginning balance	$ 619	$ 548	$ 355	$ 356	$ 439
Provision (benefit) for credit losses	2,854	296	307	164	(35)
Charge-offs, gross[2]	(376)	(313)	(294)	(300)	(224)
Recoveries[3]	239	166	185	160	145
Charge-offs, net	(137)	(147)	(109)	(140)	(79)
Adjustment for change in accounting[4]					42
Transfers, net[5]	(514)	(78)	(5)	(25)	(11)
Ending balance	$ 2,822	$ 619	$ 548	$ 355	$ 356

(1) Includes reserves for loans held for investment in the retained portfolio and reserves for guarantee losses on Participation Certificates.
(2) Charge-offs related to retained mortgages represent the amount of the unpaid principal balance of a loan that has been discharged using the reserve balance to remove the loan from our retained portfolio at the time of resolution. Charge-offs exclude $156 million in 2007 related to reserve amounts previously transferred to reduce the carrying value of loans purchased under financial guarantees.
(3) Includes recoveries of charge-offs primarily resulting from foreclosure alternatives and REO acquisitions on loans where a share of default risk has been assumed by mortgage insurers, servicers or third parties through credit enhancements. Recoveries of charge-offs through credit enhancements are limited in some instances to amounts less than the full amount of the loss.
(4) On January 1, 2003, $42 million of recognized guarantee obligation attributable to estimated incurred losses on outstanding PCs or Structured Securities was reclassified to reserve for guarantee losses on Participation Certificates.
(5) Consist of: (a) the transfer of reserves associated with non-performing loans purchased from mortgage pools underlying our PCs, Structured Securities and long-term standby agreements to establish the initial recorded investment in these loans at the date of our purchase; (b) amounts attributable to uncollectible interest on PCs and Structured Securities in our retained portfolio; and (c) other transfers, net.

Our total loan loss reserves increased in 2007 as we recorded additional reserves to reflect increased estimates of incurred losses, an observed increase in delinquency rate and increases in the expected severity of losses on a per-property basis related to our single-family portfolio. In addition, in 2006, we reversed $82 million of our provision for credit losses recorded in 2005 associated with Hurricane Katrina because the related payment and delinquency experience on affected properties was more favorable than expected. See ANNUAL MD&A CONSOLIDATED RESULTS OF OPERATIONS Non-Interest Expense *Provision for Credit Losses*, for additional information.

Credit Risk Sensitivity

Our credit risk sensitivity analysis assesses the assumed increase in the present value of expected single-family mortgage portfolio credit losses over ten years as the result of an estimated immediate 5% decline in home prices nationwide, followed by a return to more normal growth in home prices based on historical experience. We use an internally developed Monte Carlo simulation-based model to generate our credit risk sensitivity analyses. The Monte Carlo model uses a simulation program to generate numerous potential interest-rate paths that, in conjunction with a prepayment model, are used to estimate mortgage cash flows along each path. In the credit risk sensitivity analysis, we adjust the home-price assumption used in the base case to estimate the level and sensitivity of potential credit costs resulting from a sudden decline in home prices. Our credit risk sensitivity results are presented in ANNUAL MD&A RISK MANAGEMENT AND DISCLOSURE COMMITMENTS.

Institutional Credit Risk

Our primary institutional credit risk exposure, other than counterparty credit risk relating to derivatives, arises from agreements with:

- mortgage insurers;
- mortgage seller/servicers;
- issuers, guarantors or third-party providers of credit enhancements (including bond insurers);
- mortgage investors;
- multifamily mortgage guarantors,
- issuers, guarantors and insurers of investments held in both our retained portfolio and cash and investments portfolio; and
- derivative counterparties.

A significant failure by a major entity in one of these categories to perform could have a material adverse effect on our retained portfolio, cash and investments portfolio or credit guarantee activities. The recent challenging market conditions have adversely affected, and are expected to continue to adversely affect, the liquidity and financial condition of a number of

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our counterparties. For example, some of our largest mortgage seller/servicers have experienced ratings downgrades and liquidity constraints and other of our counterparties may also experience these concerns. The weakened financial condition and liquidity position of some of our counterparties may adversely affect their ability to perform their obligations to us, or the quality of the services that they provide to us. Consolidation in the industry could further increase our exposure to individual counterparties. In addition, any efforts we take to reduce exposure to financially weakened counterparties could result in increased exposure among a smaller number of institutions. During 2007, we terminated our arrangements with certain mortgage seller/servicers due to their failure to meet our eligibility requirements and we continue to closely monitor the eligibility of mortgage seller/servicers under our standards. The failure of any of our primary counterparties to meet their obligations to us could have a material adverse effect on our results of operations and financial condition.

Investments in our retained portfolio expose us to institutional credit risk on non-Freddie Mac mortgage-related securities to the extent that servicers, issuers, guarantors, or third parties providing credit enhancements become insolvent or do not perform. Our non-Freddie Mac mortgage-related securities portfolio consists of both agency and non-agency mortgage-related securities. Agency securities present minimal institutional credit risk due to the prevailing view that these securities have a credit quality at least equivalent to non-agency securities rated AAA (based on the S&P or equivalent rating scale of other nationally recognized statistical rating organizations). We seek to manage institutional credit risk on non-Freddie Mac mortgage-related securities by only purchasing securities that meet our investment guidelines and performing ongoing analysis to evaluate the creditworthiness of the issuers and servicers of these securities and the bond insurers that guarantee them. See ANNUAL MD&A CONSOLIDATED BALANCE SHEETS ANALYSIS Table 20 Characteristics of Mortgage Loans and Mortgage-Related Securities in our Retained Portfolio for more information regarding the non-Freddie Mac securities in our retained portfolio.

Mortgage Insurers

We have institutional credit risk relating to the potential insolvency or non-performance of mortgage insurers that insure mortgages we purchase or guarantee. We manage this risk by establishing eligibility standards for mortgage insurers and by regularly monitoring our exposure to individual mortgage insurers. Our monitoring includes regularly performing analysis of the estimated financial capacity of mortgage insurers under different adverse economic conditions. We also monitor the mortgage insurers credit ratings, as provided by nationally recognized statistical rating organizations, and we periodically review the methods used by the nationally recognized statistical rating organizations. Recently the mortgage insurance industry has been subject to increased public and regulatory scrutiny. In addition, certain large insurers have been downgraded by nationally recognized rating agencies.

Table 65 presents our exposure to these mortgage insurers as of December 31, 2007.

Table 65 Mortgage Insurance by Counterparty As of December 31, 2007

Counterparty Name	S&P Credit Rating	Credit Rating Outlook	Primary Insurance[1]	Pool Insurance[1]	Maximum Exposure[2]
			(in billions)		
Mortgage Guaranty Insurance Corp.	AA–	Credit Watch	$ 51	$ 48	$ 14
Radian Guaranty Inc.	AA–	Credit Watch	35	23	10
Genworth Mortgage Insurance Corporation	AA	Neutral	31	1	8

PMI Mortgage Insurance Co.	AA	Credit Watch	28	5	7
United Guaranty Residential Insurance Co.	AA+	Stable	26	1	7
Republic Mortgage Insurance	AA	Credit Watch	22	4	6
Triad Guaranty Insurance Corp.	AA–	Credit Watch	15	6	4
CMG Mortgage Insurance Co.	AA–	Neutral	2	1	1
Total			$ 210	$ 88	$ 56

(1) Represents the amount of unpaid principal balance at the end of each period for mortgages covered by the respective insurance type.

(2) Represents the remaining contractual limit for reimbursement of losses incurred on the aggregate policies of both primary and pool insurance. These amounts are gross coverage without regard to netting of coverage that may exist on some of the related mortgages for double-coverage under both types of insurance. However, our actual exposure is likely less than maximum since the net proceeds from collateral liquidation would first be used to satisfy our obligation.

We announced that effective June 1, 2008, our private mortgage insurer counterparties may not cede new risk if the gross risk or gross premium ceded to captive reinsurers is greater than 25%. We also announced that we are temporarily suspending certain requirements for our mortgage insurance counterparties that are downgraded below AA or Aa3 by any one of the rating agencies, provided the mortgage insurer commits to providing a remediation plan for our approval within 90 days of the downgrade. We periodically perform on-site reviews of mortgage insurers to confirm compliance with our eligibility requirements and to evaluate their management and control practices. In addition, state insurance authorities regulate mortgage insurers. In the event one of our mortgage insurers were to become insolvent, the insurer s future premiums would be used to pay claims. See NOTE 17: CONCENTRATION OF CREDIT AND OTHER RISKS to our audited consolidated financial statements for additional information.

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Mortgage Seller/Servicers

We are exposed to institutional credit risk arising from the insolvency or non-performance by our mortgage seller/servicers, including non-performance of their repurchase obligations arising from the representations and warranties made to us for loans they underwrote and sold to us. Under our agreements with mortgage seller/servicers, we have the right to request that mortgage seller/servicers repurchase mortgages sold to us if those mortgages do not comply with those agreements. As a result, our mortgage seller/servicers repurchase mortgages sold to us, or indemnify us against losses on those mortgages, whether we subsequently securitized the loans or held them in our retained portfolio. During 2007 and 2006, settlements of repurchases of single-family mortgages by our mortgage seller/servicers (without regard to year of original purchase) were approximately $634 million and $377 million of unpaid principal, respectively. When a mortgage seller/servicer repurchases a mortgage that is securitized by us, our guarantee asset and obligation are extinguished similar to any other form of liquidation event for our PCs. However, when we exercise our recourse provisions due to misrepresentation by the mortgage seller/servicers for loans that have already been repurchased by us under our performance guarantee, we remove the carrying value of our related mortgage asset and recognize recoveries on loans impaired upon purchase.

The servicing fee charged by mortgage servicers varies by mortgage product. We generally require our single-family servicers to retain a minimum percentage fee for mortgages serviced on our behalf, typically 0.25% of the unpaid principal balance of the mortgage loans. However, on an exception basis, we allow a lower or no minimum servicing amount. The credit risk associated with servicing fees relates to whether we could transfer the applicable servicing rights to a successor servicer and recover amounts owed to us by the defaulting servicer in the event the defaulting servicer is unable to fulfill its responsibilities. We believe that the value of those servicing rights generally would provide us with significant protection against our exposure to a seller/servicer s failure to perform its repurchase obligations.

In order to manage the credit risk associated with our mortgage seller/servicers, we require them to meet minimum financial capacity standards, insurance and other eligibility requirements. We institute remedial actions against seller/servicers that fail to comply with our standards. These actions may include transferring mortgage servicing to other qualified servicers or terminating our relationship with the seller/servicer. We conduct periodic operational reviews of our single-family mortgage seller/servicers to help us better understand their control environment and its impact on the quality of loans sold to us. We use this information to determine the terms of business we conduct with a particular seller/servicer. We do not believe we have any significant exposure to seller/servicers identified as primarily subprime lenders that are not currently in compliance with our financial monitoring standards.

We manage the credit risk associated with our multifamily seller/servicers by establishing eligibility requirements for participation in our multifamily programs. These seller/servicers must also meet our standards for originating and servicing multifamily loans. We conduct regular quality control reviews of our multifamily mortgage seller/servicers to determine whether they remain in compliance with our standards.

Non-Freddie Mac Mortgage-Related Securities

Investments in our retained portfolio expose us to institutional credit risk related to non-Freddie Mac mortgage-related securities to the extent that servicers, issuers, guarantors, or third parties providing credit enhancements become insolvent or do not perform. See ANNUAL MD&A CONSOLIDATED BALANCE SHEETS ANALYSIS Table 20 Characteristics of Mortgage Loans and Mortgage-Related Securities in our Retained Portfolio for more information concerning our retained portfolio.

Our non-Freddie Mac mortgage-related securities portfolio consists of both agency and non-agency mortgage-related securities. Agency mortgage-related securities, which are securities issued or guaranteed by Fannie Mae or Ginnie

Mae, present minimal institutional credit risk due to the high credit quality of Fannie Mae and Ginnie Mae. Ginnie Mae securities are backed by the full faith and credit of the U.S. Agency mortgage-related securities are generally not separately rated by nationally recognized statistical rating organizations, but are viewed as having a level of credit quality at least equivalent to non-agency mortgage-related securities rated AAA (based on the S&P rating scale or an equivalent rating from other nationally recognized statistical rating organizations). At December 31, 2007, we held approximately $48 billion of agency securities, representing approximately 2% of our total mortgage portfolio.

Non-agency mortgage-related securities expose us to institutional credit risk if the nature of the credit enhancement relies on a third party to cover potential losses. However, most of our non-agency mortgage-related securities rely primarily on subordinated tranches to provide credit loss protection and therefore expose us to limited counterparty risk. In those instances where we desire further protection, we may choose to mitigate our exposure with bond insurance or by purchasing additional subordination. Bond insurance exposes us to the risks related to the bond insurer s ability to satisfy claims. As of December 31, 2007, we had insurance coverage, including secondary policies, on securities totaling $17.9 billion of unpaid principal balance, consisting of $16.1 billion and $1.8 billion, of coverage for bonds in our retained and investment portfolios, respectively. At December 31, 2007, all of the bond insurers providing coverage for non-agency mortgage-related securities held by us were rated AAA or equivalent by at least one nationally recognized statistical rating organization.

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However, the bond insurance industry has been adversely affected by the increased volatility in the credit and mortgage markets. Consequently, certain large insurers have been downgraded by nationally recognized statistical rating agencies.

Table 66 presents our coverage amounts of monoline bond insurance, including secondary coverage, for securities held in both our retained and investments portfolio on a combined basis. In the event a monoline bond insurer failed to perform, the coverage outstanding represents our maximum exposure to loss.

Table 66 Monoline Bond Insurance by Counterparty

Counterparty Name	S&P Credit Rating[1]	S&P Credit Rating Outlook[1]	Coverage Outstanding[2] (in billions)	Percent of Total[2]
Ambac Assurance Corporation	AAA	Negative	$ 6.7	38%
Financial Guaranty Insurance Company	A	Credit Watch	3.8	21
MBIA Inc.	AA–	Negative	3.7	21
Financial Security Assurance Inc.	AAA	Stable	2.2	12
Others			1.5	8
Total			$ 17.9	100%

(1) Latest rating available as of February 25, 2008.
(2) As of December 31, 2007.

We manage institutional credit risk on non-Freddie Mac mortgage-related securities by only purchasing securities that meet our investment guidelines and performing ongoing analysis to evaluate the creditworthiness of the issuers and servicers of these securities and the bond insurers that guarantee them. To assess the creditworthiness of these entities, we may perform additional analysis, including on-site visits, verification of loan documentation, review of underwriting or servicing processes and similar due diligence measures. In addition, we regularly evaluate our investments to determine if any impairment in fair value requires an impairment loss recognition in earnings, warrants divestiture or requires a combination of both. See RISK FACTORS Legal and Regulatory Risks for more information.

Mortgage Investors and Originators

We are exposed to pre-settlement risk through the purchase, sale and financing of mortgage loans and mortgage-related securities with mortgage investors and originators. The probability of such a default is generally remote over the short time horizon between the trade and settlement date. We manage this risk by evaluating the creditworthiness of our counterparties and monitoring and managing our exposures. In some instances, we may require these counterparties to post collateral.

Cash and Investments Portfolio

Institutional credit risk also arises from the potential insolvency or non-performance of issuers or guarantors of investments held in our cash and investments portfolio. Instruments in this portfolio are investment grade at the time

of purchase and primarily short-term in nature, thereby substantially mitigating institutional credit risk in this portfolio. We regularly evaluate these investments to determine if any impairment in fair value requires an impairment loss recognition in earnings, warrants divestiture or requires a combination of both.

OPERATIONAL RISKS

Operational risks are inherent in all of our business activities and can become apparent in various ways, including accounting or operational errors, business interruptions, fraud, failures of the technology used to support our business activities and other operational challenges from failed or inadequate internal controls. These operational risks may expose us to financial loss, interfere with our ability to sustain timely financial reporting, or result in other adverse consequences. Governance over the management of our operational risks takes place through the enterprise risk management framework. Business areas retain primary responsibility for identifying, assessing and reporting their operational risks.

Our business processes are highly dependent on our use of technology and business and financial models. While we believe that we have remediated material weaknesses in our information technology general controls, we continue to face challenges in ensuring that the new controls will operate effectively. Although we have strengthened our model oversight and governance processes to validate model assumptions, code, theory and the system applications that utilize our models, the complexity of the models and the impact of the recent turmoil in the housing and credit markets create additional risk regarding the reliability of our models.

We continue to make significant investments to build new financial accounting systems and move to more effective and efficient business processing systems. Until those systems are fully implemented, we continue to remain more reliant on end-user computing systems than is desirable. We are also challenged to effectively and timely deliver integrated production systems. Reliance on certain of these end-user computing systems increases the risk of errors in some of our core operational processes and increases our dependency on monitoring controls. We are mitigating this risk by improving our documentation and process controls over these end-user computing systems and implementing more rigorous change management controls over certain key end-user systems using change management controls over tools which are subject to our information technology general controls.

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In recognition of the importance of the accuracy and reliability of our valuation of financial instruments, we engage in an ongoing internal review of our valuations. We perform analysis of internal valuations on a monthly basis to confirm the reasonableness of the valuations. This analysis is performed by a group that is independent of the business area responsible for valuing the positions. Our verification and validation procedures depend on the nature of the security and valuation methodology being reviewed and may include: comparisons with external pricing sources, comparisons with observed trades, independent verification of key valuation model inputs and independent security modeling. Results of the monthly verification process, as well as any changes in our valuation methodologies, are reported to a management committee that is responsible for reviewing and approving the approaches used in our valuations to ensure that they are well controlled and effective, and result in reasonable fair values.

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RISK MANAGEMENT AND DISCLOSURE COMMITMENTS

In October 2000, we announced our voluntary adoption of a series of commitments designed to enhance market discipline, liquidity and capital. In September 2005, we entered into a written agreement with OFHEO that updated these commitments and set forth a process for implementing them. The letters between the company and OFHEO dated September 1, 2005 constituting the written agreement are available on the Investor Relations page of our website at www.freddiemac.com/investors/reports.html. The status of our commitments at December 31, 2007 follows:

Description	Status
1. *Periodic Issuance of Subordinated Debt:* We will issue Freddie SUBS® securities for public secondary market trading that are rated by no fewer than two nationally recognized statistical rating organizations. Freddie SUBS® securities will be issued in an amount such that the sum of total capital (core capital plus general allowance for losses) and the outstanding balance of Qualifying subordinated debt will equal or exceed the sum of 0.45% of outstanding PCs and Structured Securities we guaranteed and 4% of total on-balance sheet assets. Qualifying subordinated debt is discounted by one-fifth each year during the instrument s last five years before maturity; when the remaining maturity is less than one year, the instrument is entirely excluded. We will take reasonable steps to maintain outstanding subordinated debt of sufficient size to promote liquidity and reliable market quotes on market values. Each quarter we will submit to OFHEO calculations of the quantity of qualifying Freddie SUBS® securities and total capital as part of our quarterly capital report. Every six months, we will submit to OFHEO a subordinated debt management plan that includes any issuance plans for the six months following the date of the plan.	During 2007, we did not issue any Freddie SUBS® securities; however, we called $1.9 billion of higher-cost Freddie SUBS® securities. During 2006, we issued approximately $3.3 billion of Freddie SUBS® securities, including approximately $1.5 billion issued in exchange for previously issued Freddie SUBS® securities, and called approximately $1.0 billion of Freddie SUBS® securities. We did not issue, call or repurchase any Freddie SUBS® securities during 2005. Based upon an amended total capital plus qualifying subordinated debt report, we will report to OFHEO that at December 31, 2007 we had $44.6 billion in total capital plus qualifying subordinated debt, resulting in a surplus of $6.6 billion. During 2007, we submitted our quarterly total capital plus qualifying subordinated debt reports to OFHEO and we will amend these quarterly reports during the first quarter of 2008 to reflect our adjusted results. We submitted our semi-annual subordinated debt management plans to OFHEO.
2. *Liquidity Management and Contingency Planning:* We will maintain a contingency plan providing for at least three months liquidity without relying upon the issuance of unsecured debt. We will also periodically test the contingency plan in consultation with OFHEO.	We have in place a liquidity contingency plan, upon which we report to OFHEO on a weekly basis. We periodically test this plan in accordance with our agreement with OFHEO.
3. *Interest-Rate Risk Disclosures:* We will provide public disclosure of our duration gap, PMVS-L and PMVS-YC interest-rate risk sensitivity results on a monthly basis. See ANNUAL MD&A QUANTITATIVE AND QUALITATIVE	For the year ended December 31, 2007, our duration gap averaged zero months, PMVS-L averaged $261 million and PMVS-YC averaged $31 million. Our 2007 monthly average duration gap, PMVS results and

DISCLOSURES ABOUT MARKET RISK Interest-Rate Risk and Other Market Risks *Portfolio Market Value Sensitivity and Measurement of Interest-Rate Risk* for a description of these metrics.

related disclosures are provided in our Monthly Volume Summary which is available on our website, www.freddiemac.com/investors/volsum.

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Description	Status
4. *Credit Risk Disclosures:* We will make quarterly assessments of the impact on expected credit losses from an immediate 5% decline in single-family home prices for the entire U.S. We will disclose the impact in present value terms and measure our losses both before and after receipt of private mortgage insurance claims and other credit enhancements.	Our quarterly credit risk sensitivity estimates are as follows:

	Before Receipt of Credit Enhancements(1)		After Receipt of Credit Enhancements(2)	
	Net Present Value, or NPV(3)	NPV Ratio(4)	NPV(3)	NPV Ratio(4)
	(dollars in millions)			
At:				
12/31/07(5)	$4,036	23.2 bps	$3,087	17.8 bps
09/30/07	$1,959	11.7 bps	$1,415	8.4 bps
06/30/07	$1,768	11.0 bps	$1,292	8.1 bps
03/31/07	$1,327	8.6 bps	$ 929	6.0 bps
12/31/06	$1,128	7.6 bps	$ 770	5.2 bps

(1) Assumes that none of the credit enhancements currently covering our mortgage loans has any mitigating impact on our credit losses.
(2) Assumes we collect amounts due from credit enhancement providers after giving effect to certain assumptions about counterparty default rates.
(3) Based on single-family total mortgage portfolio, excluding Structured Securities backed by Ginnie Mae Certificates.
(4) Calculated as the ratio of NPV of the increase in credit losses to the single-family total mortgage portfolio, defined in footnote (3) above.
(5) The significant increase in our credit risk sensitivity estimates in Q4 2007 was primarily attributable to changes in our assumptions employed to calculate the credit risk sensitivity disclosure. Given deterioration in housing fundamentals at the end of 2007, we modified our assumptions for forecasted home prices subsequent to the immediate 5% decline.

5. *Public Disclosure of Risk Rating:* We will seek to obtain a rating, that will be continuously monitored by at least one nationally recognized statistical rating organization, assessing risk-to-the-government or independent financial strength.	At February 1, 2008 and December 31, 2007, our risk-to-the-government rating from S&P was AA with a negative outlook. An S&P rating outlook assesses the potential direction of a long-term credit rating over the

intermediate term (typically six months to two years). A modifier of negative means that a rating may be lowered.

At February 1, 2008 and December 31, 2007, Moody s Bank Financial Strength rating for us was A and A w a negative outlook, respectively. A Moody s rating outlook is an opinion of the likely direction of a rating over the medium term. On January 9, 2008 Moody s placed our Bank Financial Strength rating on review for possible downgrade, which overrode the negative outlook designation.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AS OF MARCH 31, 2008 AND RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2008 AND 2007 (INTERIM MD&A)

EXECUTIVE SUMMARY

Market Overview

Following several years of substantial growth in the residential mortgage market, driven by historically low interest rates and a strong housing market, the residential mortgage market slowed in 2007 and continues to weaken in 2008. The various factors contributing to this decline have adversely affected our financial condition and results of operations.

Home price appreciation is an important market indicator for us because it represents the general trend in value associated with the single-family mortgage loans underlying our PCs and Structured Securities. As home prices decline, the risk of borrower defaults generally increases and the severity of credit losses also increases. Home prices declined in 2007 with significant variation across regions and metropolitan areas. Forecasts of nationwide home prices indicate a continued overall decline through 2008.

Other trends in the residential mortgage market also reflect the weakening in the housing market. Since early 2006, the volume of new and existing home sales declined and increased inventories of unsold homes undermined property values. Demand for investor properties and second homes also declined dramatically. Annual total single-family conventional mortgage originations have been declining since 2005 and, based on our forecasts, are expected to continue to decline into 2009.

Credit concerns and resulting liquidity issues have also affected the financial markets. Recently, the market for non-agency mortgage-related securities has been characterized by high levels of volatility and uncertainty, reduced demand and liquidity, significantly wider credit spreads and a lack of price transparency. Non-agency mortgage-related securities, particularly those backed by non-traditional mortgage products, have been subject to various rating agency downgrades and significant price volatility in the market. The reduced liquidity in U.S. financial markets prompted the Federal Reserve to take several significant actions during the first quarter of 2008, including a series of reductions in the discount rate totaling 2.25%. In early March 2008, the Federal Reserve expanded its securities lending program to allow primary dealers to borrow U.S. Treasury securities for 28 day terms (rather than only overnight) with a pledge of other securities by the borrower, including AAA-rated, private-issuer, residential mortgage securities. Although we do not participate in the securities lending facilities of the Federal Reserve, the rate reductions impact other key market rates affecting our assets and liabilities, including generally reducing the return on our cash and investments portfolio and lowering our cost of short-term debt financing.

The credit performance of subprime and Alt-A loans, as well as other non-traditional mortgage products, deteriorated sharply during 2007 and continues to deteriorate in 2008. See INTERIM MD&A CREDIT RISKS Mortgage Credit Risk for additional information regarding our exposure to mortgage-related securities backed by subprime and Alt-A loans. Concerns about the potential for higher delinquency rates and more severe credit losses have resulted in increases in mortgage rates in the non-conforming and subprime portions of the market. Many lenders have tightened credit standards or elected to stop originating certain types of mortgages. Regional decreases in home prices have also eroded the equity of many homeowners seeking to refinance. These factors have adversely affected many borrowers seeking alternative financing to refinance out of non-traditional and adjustable-rate mortgages.

The market for multifamily mortgage debt differs from the residential single-family market in several respects. The likelihood that a multifamily borrower will make scheduled payments on its mortgage is a function of the ability of the property to generate income sufficient to make those payments, which is affected by rent levels and the percentage of available units that are occupied. Strength in the multifamily market therefore is affected by the balance between the supply of and demand for rental housing (both multifamily and single-family), which in turn is affected not only by employment growth but also by the number of new units added to the rental housing supply, rates of household formation and the relative cost of owner-occupied housing alternatives.

In order to aid the mortgage market by providing liquidity for conforming mortgages, we intend to expand our business activities during 2008. We expect growth in the unpaid principal balances of our retained portfolio, including the multifamily loan holdings, of approximately 10%, net of liquidations and sales. Similarly, we intend to increase the unpaid principal balances of our issued guaranteed securities by approximately 10% during 2008, net of liquidations. These actions will not only help to serve our mission, but will benefit our customers, the secondary mortgage market and our shareholders.

Summary of Financial Results for the First Quarter of 2008

GAAP Results

Effective January 1, 2008, we adopted SFAS No. 157, *Fair Value Measurements,* or SFAS 157, which defines fair value, establishes a framework for measuring fair value in financial statements and expands required disclosures about fair

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value measurements. Subsequent to the issuance of our 2007 Information Statement, we reevaluated the impact of SFAS 157 on our valuation method for our guarantee obligation. As a result, we changed our method for determining the fair value of our newly-issued guarantee obligations to using an amount equal to the fair value of compensation received, consisting of management and guarantee fees and other upfront compensation, in the related securitization transaction, which is a practical expedient for determining fair value. As a result, prospectively from January 1, 2008, we no longer record estimates of deferred gains or immediate, day one losses on most guarantees. Our adoption of SFAS 157 did not result in an immediate recognition of gain or loss, but the prospective change had a positive impact on our first quarter 2008 financial results. For the fourth quarter of 2007, our day one losses were $1.3 billion.

Also effective January 1, 2008, we adopted SFAS 159, or the fair value option, which permits companies to choose to measure certain eligible financial instruments at fair value that are not currently required to be measured at fair value in order to mitigate volatility in reported earnings caused by measuring assets and liabilities differently. We elected the fair value option for certain available-for-sale mortgage-related securities and our foreign-currency denominated debt. Upon adoption of SFAS 159, we recognized a $1.0 billion after-tax increase to our beginning retained earnings at January 1, 2008.

For the first quarter of 2008, we reported net losses of $(151) million, or $(0.66) per diluted share, compared to $(133) million, or $(0.35) per diluted share, for the first quarter of 2007. Our losses increased due to higher credit-related expenses, losses on our derivative portfolio (excluding foreign-currency derivatives) and an increase in fair value losses on our guarantee asset as compared to the first quarter of 2007. These losses were partially offset by increases in amortized income on our guarantee obligation and gains on our investment activity, principally from trading securities, during the first quarter of 2008, compared to the first quarter of 2007. Our adoption of SFAS 159 and SFAS 157 had a significant positive effect on our financial results for the first quarter of 2008.

Net interest income was $798 million for the first quarter of 2008, compared to $771 million for the first quarter of 2007. The effect on net interest income from a decrease in average balances of interest-earning assets and liabilities in the first quarter of 2008 compared to the first quarter of 2007 was more than offset by an improvement in net interest yield on these balances. The slight increase in net interest income and improvement in net interest yield for the first quarter of 2008 reflected lower short-term interest rates on borrowings in this quarter. Our total funding costs decreased due to a higher proportion of short-term debt in our funding during the first quarter of 2008 compared to the first quarter of 2007.

Non-interest income was $731 million in the first quarter of 2008, compared to non-interest income (loss) of $(77) million in the first quarter of 2007. Management and guarantee income increased to $789 million for the first quarter of 2008 from $628 million for the first quarter of 2007, as the average balance of our PCs and Structured Securities increased 16% on an annualized basis, and the total management and guarantee fee rate increased to 18.2 basis points for the first quarter of 2008 from 16.7 basis points for the first quarter of 2007.

For the first quarter of 2008, other components of non-interest income (loss) totaled $(58) million compared to $(705) million for the first quarter of 2007. We recognized higher gains on investment activities as we recognized valuation gains on trading securities recorded at fair value at our election under SFAS 159. The election of SFAS 159 for these securities provides an economic hedge against changes in fair value of our guarantee asset caused by movements in interest rates. These gains on trading securities were largely offset by fair value losses on our guarantee asset. We recognized catch-up amortization income on our guarantee obligation totaling $589 million, primarily as a result of accelerated losses on pools of mortgage loans issued during 2006 and 2007, as well as significant increases in prepayment speeds. Recoveries on loans impaired upon purchase increased to $226 million for the first quarter of 2008, compared to $35 million for the first quarter of 2007, primarily due to a higher volume of loans that were repaid or foreclosed in the first quarter of 2008. These improvements were offset by fair value losses on U.S. dollar denominated derivatives, excluding accrual of periodic settlements, of approximately $(1.3) billion for the first quarter

of 2008 compared to $(0.7) billion for the first quarter of 2007, as movements in interest rates adversely affected our net pay-fixed interest-rate swap position. See INTERIM MD&A CONSOLIDATED RESULTS OF OPERATIONS Non-Interest Income (Loss) *Recoveries on Loans Impaired upon Purchase,* for additional information.

Our non-interest expenses in the first quarter of 2008 and first quarter of 2007 totaled $2.1 billion and $1.2 billion, respectively. Credit-related expenses, which consist of the total of provision for credit losses and REO operations expense, were $1.4 billion in the first quarter of 2008 and $0.3 billion in the first quarter of 2007. For the first quarter of 2008, our provision for credit losses increased due to credit deterioration in our single-family credit guarantee portfolio, primarily due to 2006 and 2007 loan originations, as more loans transitioned from delinquency to foreclosure, delinquency rates increased and the estimated severity of losses on a per-property basis increased. The credit deterioration has been largely driven by a decline in home prices and other declines in regional economic conditions as well as increasing volumes of non-traditional mortgage loans and less stringent underwriting standards in the last three years.

Excluding credit-related expenses, non-interest expense for the first quarter of 2008 totaled $655 million, compared to $962 million for the first quarter of 2007. The decline in other non-interest expense was primarily due to the reduction in

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losses on certain credit guarantees and losses on loans purchased, which totaled $66 million for the first quarter of 2008, compared to $393 million for the first quarter of 2007. Losses on certain credit guarantees decreased to $15 million for the first quarter of 2008, compared to $177 million for the first quarter of 2007, due to our change in the valuation method of our newly-issued guarantee obligations upon adoption of SFAS 157. Losses on loans purchased decreased due to changes in our operational practice of purchasing delinquent loans out of PC pools. Through November 2007, our general practice was to purchase the mortgage loans out of PCs after the loans became 120 days delinquent. Effective December 2007, we no longer automatically purchase loans from PC pools once they become 120 days delinquent, but rather, we purchase loans from PCs when the loans have been 120 days delinquent and (a) are modified, (b) foreclosure sales occur, (c) when the loans have been delinquent for 24 months or (d) when the cost of guarantee payments to PC holders, including advances of interest at the PC coupon, exceeds the expected cost of holding the nonperforming mortgage in our retained portfolio. As a result, we purchased relatively few delinquent loans under our repurchase option during the first quarter of 2008. We record at fair value loans that we purchase out of our guaranteed securities in connection with our repurchase option. See INTERIM MD&A CONSOLIDATED RESULTS OF OPERATIONS Non-Interest Expense *Losses on Certain Credit Guarantees* and *Losses on Loans Purchased*, for additional information. Administrative expenses totaled $397 million for the first quarter of 2008, down slightly from $403 million for the first quarter of 2007. As a percentage of our average total mortgage portfolio, administrative expenses declined to 7.5 basis points for the first quarter of 2008, from 8.7 basis points for the first quarter of 2007.

For the first quarter of 2008 and 2007, we recognized effective tax rates of 73.7% and 74.8%, respectively. See NOTE 12: INCOME TAXES to our unaudited consolidated financial statements for additional information about how our effective tax rate is determined.

Segments

See BUSINESS Business Activities Segments and ANNUAL MD&A EXECUTIVE SUMMARY Segment Earnings for a discussion of how we manage our business through three reportable segments: Investments, Single-family Guarantee, and Multifamily. See ANNUAL MD&A EXECUTIVE SUMMARY Segment Earnings for a discussion of how Segment Earnings are determined and a discussion of the limitations and the objective of Segment Earnings. For a summary and description of our financial performance on a segment basis, see INTERIM MD&A CONSOLIDATED RESULTS OF OPERATIONS Segment Earnings and NOTE 16: SEGMENT REPORTING in the accompanying notes to our unaudited consolidated financial statements.

Table 67 presents Segment Earnings (loss) by segment and the All Other category and includes a reconciliation of Segment Earnings (loss) to net income (loss) prepared in accordance with GAAP.

Table 67 Reconciliation of Segment Earnings (Loss) to GAAP Net Income (Loss)

	Three Months Ended March 31,	
	2008	2007
	(in millions)	
Segment Earnings (loss) after taxes:		
Investments	$ 113	$ 514
Single-family Guarantee	(458)	224
Multifamily	98	125
All Other	(4)	(16)

Total Segment Earnings (loss), net of taxes	(251)	847
Reconciliation to GAAP net income (loss):		
Derivative- and foreign-currency denominated debt-related adjustments	(1,194)	(1,082)
Credit guarantee-related adjustments	(174)	(502)
Investment sales, debt retirements and fair value-related adjustments	1,525	69
Fully taxable-equivalent adjustments	(110)	(93)
Total pre-tax adjustments	47	(1,608)
Tax-related adjustments	53	628
Total reconciling items, net of taxes	100	(980)
GAAP net income (loss)	$ (151)	$ (133)

Investments Segment

Investments segment performance highlights for the first quarter of 2008:

Segment Earnings decreased 78% to $113 million in the first quarter of 2008 versus $514 million in the first quarter of 2007.

Segment Earnings net interest yield decreased 31 basis points in the first quarter of 2008, as compared to the first quarter of 2007, due to spread compression on our floating rate assets, as our floating rate assets reset faster than our floating rate debt; increased amortization expense of losses on pay-fixed swaps terminated in 2007; and declining

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rates contributed to an increase in net interest expense on our pay-fixed swaps that was only partially offset by floating rate debt.

Capital constraints and OAS levels that were not compelling early in the first quarter of 2008 limited our ability to increase our mortgage-related investment portfolio. The unpaid principal balance of our mortgage-related investment portfolio decreased 1.7% to $652 billion at March 31, 2008 compared to $663 billion at December 31, 2007. However, during March 2008, we increased our net mortgage purchase commitments for the mortgage-related investment portfolio in response to substantially wider OAS.

During March 2008, OFHEO reduced our mandatory target capital surplus to 20%.

During a turbulent first quarter of 2008, demand for our debt securities remained strong as demonstrated by our uninterrupted debt funding, allowing us to issue our debt securities at rates below those of comparable maturities on the LIBOR yield curve.

Single-family Guarantee Segment

Single-family Guarantee segment performance highlights for the first quarter of 2008:

Segment Earnings (loss) decreased $682 million to a loss of $(458) million in the first quarter of 2008 versus earnings of $224 million in the first quarter of 2007.

Segment Earnings provision for credit losses for the Single-family Guarantee segment increased to $1.3 billion for the first quarter of 2008 from $0.3 billion for the first quarter of 2007.

Realized single-family credit losses in the first quarter of 2008 were 11.6 basis points of the average total mortgage portfolio, excluding non-Freddie Mac securities, compared to 1.5 basis points in the first quarter of 2007.

The single-family credit guarantee portfolio increased by 9.9% on an annualized basis for the first quarter of 2008.

Average rates of Segment Earnings management and guarantee fee income for the Single-family Guarantee segment increased to 20.4 basis points for the first quarter of 2008, compared to 17.9 basis points for the first quarter of 2007.

In November and December 2007, we announced delivery fee increases effective beginning March 2008 or as the customer s contract permits. Also, in February and March 2008, we announced additional increases in delivery fees, effective beginning June 2008 or as the customer s contract permits, for certain flow transactions.

We implemented several changes in our underwriting and eligibility criteria during the first quarter of 2008 to reduce our credit risk, including requiring larger down payments and higher credit scores, and limiting or eliminating our acquisition of certain higher risk loan products.

Multifamily Segment

Multifamily segment performance highlights for first quarter of 2008:

Segment Earnings decreased 22% to $98 million in the first quarter of 2008 versus $125 million in the first quarter of 2007.

Segment Earnings net interest income was $75 million for the first quarter of 2008, a decline of $48 million versus the first quarter of 2007 due to lower prepayment, or yield maintenance, fees of $15 million compared to $60 million for the first quarter of 2007.

Mortgage purchases into our multifamily loan portfolio increased approximately 30% in the first quarter of 2008, to $4.1 billion, from $3.1 billion in the first quarter of 2007.

Unpaid principal balance of our mortgage loan portfolio increased to $60.8 billion at March 31, 2008 from $57.6 billion at December 31, 2007 as we provided a ready source of capital by purchasing loans to be held in our portfolio.

Segment Earnings provision for credit losses for the Multifamily segment totaled $9 million for the first quarter of 2008.

Capital Management

Our primary objective in managing capital is preserving our safety and soundness. We also seek to have sufficient capital to support our business and mission. We make investment decisions while considering our capital levels. OFHEO monitors our capital adequacy using several capital standards. Beginning in January 2004, OFHEO directed us to maintain a 30% mandatory target capital surplus above our statutory minimum capital requirement. On March 19, 2008, OFHEO reduced our mandatory target capital surplus to 20% above our statutory minimum capital requirement, and we announced that we will begin the process to raise capital and maintain overall capital levels well in excess of requirements while the mortgage markets recover. At March 31, 2008, our estimated regulatory core capital was $38.3 billion, which is an estimated $11.4 billion in excess of our statutory minimum capital requirement and $6.0 billion in excess of the 20% mandatory target capital surplus.

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We have committed to OFHEO to raise $5.5 billion of new core capital through one or more offerings, which will include both common and preferred securities. The timing, amount and mix of securities to be offered will depend on a variety of factors, including prevailing market conditions and our SEC registration process, and is subject to approval by our board of directors. OFHEO has informed us that, upon completion of these offerings, our mandatory target capital surplus will be reduced from 20% to 15%. OFHEO has also informed us that it intends a further reduction of our mandatory target capital surplus from 15% to 10% upon completion of our SEC registration process, our completion of the remaining Consent Order requirement (*i.e.*, the separation of the positions of Chairman and Chief Executive Officer), our continued commitment to maintain capital well above OFHEO s regulatory requirement and no material adverse changes to ongoing regulatory compliance. We reduced the dividend on our common stock in December 2007.

The sharp decline in the housing market and volatility in financial markets continue to adversely affect our capital, including our ability to manage to our regulatory capital requirements and the 20% mandatory target capital surplus. Factors that could adversely affect the adequacy of our capital in future periods include our ability to execute our planned capital raising transaction; GAAP net losses; continued declines in home prices; increases in our credit and interest-rate risk profiles; adverse changes in interest-rate or implied volatility; adverse OAS changes; impairments on non-agency mortgage-related securities; counterparty downgrades; downgrades of non-agency mortgage-related securities (with respect to regulatory risk-based capital); legislative or regulatory actions that increase capital requirements; or changes in accounting practices or standards.

Also affecting our capital position was our adoption of SFAS 159 on January 1, 2008. Our election of the fair value option was made in an effort to better reflect, in the financial statements, the economic offsets that exist related to items that were not previously recognized as changes in fair value through our consolidated statements of income. We expect our adoption of the fair value option will reduce the effect of interest-rate changes on our net income (loss) and capital. This change will also increase the impact of spread changes on capital. For a further discussion of our adoption of SFAS 159 see NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Change in Accounting Principles to our unaudited consolidated financial statements. Beginning in the first quarter of 2008, we commenced our use of cash flow hedge accounting relationships to include hedging the changes in cash flows associated with our forecasted issuances of debt. We believe this expanded accounting strategy will reduce the effect of interest-rate changes on our capital. This accounting strategy had a positive impact on our financial results for the first quarter of 2008, and we expect our continued implementation of hedge accounting will have a greater positive effect on our interest rate sensitivity going forward. We also employed this accounting strategy while maintaining our disciplined approach to interest-rate management. See NOTE 10: DERIVATIVES to our unaudited consolidated financial statements for additional information about our derivatives designated as cash flow hedges.

To help manage to our regulatory capital requirements and the 20% mandatory target capital surplus, we may consider measures in the future such as reducing or rebalancing risk, limiting growth or reducing the size of our retained portfolio, slowing purchases into our credit guarantee portfolio, issuing additional preferred or convertible preferred stock and issuing common stock.

Our ability to execute any of these actions or their effectiveness may be limited and we might not be able to manage to our regulatory capital requirements and the 20% mandatory target capital surplus. For example, if we are not able to manage to the 20% mandatory target capital surplus, OFHEO may, among other things, seek to require us to (a) submit a plan for remediation or (b) take other remedial steps. In addition, OFHEO has discretion to reduce our capital classification by one level if OFHEO determines that we are engaging in conduct OFHEO did not approve that could result in a rapid depletion of core capital or determines that the value of property subject to mortgage loans we hold or guarantee has decreased significantly. See RISK FACTORS , BUSINESS Regulation and Supervision Office of Federal Housing Enterprise Oversight *Capital Standards and Dividend Restrictions* and NOTE 9: REGULATORY CAPITAL Classification to our audited consolidated financial statements for information regarding additional

potential actions OFHEO may seek to take against us.

Fair Value Results

Our consolidated fair value measurements are a component of our risk management processes, as we use daily estimates of the changes in fair value to calculate our PMVS and duration gap measures.

During the first quarter of 2008, the fair value of net assets, before capital transactions, decreased by $17.4 billion, while it remained unchanged during the first quarter of 2007. The decline in the fair value of our net assets during the first quarter of 2008 principally related to declines in the fair value of our non-agency single-family mortgage-related securities driven by OAS widening. See INTERIM MD&A CONSOLIDATED FAIR VALUE BALANCE SHEETS ANALYSIS for additional information regarding attribution of changes in the fair value of net assets for the first quarter of 2008. See

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NOTE 14: FAIR VALUE DISCLOSURES to our unaudited consolidated financial statements for more information on fair values.

Legislative and Regulatory Matters

GSE Oversight Legislation

We face a highly uncertain regulatory environment in light of GSE regulatory oversight legislation currently under consideration in Congress. On July 11, 2008, the Senate passed comprehensive housing legislation that includes GSE oversight provisions. This legislation would give our regulator substantial authority to assess our safety and soundness and to regulate our portfolio investments, including requiring reductions in those investments, consistent with our mission and safe and sound operations. This legislation includes provisions that would enhance the regulator s authority to require us to maintain higher minimum and risk-based capital levels and to regulate our business activities, which could constrain our ability to respond quickly to a changing marketplace. This legislation would require us to set aside an amount equal to 4.2 basis points for each dollar of unpaid principal balance of total new business purchases and allocate or transfer such amounts to new affordable housing programs established in HUD and Treasury. In addition, the legislation would increase the conventional conforming loan limits in high-cost areas to the lesser of 150 percent of the conventional conforming loan limits or the median area home price.

On May 8, 2008, the House of Representatives passed similar comprehensive housing legislation that would give our regulator authority to assess our safety and soundness and to regulate our portfolio investments. This legislation would also enhance our regulator s authority to require us to maintain higher minimum and risk-based capital levels and to regulate our new business activities. There are several differences between the legislation under consideration in the Senate and House. For example, the House bill would for 2008 through 2012 require Freddie Mac to make annual contributions to an affordable housing fund equal to 1.2 basis points of the average aggregate unpaid principal balance of our total mortgage portfolio. In addition, the House bill would increase the conventional conforming loan limits in high-cost areas to the greater of the conventional conforming loan limit or 125 percent of the area median home price, up to a maximum of 175 percent of the conventional conforming loan limit.

We cannot predict the prospects for the enactment, timing or content of any final legislation. The provisions of this legislation could have a material adverse effect on our ability to fulfill our mission, future earnings, stock price and stockholder returns, ability to meet regulatory capital requirements, rate of growth of fair value of net assets attributable to common stockholders and our ability to recruit and retain qualified officers and directors.

Temporary Increase in Conforming Loan Limits

On February 13, 2008, the President signed into law the Economic Stimulus Act of 2008 that includes a temporary increase in conventional conforming loan limits. The law raises the conforming loan limits for mortgages originated in certain high-cost areas from July 1, 2007 through December 31, 2008 to the higher of the applicable 2008 conforming loan limits, set at $417,000 for a mortgage secured by a one-unit single-family residence, or 125% of the median house price for a geographic area, not to exceed $729,750 for a one-unit, single-family residence. We began accepting these conforming jumbo mortgages for securitization as PCs and purchase into our retained portfolio in April 2008.

Voluntary, Temporary Growth Limit

In response to a request by OFHEO, on August 1, 2006, we announced that we would voluntarily and temporarily limit the growth of our retained portfolio to 2.0% annually. Consistent with OFHEO s February 27, 2008 announcement of the removal of the growth limit on March 1, 2008, the growth limit has expired.

Mission and Affordable Housing Goals

In March 2008, we reported to HUD that we did not achieve two home purchase subgoals (the low- and moderate-income subgoal and the special affordable housing subgoal) for 2007. We believe that achievement of these two home purchase subgoals was infeasible in 2007 under the terms of the GSE Act, and accordingly submitted an infeasibility analysis to HUD. In April 2008, HUD notified us that it had determined that, given the declining affordability of the primary market since 2005, the scope of market turmoil in 2007, and the collapse of the non-agency, or private label, secondary mortgage market, the availability of subgoal-qualifying home purchase loans was reduced significantly and therefore achievement of these subgoals was infeasible. Consequently, we will not submit a housing plan to HUD.

In 2008, we expect that the market conditions discussed above and the tightened credit and underwriting environment will continue to make achieving our affordable housing goals and subgoals challenging.

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CONSOLIDATED RESULTS OF OPERATIONS

The following discussion of our consolidated results of operations should be read in conjunction with our unaudited consolidated financial statements including the accompanying notes. Also see INTERIM MD&A CRITICAL ACCOUNTING POLICIES AND ESTIMATES for more information concerning our more significant accounting policies and estimates applied in determining our reported financial position and results of operations.

Table 68 Summary Consolidated Statements of Income GAAP Results

	Three Months Ended March 31,	
	2008	2007
	(in millions)	
Net interest income	$ 798	$ 771
Non-interest income (loss):		
Management and guarantee income	789	628
Gains (losses) on guarantee asset	(1,394)	(523)
Income on guarantee obligation	1,169	430
Derivative gains (losses)(1)	(245)	(524)
Gains (losses) on investment activity	1,219	18
Unrealized gains (losses) on foreign-currency denominated debt recorded at fair value	(1,385)	
Gains on debt retirement	305	7
Recoveries on loans impaired upon purchase	226	35
Foreign-currency gains (losses), net		(197)
Other	47	49
Non-interest income (loss)	731	(77)
Non-interest expense	(2,103)	(1,224)
Loss before income tax benefit	(574)	(530)
Income tax benefit	423	397
Net loss	$ (151)	$ (133)

(1) Include derivative gains on foreign-currency swaps of $1.2 billion and $0.2 billion for the first quarter of 2008 and 2007, respectively. Also include derivative gains of $0.2 billion on foreign-currency denominated receive-fixed swaps to offset market value adjustments of $(0.2) billion included in unrealized gains (losses) on foreign-currency denominated debt recorded at fair value for the first quarter of 2008.

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Net Interest Income

Table 69 presents an analysis of net interest income, including average balances and related yields earned on assets and incurred on liabilities.

Table 69 Net Interest Income/Yield and Average Balance Analysis

	Three Months Ended March 31,					
	2008			2007		
	Average Balance[1][2]	Interest Income (Expense)[1]	Average Rate	Average Balance[1][2]	Interest Income (Expense)[1]	Average Rate
	(dollars in millions)					
Interest-earning assets:						
Mortgage loans[3]	$ 84,291	$ 1,243	5.90%	$ 66,583	$ 1,066	6.40%
Mortgage-related securities	628,721	8,133	5.17	643,853	8,551	5.31
Total retained portfolio	713,012	9,376	5.26	710,436	9,617	5.41
Investments[4]	39,456	399	4.01	48,741	623	5.11
Securities purchased under agreements to resell and federal funds sold	14,435	121	3.34	26,482	349	5.28
Total interest-earning assets	766,903	9,896	5.16	785,659	10,589	5.39
Interest-bearing liabilities:						
Short-term debt	204,650	(2,044)	(3.95)	171,249	(2,208)	(5.16)
Long-term debt[5]	538,295	(6,725)	(4.99)	580,146	(7,176)	(4.95)
Total debt securities	742,945	(8,769)	(4.70)	751,395	(9,384)	(5.00)
Due to PC investors				7,667	(103)	(5.37)
Total interest-bearing liabilities	742,945	(8,769)	(4.70)	759,062	(9,487)	(5.00)
Expense related to derivatives		(329)	(0.18)		(331)	(0.17)
Impact of net non-interest-bearing funding	23,958		0.15	26,597		0.17
Total funding of interest-earning assets	$ 766,903	(9,098)	(4.73)	$ 785,659	(9,818)	(5.00)
Net interest income/yield		798	0.43		771	0.39
Fully taxable-equivalent adjustments[6]		107	0.05		95	0.05
Net interest income/yield (fully taxable-equivalent basis)		$ 905	0.48		$ 866	0.44

(1) Excludes mortgage loans and mortgage-related securities traded, but not yet settled.
(2) For securities in our retained and cash and investment portfolios, we calculated average balances based on their unpaid principal balance plus their associated deferred fees and costs (*e.g.*, premiums and discounts), but excluded the effect of mark-to-fair-value changes.
(3) Non-performing loans, where interest income is recognized when collected, are included in average balances.
(4) Consist of cash and cash equivalents and non-mortgage-related securities.
(5) Includes current portion of long-term debt.
(6) The determination of net interest income/yield (fully taxable-equivalent basis), which reflects fully taxable-equivalent adjustments to interest income, involves the conversion of tax-exempt sources of interest income to the equivalent amounts of interest income that would be necessary to derive the same net return if the investments had been subject to income taxes using our federal statutory tax rate of 35%.

Net interest income and net interest yield on a fully taxable-equivalent basis increased during the first quarter of 2008 compared to the first quarter of 2007. The increases are primarily attributable to purchases of fixed-rate assets at wider spreads and the benefit of funding fixed-rate assets with short-term debt in a declining rate environment. Altering the mix of our debt funding between longer- and shorter-term debt is an integral part of our overall investment management framework. As market conditions change, we may change the mix of debt we use to fund our retained portfolio, both floating- and fixed-rate assets. During the first quarter of 2008, our short-term funding levels improved significantly, particularly relative to long-term funding levels. In response to these market conditions we increased the amount of shorter-term debt in our overall funding mix. We continue to employ an interest rate risk strategy that seeks to substantially match the duration characteristics of our assets and liabilities. To accomplish this, we use an integrated strategy that involves asset selection, asset structuring and asset and liability portfolio management that includes the use of derivatives for purposes of rebalancing the portfolio and maintaining low PMVS and duration gap. Also contributing to the increases in net interest income and net interest yield was decreased mortgage-related securities premium amortization expense, as purchases into our retained portfolio in 2007 largely consisted of securities purchased at a discount. The increases in net interest income and net interest yield on a fully tax-equivalent basis were partially offset by the impact of declining interest rates because our floating rate assets reset faster than our short-term debt during the first quarter of 2008. The average balance of interest-earning assets declined as we continued to manage to our mandatory target capital surplus. However, on March 19, 2008 OFHEO reduced our mandatory target capital surplus to 20% from 30% above our statutory minimum capital requirement and we entered into net mortgage purchase commitments of $43 billion during March, the vast majority of which settled in April. Over the long term, we expect these activities will result in higher economic returns and ultimately improve net interest income. Due to the creation of the securitization trusts in December of 2007, due to PC investors interest expense is now recorded in trust management fees within other income on our consolidated statements of income.

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Non-Interest Income (Loss)

Management and Guarantee Income

Table 70 provides summary information about management and guarantee income. Management and guarantee income consists of contractual amounts due to us (reflecting buy-ups and buy-downs to base management and guarantee fees) as well as amortization of certain pre-2003 deferred credit and buy-down fees received by us that were recorded as deferred income as a component of other liabilities. Post-2002 credit and buy-down fees are reflected as increased income on guarantee obligation as the guarantee obligation is amortized.

Table 70 Management and Guarantee Income(1)

	Three Months Ended March 31,			
	2008		2007	
	Amount	Rate	Amount	Rate
	(dollars in millions, rates in basis points)			
Contractual management and guarantee fees	$ 757	17.4	$ 598	15.9
Amortization of credit and buy-down fees included in other liabilities	32	0.8	30	0.8
Total management and guarantee income	$ 789	18.2	$ 628	16.7
Unamortized balance of credit and buy-down fees included in other liabilities, at period end	$ 379		$ 412	

(1) Consists of management and guarantee fees related to all issued and outstanding guarantees, including those issued prior to adoption of FIN 45 in January 2003, which did not require the establishment of a guarantee asset.

The primary drivers affecting management and guarantee income are the average balance of our PCs and Structured Securities and changes in management and guarantee fee rates. Contractual management and guarantee fees include adjustments to the contractual rates for buy-ups and buy-downs, whereby the contractual management and guarantee fee rate is adjusted for up-front cash payments we make (buy-up) or receive (buy-down) at guarantee issuance. Our average rates of management and guarantee income are also affected by the mix of products we issue, competition in market pricing and customer preference for buy-up and buy-down fees. The majority of our guarantees are issued under customer flow channel contracts, which have fixed pricing schedules for our management and guarantee fees for periods of up to one year. The remainder of our purchase and guarantee securitization of mortgage loans occurs through bulk purchasing with management and guarantee fees negotiated on an individual transaction basis.

For securitization issuances through bulk purchase channels, we negotiated higher contractual fee rates during the first quarter of 2008 compared to the first quarter of 2007 in response to increases in market pricing of mortgage credit risk. Given the volatility in the credit market during the first quarter of 2008, we will continue to closely monitor the pricing of our management and guarantee fees as well as our delivery fee rates and make adjustments when appropriate.

Management and guarantee income increased for the first quarter of 2008 compared to the first quarter of 2007, primarily reflecting an increase in the average PCs and Structured Securities balances of 16%, on an annualized basis. The average contractual management and guarantee fee rate increased for the first quarter of 2008 compared to the first quarter of 2007, primarily due to an increase in buy-up activity and the impact of higher average fees associated

with guarantees issued during 2007, which had a higher composition of non-traditional products carrying higher contractual rates.

Gains (Losses) on Guarantee Asset

Gains (losses) on guarantee asset represents changes in the fair value of the future cash flows of our guarantee asset after the guarantee asset was initially recognized. See ANNUAL MD&A CONSOLIDATED RESULTS OF OPERATIONS Non-Interest Income (Loss) *Gains (Losses) on Guarantee Asset* for more information.

Table 71 Attribution of Change Gains (Losses) on Guarantee Asset

	Three Months Ended March 31,	
	2008	**2007**
	(in millions)	
Contractual management and guarantee fees	$ (689)	$ (523)
Portion related to imputed interest income	215	127
Return of investment on guarantee asset	(474)	(396)
Change in fair value of management and guarantee fees	(920)	(127)
Gains (losses) on guarantee asset	$ (1,394)	$ (523)

Management and guarantee fees represent cash received in the current period related to PCs and Structured Securities with an established guarantee asset. A portion of our return of investment on the guarantee asset is attributed to imputed interest income on our guarantee asset. Management and guarantee fees increased for the first quarter of 2008 compared to the first quarter of 2007 primarily due to increases in the average balance of our PCs and Structured Securities issued.

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The increase in fair value losses on our guarantee asset for the first quarter of 2008, compared to the first quarter of 2007, was due to a decrease in interest rates and a decline in the market valuations of excess servicing, interest-only securities during the first quarter of 2008. Fair values for excess-servicing, interest-only securities are a significant input in determining the fair value of our guarantee asset.

Income on Guarantee Obligation

Income on guarantee obligation represents amortization of our guarantee obligation. See ANNUAL MD&A CONSOLIDATED RESULTS OF OPERATIONS Non-Interest Income (Loss) *Income on Guarantee Obligation* for more information.

Effective January 1, 2008, we began estimating the fair value of our newly-issued guarantee obligations at their inception using the practical expedient provided by FIN 45, as amended by SFAS 157. Using this approach, the initial guarantee obligation is recorded at an amount equal to the fair value of the compensation received in the related securitization transactions. As a result, we no longer record estimates of deferred gains or immediate day one losses on most guarantees. All unamortized amounts recorded prior to January 1, 2008 will continue to be deferred and amortized using existing amortization methods. This change had a significant positive impact on our financial results for the first quarter of 2008.

Table 72 provides information about the components of income on guarantee obligation.

Table 72 Income on Guarantee Obligation

	Three Months Ended March 31,	
	2008	2007
	(in millions)	
Amortization income related to:		
Static effective yield	$ 580	$ 377
Cumulative catch-up	589	53
Total income on guarantee obligation	$ 1,169	$ 430

Amortization income increased for the first quarter of 2008, compared to the first quarter of 2007. This increase is due to (1) new issuances of guarantees, (2) higher average balances of our PCs and Structured Securities, (3) higher guarantee obligation balances recognized in 2007 as a result of significant market risk premiums, including those that resulted in significant day one losses (*i.e.*, where the fair value of the guarantee obligation exceeded the fair value of the guarantee and credit enhancement-related assets) and (4) cumulative catch-up adjustments totaling $589 million made to the amortization of the guarantee obligation due to significant shifts in the loss curve. The cumulative catch-up adjustments recognized during the first quarter of 2008 were the result of accelerated losses on individual pools of mortgage loans issued during 2006 and 2007, as well as significant increases in prepayment speeds. These cumulative catch-up adjustments result in a pattern of revenue recognition that is consistent with our economic release from risk and the timing of the recognition of losses on pools of mortgage loans we guarantee.

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Derivative Overview

Table 73 presents the effect of derivatives on our unaudited consolidated financial statements, including notional or contractual amounts of our derivatives and our hedge accounting classifications.

Table 73 Summary of the Effect of Derivatives on Selected Consolidated Financial Statement Captions

	Consolidated Balance Sheets					
	March 31, 2008			December 31, 2007		
Description	Notional Amount[1]	Fair Value (Pre-Tax)[2]	AOCI (Net of Taxes)[3]	Notional Amount[1]	Fair Value (Pre-Tax)[2]	AOCI (Net of Taxes)[3]
	(in millions)					
Cash flow hedges open	$ 3,800	$ (61)	$ (38)	$	$	$
No hedge designation	1,342,505	3,416		1,322,881	4,790	
Subtotal	1,346,305	3,355	(38)	1,322,881	4,790	
Balance related to closed cash flow hedges			(3,854)			(4,059)
Total	$ 1,346,305	$ 3,355	$ (3,892)	$ 1,322,881	$ 4,790	$ (4,059)

	Consolidated Statements of Income Three Months Ended March 31,			
	2008		2007	
Description	Derivative Gains (Losses)	Hedge Accounting Gains (Losses)[4]	Derivative Gains (Losses)	Hedge Accounting Gains (Losses)[4]
	(in millions)			
Cash flow hedges open[5]	$	$ (3)	$	$
No hedge designation	(245)		(524)	
Total	$ (245)	$ (3)	$ (524)	$

(1) Notional or contractual amounts are used to calculate the periodic settlement amounts to be received or paid and generally do not represent actual amounts to be exchanged. Notional or contractual amounts are not recorded as assets or liabilities on our consolidated balance sheets.

(2) The value of derivatives on our consolidated balance sheets is reported as derivative assets, net and derivative liability, net, and includes derivative interest receivable or (payable), net, trade/settle receivable or (payable), net and derivative cash collateral (held) or posted, net. Fair value excludes derivative interest receivable, net of $1.4 billion, trade/settle payable, net of $0.4 billion and derivative cash collateral held, net of $4.2 billion at March 31, 2008. Fair value excludes derivative interest receivable, net of $1.7 billion, trade/settle receivable or

(payable), net of $ and derivative cash collateral held, net of $6.2 billion at December 31, 2007.

(3) Derivatives that meet specific criteria may be accounted for as cash flow hedges. Changes in the fair value of the effective portion of open qualifying cash flow hedges are recorded in AOCI, net of taxes. Net deferred gains and losses on closed cash flow hedges (*i.e.*, where the derivative is either terminated or redesignated) are also included in AOCI, net of taxes, until the related forecasted transaction affects earnings or is determined to be probable of not occurring.

(4) Hedge accounting gains (losses) arise when the fair value change of a derivative does not exactly offset the fair value change of the hedged item attributable to the hedged risk, and is a component of other income in our consolidated statements of income. For further information, see NOTE 10: DERIVATIVES to our unaudited consolidated financial statements.

(5) For all derivatives in qualifying hedge accounting relationships, the accrual of periodic cash settlements is recorded in net interest income on our consolidated statements of income and those amounts are not included in the table. For derivatives not in qualifying hedge accounting relationships, the accrual of periodic cash settlements is recorded in derivative gains (losses) on our consolidated statements of income.

Beginning in the first quarter of 2008, we entered into derivative positions and classified them in cash flow hedge accounting relationships to hedge the changes in cash flows associated with our forecasted issuances of debt consistent with our risk management goals. In the prior period presented, we only elected cash flow hedge accounting relationships for certain commitments to sell mortgage-related securities. This expanded hedging strategy had a positive impact on our financial results for the first quarter of 2008, and we believe it will reduce the effect of interest-rate changes on our consolidated statements of income going forward. For a derivative accounted for as a cash flow hedge, changes in fair value are reported in AOCI, net of taxes, on our consolidated balance sheets to the extent the hedge is effective. The remaining ineffective portion of changes in fair value is reported as other income on our consolidated statements of income. We record changes in the fair value of derivatives not in hedge accounting relationships as derivative gains (losses) on our consolidated statements of income. See NOTE 10: DERIVATIVES to our unaudited consolidated financial statements for additional information about our derivatives designated as cash flow hedges.

Derivative Gains (Losses)

Derivative gains (losses) represents the change in fair value of derivatives not accounted for in hedge accounting relationships because the derivatives did not qualify for, or we did not elect to pursue, hedge accounting, resulting in fair value changes being recorded to earnings. Derivative gains (losses) also includes the accrual of periodic settlements for derivatives that are not in hedge accounting relationships. Although derivatives are an important aspect of our management of interest-rate risk, they will generally increase the volatility of reported net income, particularly when they are not

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accounted for in hedge accounting relationships. Table 74 provides a summary of the period-end notional or contractual amounts and the gains and losses related to derivatives that were not accounted for in hedge accounting relationships.

Table 74 Derivatives Not in Hedge Accounting Relationships

	Three Months Ended March 31,			
	2008		2007	
	Notional or Contractual Amount	Derivative Gains (Losses)	Notional or Contractual Amount	Derivative Gains (Losses)
	(in millions)			
Call swaptions:				
Purchased	$ 242,022	$ 3,240	$ 194,772	$ (553)
Written	3,500	(6)	7,500	2
Put swaptions:				
Purchased	29,675	(125)	19,325	(8)
Written	7,150	3	500	(2)
Receive-fixed swaps[1]	326,247	9,696	270,053	259
Pay-fixed swaps	421,650	(15,133)	251,391	(478)
Futures	134,633	647	95,140	19
Foreign-currency swaps[2]	15,441	1,237	23,854	198
Forward purchase and sale commitments	77,597	511	8,915	(5)
Other[3]	84,590	30	34,650	5
Subtotal	1,342,505	100	906,100	(563)
Accrual of periodic settlements:				
Receive-fixed swaps[4]		73		(58)
Pay-fixed swaps		(477)		148
Foreign-currency swaps		57		(52)
Other		2		1
Total accrual of periodic settlements		(345)		39
Total	$ 1,342,505	$ (245)	$ 906,100	$ (524)

(1) Includes gains (losses) on foreign-currency denominated receive-fixed swaps of $193 million and $(106) million for the first quarter of 2008 and 2007, respectively.
(2) Foreign-currency swaps are defined as swaps in which one leg is settled in a foreign-currency and the other leg is settled in U.S. dollars.
(3) Consists of basis swaps, certain option-based contracts (including written options), interest-rate caps, credit derivatives and swap guarantee derivatives not accounted for in hedge accounting relationships.
(4) Includes imputed interest on zero-coupon swaps.

We use receive- and pay-fixed swaps to adjust the interest-rate characteristics of our debt funding in order to more closely match changes in the interest-rate characteristics of our mortgage-related assets. During the first quarter of

2008, fair value losses on our pay-fixed swaps contributed to an overall loss recorded for derivatives. The losses were partially offset by gains on our receive-fixed swaps as swap interest rates decreased. We use swaptions and other option-based derivatives to adjust the characteristics of our debt in response to changes in the expected lives of mortgage-related assets in our retained portfolio. The gains on our purchased call swaptions during the first quarter of 2008, compared to losses on such instruments during the first quarter of 2007, were primarily attributable to decreasing swap interest rates and an increase in implied volatility during the first quarter of 2008 as compared to the first quarter of 2007.

Effective January 1, 2008, we elected the fair value option for our foreign-currency denominated debt. As a result of this election, foreign-currency translation gains and losses and fair value adjustments related to our foreign-currency denominated debt are recognized on our consolidated statements of income as unrealized gains (losses) on foreign-currency denominated debt recorded at fair value. Prior to January 1, 2008, translation gains and losses on our foreign-currency denominated debt were recorded as foreign-currency gains (losses), net and changes in value related to market movements were not recognized. We use a combination of foreign-currency swaps and foreign-currency receive-fixed swaps to hedge the changes in fair value of our foreign-currency denominated debt related to fluctuations in exchange rates and interest rates, respectively. Derivative gains (losses) on foreign-currency swaps increased to $1.2 billion for the first quarter of 2008 from $198 million for the first quarter of 2007. These gains were offset by fair value losses related to translation of $1.2 billion and $197 million on our foreign-currency denominated debt for the first quarter of 2008 and 2007, respectively. In addition, derivative gains of $193 million on foreign-currency denominated receive-fixed swaps offset market value adjustments included in unrealized gains (losses) on foreign-currency denominated debt recorded at fair value of $(171) million for the first quarter of 2008. See *Unrealized Gains (Losses) on Foreign-Currency Denominated Debt Recorded at Fair Value* and NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES to our audited consolidated financial statements for additional information about our election to adopt the fair value option for foreign-currency denominated debt. See NOTE 11: DERIVATIVES to our audited consolidated financial statements for additional information about our derivatives.

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Gains (Losses) on Investment Activity

Gains (losses) on investment activity includes gains and losses on certain assets where changes in fair value are recognized through earnings, gains and losses related to sales, impairments and other valuation adjustments. Table 75 summarizes the components of gains (losses) on investment activity.

Table 75 Gains (Losses) on Investment Activity

	Three Months Ended March 31,	
	2008	2007
	(in millions)	
Gains (losses) on trading securities	$ 971	$ 25
Gains (losses) on sale of mortgage loans[(1)]	71	17
Gains (losses) on sale of available-for-sale securities	215	34
Security impairments	(71)	(56)
Lower-of-cost-or-fair-value adjustments	33	(2)
Total gains (losses) on investment activity	$ 1,219	$ 18

(1) Represent gains on mortgage loans sold in connection with securitization transactions.

Gains (Losses) on Trading Securities

The net gains on trading securities increased for the first quarter of 2008, as compared to the first quarter of 2007. On January 1, 2008 we implemented fair value option accounting and transferred approximately $90 billion in securities, primarily ARMs and fixed-rate PCs from available-for-sale securities to trading securities. The increased balance in our trading portfolio together with a decrease in interest rates contributed to trading gains of $971 million.

Gains (Losses) on Sale of Available-For-Sale Securities

The net gains on the sale of available-for-sale securities increased for the first quarter of 2008, as compared to the first quarter of 2007, due to an increase in the sale of PCs and Structured Securities classified as available-for-sale securities and a decline in interest rates during the first quarter of 2008. During the first quarter of 2008, we sold $18.4 billion of PCs and Structured Securities, which generated a net gain of $154 million. These sales occurred principally during the earlier months of the first quarter of 2008 when market conditions were favorable and were driven in part by our need to maintain our mandatory target capital surplus, which was then 30%, prior to the reduction of our mandatory target capital surplus by OFHEO effective in March 2008. We were not required to sell these securities. In an effort to improve our capital position in light of the unanticipated extraordinary market conditions that began in the latter half of 2007, we strategically selected blocks of securities to sell, the majority of which were in a gain position. These sales reduced the assets on our balance sheet against which we are required to hold capital, which improved our capital position, and the net gains increased our retained earnings, which also contributed to our capital, and further improved our capital position. During the first quarter of 2007, we sold $9.6 billion of PCs and Structured Securities, which generated a net gain of $31 million.

Security Impairments

Security impairments increased for the first quarter of 2008, as compared to the first quarter of 2007. During the first quarter of 2008, security impairments included $68 million in mortgage-related securities impairments attributed to $1.3 billion of non-agency mortgage revenue bonds in an unrealized loss position that we did not have the intent to hold to a forecasted recovery. During the first quarter of 2007, security impairments included $56 million in mortgage-related securities impairments attributed to $3.4 billion of agency mortgage-related securities in an unrealized loss position that we did not have the intent to hold to a forecasted recovery.

Unrealized Gains (Losses) on Foreign-Currency Denominated Debt Recorded at Fair Value

We elected the fair value option for our foreign-currency denominated debt effective January 1, 2008. With the adoption of SFAS 159 we began recording our foreign-currency denominated debt at fair value. Accordingly, foreign-currency exposure is now a component of unrealized gains (losses) on foreign-currency denominated debt recorded at fair value. Prior to that date, translation gains and losses on our foreign-currency denominated debt were reported in foreign-currency gains (losses), net in our consolidated statements of income. We manage the foreign-currency exposure associated with our foreign-currency denominated debt through the use of derivatives. For the first quarter of 2008, we recognized fair value losses of $1.4 billion on our foreign-currency denominated debt as the U.S. dollar weakened relative to the Euro. See *Derivative Gains (Losses)* for additional information about how we mitigate changes in the fair value of our foreign-currency denominated debt by using derivatives. See *Foreign-Currency Gains (Losses), Net* and NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES to our unaudited consolidated financial statements for additional information about our adoption of SFAS 159.

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Gains on Debt Retirements

The net gains on debt retirement increased from $7 million to $305 million in the first quarter of 2008, as compared to the first quarter of 2007, due to the significant decline in interest rates resulting in an increase of $29 billion in our call activity. We primarily called our debt with coupon levels that increase at pre-determined intervals, which lead to gains upon retirement and write-offs of previously recorded interest expense. In contrast, the declining interest rates resulted in a decrease in total debt buybacks from $2.7 billion during the first quarter of 2007 to $79 million during the first quarter of 2008.

Recoveries on Loans Impaired upon Purchase

Recoveries on loans impaired upon purchase represent the recapture into income of previously recognized losses on loans purchased and provision for credit losses associated with purchases of delinquent loans from our PCs and Structured Securities in conjunction with our guarantee activities. See ANNUAL MD&A CONSOLIDATED RESULTS OF OPERATIONS Non-Interest Income (Loss) *Recoveries on Loans Impaired Upon Purchase* for more information. During the first quarter of 2008 and 2007, we recognized recoveries on loans impaired upon purchase of $226 million and $35 million, respectively. The volume and magnitude of recoveries was greater during the first quarter of 2008 than the first quarter of 2007, since the initial losses on impaired loans purchased during 2007 were principally based on market valuations that were more severe in the last half of 2007 due to liquidity and mortgage credit concerns.

Foreign-Currency Gains (Losses), Net

We manage the foreign-currency exposure associated with our foreign-currency denominated debt through the use of derivatives. We elected the fair value option for foreign-currency denominated debt effective January 1, 2008. Prior to this election, gains and losses associated with the foreign-currency exposure of our foreign-currency denominated debt were recorded as foreign-currency gains (losses), net in our consolidated statements of income. With the adoption of SFAS 159, foreign-currency exposure is now a component of unrealized gains (losses) on foreign-currency denominated debt recorded at fair value. Because the fair value option is prospective, prior period amounts have not been reclassified. See *Derivative Gains (Losses)* and *Unrealized Gains (Losses) on Foreign-Currency Denominated Debt Recorded at Fair Value* and NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES to our unaudited consolidated financial statements for additional information.

For the first quarter of 2007, we recognized net foreign-currency translation losses primarily related to our foreign-currency denominated debt of $197 million as the U.S. dollar weakened relative to the Euro during the period. During the same period, these losses were offset by an increase of $198 million in the fair value of foreign-currency-related derivatives recorded in derivative gains (losses).

Other Income

See ANNUAL MD&A CONSOLIDATED RESULTS OF OPERATIONS Non-Interest Income (Loss) *Other Income* for what is included in Other Income.

Non-Interest Expense

Table 76 summarizes the components of non-interest expense.

Table 76 Non-Interest Expense

	Three Months Ended March 31,	
	2008	2007
	(in millions)	
Administrative expenses:		
Salaries and employee benefits	$ 245	$ 228
Professional services	77	108
Occupancy expense	15	14
Other administrative expenses	60	53
Total administrative expenses	397	403
Provision for credit losses	1,240	248
REO operations expense	208	14
Losses on certain credit guarantees	15	177
Losses on loans purchased	51	216
LIHTC partnerships	117	108
Minority interests in earnings of consolidated subsidiaries	3	9
Other expenses	72	49
Total non-interest expense	$ 2,103	$ 1,224

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Administrative Expenses

Administrative expenses decreased slightly for the first quarter of 2008, compared to the first quarter of 2007, primarily due to a reduction in the number of consultants. As a percentage of the average total mortgage portfolio, administrative expenses declined to 7.5 basis points for the first quarter of 2008, from 8.7 basis points for the first quarter of 2007.

Provision for Credit Losses

The provision for credit losses increased significantly for the first quarter of 2008, compared to the first quarter of 2007, as continued weakening in the housing market affected our single-family portfolio. For the first quarter of 2008, we recorded additional reserves for credit losses on our single-family portfolio as a result of:

increased estimates of incurred losses on mortgage loans that are expected to experience higher default rates based on their year of origination, particularly those originated during 2006 and 2007, which do not have the benefit of significant home price appreciation;

an observed increase in delinquency rates and the rates at which loans transition through delinquency to foreclosure; and

increases in the estimated severity of losses on a per-property basis, driven in part by declines in home sales and home prices, particularly in the North Central, Southeast and West regions of the U.S.

We expect that our credit losses, which include net charge-offs and REO expenses, will continue to rise from the current level. We may further increase our loan loss reserves in future periods as additional losses are incurred, particularly related to mortgages originated in 2006 and 2007, which had a higher composition of nontraditional mortgage products, lower amounts of third-party insurance coverage and higher loan balances at the time of origination than our historical experience.

REO Operations Expense

The increase in REO operations expense for the first quarter of 2008, as compared to the first quarter of 2007, was due to an approximately 28% and 91% increase in our inventory of single-family REO property during the three and twelve months ended March 31, 2008, respectively, as well as declining single-family REO property values. The decline in home prices during the first quarter of 2008, combined with our higher REO inventory balance, resulted in an increase in the market-based writedowns of REO, which totaled $114 million and $5 million for the first quarter of 2008 and 2007, respectively. REO expense also increased due to higher real estate taxes, maintenance and net losses on sales experienced during the first quarter of 2008 as compared to the first quarter of 2007. We expect REO operations expense to increase in 2008, as single-family REO activity increases.

Losses on Certain Credit Guarantees

Losses on certain credit guarantees consists of losses recognized upon the issuance of PCs in guarantor swap transactions. Prior to January 1, 2008, our recognition of losses on certain guarantee contracts occurred due to any one or a combination of several factors, including long-term contract pricing for our flow business, the difference in overall transaction pricing versus pool-level accounting measurements and, less significantly, efforts to support our affordable housing mission. Upon adoption of SFAS 157, our losses on certain credit guarantees will generally relate to our efforts to meet our affordable housing goals. See INTERIM MD&A CRITICAL ACCOUNTING POLICIES AND ESTIMATES Fair Value Measurements for information concerning the change in initial recognition of fair

value of our guarantee obligations.

For the first quarter of 2007, we recognized losses of $177 million on certain guarantor swap transactions entered into during the period and we deferred gains of $285 million on newly-issued guarantees entered into during that period. The decrease in both recognized losses and deferred gains during the first quarter of 2008 as compared to the first quarter of 2007 is a result of the adoption of SFAS 157, which amended FIN 45. Effective January 1, 2008, the fair value of our newly-issued guarantee obligations was estimated as an amount equal to the fair value of compensation received, inclusive of all rights related to the transaction, in exchange for our guarantee. As a result, we no longer record estimates of deferred gains or immediate day one losses on most guarantees. All unamortized amounts recorded prior to January 1, 2008 will continue to be amortized using existing amortization methods. This change had a significant positive impact on our financial results for the first quarter of 2008.

Losses on Loans Purchased

Losses on non-performing loans purchased from the mortgage pools underlying PCs and Structured Securities occur when the acquisition basis of the purchased loan exceeds the estimated fair value of the loan on the date of purchase. During the first quarter of 2008, the market-based valuation of non-performing loans continued to be adversely affected by the expectation of higher default costs and increased uncertainty in the mortgage market. However, losses on loans purchased decreased 76% to $51 million during the first quarter of 2008 compared to $216 million during the first quarter of 2007. Effective December 2007, we made certain operational changes for purchasing delinquent loans from PC pools, which

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reduced the volume of our delinquent loan purchases in the period and consequently, the amount of our losses on loans purchased during the first quarter of 2008. We made these operational changes in order to better reflect our expectations of future credit losses and in consideration of our capital requirements. In the first quarter of 2008, as a result of increases in delinquency rates of loans underlying our PCs and Structured Securities and our increasing efforts to reduce foreclosures, the number of loan modifications increased significantly as compared to the first quarter of 2007. See *Recoveries on Loans Impaired upon Purchase* and INTERIM MD&A CREDIT RISKS Table 113 Changes in Loans Purchased Under Financial Guarantees for additional information about the impacts from non-performing loans on our financial results.

Income Tax Benefit

For the first quarter of 2008 and 2007, we reported an income tax benefit of $423 million and $397 million, respectively. See NOTE 12: INCOME TAXES to our unaudited consolidated financial statements for additional information.

Segment Earnings

See BUSINESS Business Activities Segments and ANNUAL MD&A EXECUTIVE SUMMARY Segment Earnings for a discussion of how we manage our business through three reportable segments: Investments, Single-family Guarantee, and Multifamily. See ANNUAL MD&A EXECUTIVE SUMMARY Segment Earnings and ANNUAL MD&A CONSOLIDATED RESULTS OF OPERATIONS Segment Earnings for a discussion of how Segment Earnings are determined and a discussion of the limitations and the objective of Segment Earnings. See NOTE 16: SEGMENT REPORTING to our unaudited consolidated financial statements for more information regarding our segments and the adjustments used to calculate Segment Earnings.

Investments

Table 77 presents the Segment Earnings of our Investments segment.

Table 77 Segment Earnings and Key Metrics Investments

	Three Months Ended March 31,	
	2008	2007
	(dollars in millions)	
Segment Earnings:		
Net interest income	$ 299	$ 902
Non-interest income (loss)	15	24
Non-interest expense:		
Administrative expenses	(131)	(128)
Other non-interest expense	(9)	(7)
Total non-interest expense	(140)	(135)
Segment Earnings before income tax expense	174	791
Income tax expense	(61)	(277)

Segment Earnings, net of taxes	113	514
Reconciliation to GAAP net income (loss):		
Derivative- and foreign-currency denominated debt-related adjustments	(1,183)	(1,081)
Credit guarantee-related adjustments		1
Investment sales, debt retirements and fair value-related adjustments	1,525	69
Fully taxable-equivalent adjustment	(110)	(93)
Tax-related adjustments	(12)	448
Total reconciling items, net of taxes	220	(656)
GAAP net income (loss)	$ 333	$ (142)
Key metrics Investments:		
Growth:		
Purchases of securities Mortgage-related investment portfolio[1][2]		
Guaranteed PCs and Structured Securities	$ 21,544	$ 27,075
Non-Freddie Mac mortgage-related securities:		
Agency mortgage-related securities	9,383	1,312
Non-agency mortgage-related securities	860	27,728
Total purchases of securities Mortgage-related investment portfolio	$ 31,787	$ 56,115
Growth rate of mortgage-related investment portfolio (annualized)	(7.01)%	5.50%
Return:		
Net interest yield Segment Earnings basis	0.19%	0.50%

(1) Based on unpaid principal balance and excludes mortgage-related securities traded, but not yet settled.
(2) Exclude Single-family mortgage loans.

Segment Earnings for our Investments segment declined $401 million in the first quarter of 2008 compared to the first quarter of 2007. For the Investments segment, Segment Earnings net interest income declined $603 million and our Segment Earnings net interest yield decreased 31 basis points for the first quarter of 2008 compared to the first quarter of 2007. The decreases were primarily driven by spread compression. As rates declined in the first quarter of 2008, our floating rate assets reset faster than our floating rate debt. Also contributing to the decline in Segment Earnings net interest income was an

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increase in the amortization expense of losses incurred on pay-fixed swaps terminated in 2007. Declining rates also contributed to an increase in net interest expense on our pay-fixed swaps that was only partially offset by floating rate debt that reset. The decreases in Segment Earnings net interest income and net interest yield were partially offset by purchases of fixed-rate assets at wider spreads and the benefit of funding fixed-rate assets with short-term debt in a declining rate environment and decreased mortgage-related securities premium amortization expense as purchases into our mortgage-related investment portfolio in 2007 largely consisted of securities purchased at a discount. In March 2008, certain futures positions matured resulting in gains that will be amortized into Segment Earnings net interest income for the Investments segment. The amortization of these gains will result in the recognition of approximately $457 million in Segment Earnings net interest income for the Investments segment in the second quarter of 2008 compared to $85 million in the first quarter of 2008.

In the first quarter of 2008 and 2007, the annualized growth rates of our mortgage-related investment portfolio were (7.01)% and 5.50%, respectively. In addition, the unpaid principal balance of our mortgage-related investment portfolio decreased from $663.2 billion at December 31, 2007 to $651.6 billion at March 31, 2008. The decrease is due to the combination of capital constraints and OAS levels that were not compelling early in the first quarter of 2008, which led to low levels of net purchase commitments and a decline in our mortgage-related investment portfolio. However, during the latter half of the first quarter, liquidity concerns in the market resulted in more favorable investment opportunities for agency securities. In response, our net purchase commitment activity increased considerably as we deploy capital at favorable OAS levels. A substantial portion of these net purchase commitments are expected to settle during the second quarter and therefore did not result in balance sheet growth during the first quarter of 2008. In addition, as of March 1, 2008, the voluntary growth limit on our retained portfolio is no longer in effect.

Our mortgage-related investment portfolio consisted of $54.3 billion of non-Freddie Mac agency mortgage-related securities and $222.9 billion of non-agency mortgage-related securities as of March 31, 2008. With respect to our mortgage-related investment portfolio, at March 31, 2008 and December 31, 2007, we held investments of approximately $93 billion and $101 billion, respectively, of non-agency mortgage-related securities backed by subprime loans. These securities include significant credit enhancement, particularly through subordination, and 70% and 96% of these securities were AAA-rated at March 31, 2008 and December 31, 2007, respectively. We estimate that $49.7 billion and $51.3 billion of our single-family non-agency mortgage-related securities that are not backed by subprime loans are generally backed by Alt-A mortgage loans at March 31, 2008 and December 31, 2007, respectively. We have focused our purchases on credit-enhanced, senior tranches of these securities, which provide additional protection due to subordination. Approximately 98% and 99% of these securities were AAA-rated by at least one nationally recognized statistical rating organization as of March 31, 2008 and December 31, 2007, respectively. However, approximately 94% of those securities backed by subprime and Alt-A mortgage loans continue to be investment grade *(i.e.*, rated BBB– or better on a Standard & Poor s or equivalent scale). See INTERIM MD&A CONSOLIDATED BALANCE SHEETS ANALYSIS Retained Portfolio Table 82 Available-for-Sale Securities and Trading Securities in our Retained Portfolio for information regarding gross unrealized gains and gross unrealized losses on our mortgage-related securities.

Our review of these securities backed by subprime and Alt-A loans included cash flow analyses based on default and prepayment assumptions and our consideration of all available information. While it is possible that under certain conditions, defaults and severity of losses on these securities could exceed our subordination and credit enhancement levels and a principal loss could occur, we do not believe that those conditions are probable as of March 31, 2008. As a result of our reviews, we have not identified any securities in our available-for-sale portfolio that are probable of incurring a contractual principal or interest loss. Based on our ability and intent to hold our available-for-sale securities for a sufficient time to recover all unrealized losses and our consideration of all available information, we have concluded that the reduction in fair value of these securities is temporary as of March 31, 2008. However, if there is a subsequent deterioration of the individual performance of any of these securities, we could determine that

impairment charges are warranted. See INTERIM MD&A CONSOLIDATED BALANCE SHEETS ANALYSIS Retained Portfolio *Subprime Loans* and *Alt-A Loans* for information on our evaluation of our securities for other than temporary impairments.

We rely on monoline bond insurance, including secondary coverage, to provide credit protection on securities held in our mortgage-related investment portfolio as well as our non-mortgage-related investment portfolio on a combined basis. Monoline bond insurers are companies that provide credit insurance principally covering securitized assets in both the primary issuance and secondary markets. If the financial condition of the monoline insurers were to deteriorate to the point where we believed that it was probable that they would fail to make us whole for any losses incurred on the insured securities, we could determine that impairment charges are warranted. See INTERIM MD&A CREDIT RISKS Institutional Credit Risk *Mortgage and Bond Insurers* and NOTE 15: CONCENTRATION OF CREDIT AND OTHER RISKS to our unaudited consolidated financial statements for additional information regarding our credit risks to our counterparties and how we manage them.

In March 2008, OFHEO reduced our mandatory target capital surplus to 20% above our statutory minimum capital requirement. As a result of OFHEO s action and through the redeployment of capital, we expect to grow our mortgage-

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related investment portfolio in the second quarter of 2008. With that expectation in mind and in order to take advantage of favorable investment opportunities, in March 2008 we significantly increased our net purchase commitments, the majority of which settled in April 2008.

Single-Family Guarantee

Table 78 presents the Segment Earnings of our Single-family Guarantee segment.

Table 78 Segment Earnings and Key Metrics Single-Family Guarantee

	Three Months Ended March 31,	
	2008	2007
	(in millions)	
Segment Earnings:		
Net interest income[1]	$ 77	$ 168
Non-interest income:		
Management and guarantee income	895	677
Other non-interest income[1]	104	22
Total non-interest income	999	699
Non-interest expense:		
Administrative expenses	(204)	(199)
Provision for credit losses	(1,349)	(289)
REO operations expense	(208)	(14)
Other non-interest expense	(19)	(21)
Total non-interest expense	(1,780)	(523)
Segment Earnings (loss) before income tax expense	(704)	344
Income tax (expense) benefit	246	(120)
Segment Earnings (loss), net of taxes	(458)	224
Reconciliation to GAAP net income (loss):		
Credit guarantee-related adjustments	(174)	(503)
Tax-related adjustments	61	176
Total reconciling items, net of taxes	(113)	(327)
GAAP net income (loss)	$ (571)	$ (103)
Key metrics Single-family Guarantee:		
Balances and Growth (in billions, except rate):		
Average securitized balance of single-family credit guarantee portfolio[2]	$ 1,728	$ 1,493
Issuance Single-family credit guarantees[3]	$ 113	$ 114
Fixed-rate products Percentage of issuances[3]	92.7%	74.8%

Liquidation Rate	Single-family credit guarantees (annualized rate)[3]	16.4%	14.8%
Credit:			
Delinquency rate[4]		0.77%	0.40%
Delinquency transition rate[5]		17.6%	11.0%
REO inventory increase, net (number of units)		4,025	865
Market:			
Single-family mortgage debt outstanding (total U.S. market, in billions)[6]		$ 11,136	$ 10,627
30-Year fixed mortgage rate[7]		5.9%	6.2%

(1) In connection with the use of securitization trusts for the underlying assets of our PCs and Structured Securities in December 2007, we began recording trust management income in non-interest income. Trust management income represents the fees we earn as administrator, issuer and trustee. Previously, the benefit derived from interest earned on principal and interest cash flows between the time they were remitted to us by servicers and the date of distribution to our PC and Structured Securities holders was recorded to net interest income.

(2) Based on unpaid principal balance.

(3) Includes termination of long-term standby commitments.

(4) Represents the percentage of single-family loans in our credit guarantee portfolio, based on loan count, which are 90 days or more past due and excluding loans underlying Structured Transactions.

(5) Calculated based on all loans that have been reported as 90 days or more delinquent or in foreclosure in the preceding year, which have subsequently transitioned to REO. The rate does not reflect other loss events, such as short-sales and deed-in-lieu transactions.

(6) U.S. single-family mortgage debt outstanding as of December 31, 2007 for 2008 and March 31, 2007 for 2007. Source: Federal Reserve Flow of Funds Accounts of the United States of America dated March 6, 2008.

(7) Based on Freddie Mac s Primary Mortgage Market Survey. Represents the mortgage commitment rate to a qualified borrower exclusive of the fees and points required by the lender. This commitment rate applies only to conventional financing on conforming mortgages with LTV ratios of 80% or less.

Segment Earnings (loss) for our Single-family Guarantee segment declined to a loss of $(458) million in the first quarter of 2008 compared to Segment Earnings of $224 million in the first quarter of 2007. This decline reflects an increase in credit expenses due to higher volumes of non-performing loans and foreclosures, higher severity of losses on a per-property basis and a decline in home prices and other regional economic conditions. The decline in Segment Earnings for this segment in the first quarter of 2008 was partially offset by an increase in Segment Earnings management and guarantee income for this segment as compared to the first quarter of 2007. The increase in Segment Earnings management and guarantee income for this segment in the first quarter of 2008 is primarily due to higher average balances of the single-family credit guarantee portfolio and increases in our average management and guarantee fee rates. Amortization of credit fees increased as a result of cumulative catch-up adjustments recognized in the first quarter of 2008. These cumulative catch-up adjustments result in a

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pattern of revenue recognition that is consistent with our economic release from risk and the timing of the recognition of losses on pools of mortgage loans we guarantee.

Table 79 below provides summary information about Segment Earnings management and guarantee income for the Single-family Guarantee segment. Segment Earnings management and guarantee income consists of contractual amounts due to us related to our management and guarantee fees as well as amortization of credit fees.

Table 79 Segment Earnings Management and Guarantee Income Single-Family Guarantee

	Three Months Ended March 31,			
	2008		2007	
	Amount	Average Rate	Amount	Average Rate
	(dollars in millions, rates in basis points)			
Contractual management and guarantee fees	$ 707	16.1	$ 586	15.5
Amortization of credit fees included in other liabilities	188	4.3	91	2.4
Total Segment Earnings management and guarantee income	895	20.4	677	17.9
Adjustments to reconcile to consolidated GAAP:				
Reclassification between net interest income and management and guarantee fee[1]	38		1	
Credit guarantee-related activity adjustments[2]	(161)		(64)	
Multifamily management and guarantee income[3]	17		14	
Management and guarantee income, GAAP	$ 789		$ 628	

(1) Management and guarantee fees earned on mortgage loans held in our retained portfolio are reclassified from net interest income within the Investments segment to management and guarantee fees within the Single-family Guarantee segment. Buy-up and buy-down fees are transferred from the Single-family Guarantee segment to the Investments segment.
(2) Primarily represent credit fee amortization adjustments.
(3) Represents management and guarantee income recognized related to our Multifamily segment that is not included in our Single-family Guarantee segment.

In the first quarter of 2008 and 2007, the annualized growth rates of our single-family credit guarantee portfolio were 9.9% and 16.4%, respectively. Our mortgage purchase volumes are impacted by several factors, including origination volumes, mortgage product and underwriting trends, competition, customer-specific behavior and contract terms. Single-family mortgage purchase volumes from individual customers can fluctuate significantly. Despite these fluctuations, we expect our share of the overall single-family mortgage securitization market to increase as mortgage originators have generally tightened their credit standards, causing conforming mortgages to be the predominant product in the market in the first quarter of 2008.

For securitization issuances through bulk purchase channels, we negotiated higher contractual fee rates in the first quarter of 2008 as compared to the first quarter of 2007, in response to increases in market pricing of mortgage credit risk. During the fourth quarter of 2007 and the first quarter of 2008, we announced several increases in delivery fees, which are paid at the time of securitization. These increases include an additional 25 basis point fee assessed on all

loans issued through flow-business channels, as well as higher or new delivery fees for certain non-traditional mortgages and for mortgages deemed to be higher-risk based on property type, LTV ratio and/or borrower credit scores. These increases will take effect in March, May and June 2008. We expect this increase in delivery fees, coupled with our increase in market share, to have a positive impact on our operations. However, existing contracts with our customers could delay the effective date of some fees with some customers for a period of months, including with respect to three of our largest customers. In these instances, fee modifications will be effective as their respective contracts permit. We may pursue additional increases to delivery fees, though in some cases commitments under existing customer contracts may delay the effective dates for such increases for a period of months. Given the volatility in the credit market during the first quarter of 2008, we will continue to closely monitor the pricing of our management and guarantee fees as well as our delivery fee rates and make adjustments when appropriate.

We have also made changes to our underwriting guidelines for loans delivered to us for purchase or securitization, including sharply reducing purchases of mortgages with LTV ratios over 97%. The changes also include additional guidance concerning our pre-existing policy that maximum LTV ratios for many mortgages must be reduced in markets where house prices are declining. As with fee increases, in some cases binding commitments under existing customer contracts may delay the effective dates of underwriting adjustments for a period of months.

Our Segment Earnings provision for credit losses for the Single-family Guarantee segment increased to $1.3 billion in the first quarter of 2008, compared to $0.3 billion in the first quarter of 2007, due to continued credit deterioration in our single-family credit guarantee portfolio, primarily related to 2006 and 2007 loan originations. Mortgages in our single-family credit guarantee portfolio originated in 2006 and 2007 have higher transition rates from delinquency to foreclosure, higher delinquency rates as well as higher loss severities on a per-property basis than our historical experiences. However, we have seen improvements in the credit quality of mortgages delivered to us in 2008. Our provision is based on our estimate of incurred credit losses inherent in both our retained mortgage loan and our credit guarantee portfolio using recent historical

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performance, such as trends in delinquency rates, recent charge-off experience, recoveries from credit enhancements and other loss mitigation activities.

The delinquency rate on our single-family credit guarantee portfolio, representing those loans which are 90 days or more past due and excluding loans underlying Structured Transactions, increased to 77 basis points as of March 31, 2008 from 65 basis points as of December 31, 2007. Increases in delinquency rates occurred in all product types in the first quarter of 2008, but were most significant for interest-only and option ARM mortgages. Although we believe that our delinquency rates remain low relative to conforming loan delinquency rates of other industry participants, we expect our delinquency rates will continue to rise in 2008.

The impact of the weakening housing market has been most evident in areas of the country where unemployment rates continue to be high, such as the North Central region. However, the East and West coastal areas of the country have also experienced home price declines and, as a result, we experienced increases in delinquency rates and REO activity in the West, North Central, Northeast and Southeast regions during the first quarter of 2008, compared to first quarter of 2007. For the first quarter of 2008, our single-family credit guarantee portfolio also continued to experience increases in the rate at which loans transitioned from delinquency to foreclosure. The increase in these delinquency transition rates, compared to our historical experience, has been progressively worse for mortgage loans originated in 2006 and 2007. We believe this trend is, in part, due to the increase of non-traditional mortgage loans, such as interest-only mortgages, as well as an increase in total LTV ratios for mortgage loans originated during these years and less stringent underwriting standards. Compared to the first quarter of 2007, single-family charge-offs, gross, increased $362 million to $455 million in the first quarter of 2008, primarily due to the increase in the volume of REO properties acquired at foreclosure as well as continued deterioration in the real estate market in certain markets. In addition, there has also been an increase in the average loan balances of foreclosed properties that resulted in higher charge-offs, on a per property basis, during the first quarter of 2008 compared to the first quarter of 2007.

Multifamily

Table 80 presents the Segment Earnings of our Multifamily segment.

Table 80 Segment Earnings and Key Metrics Multifamily

	Three Months Ended March 31,	
	2008	**2007**
	(dollars in millions)	
Segment Earnings:		
Net interest income	$ 75	$ 123
Non-interest income:		
Management and guarantee income	17	14
Other non-interest income	8	4
Total non-interest income	25	18
Non-interest expense:		
Administrative expenses	(49)	(45)
Provision for credit losses	(9)	(3)
REO operations expense		
LIHTC partnerships	(117)	(108)

Other non-interest expense	(4)	(4)
Total non-interest expense	(179)	(160)
Segment Earnings (loss) before income tax benefit	(79)	(19)
LIHTC partnerships tax benefit	149	138
Income tax benefit	28	6
Segment Earnings, net of taxes	98	125
Reconciliation to GAAP net income:		
Derivative and foreign-currency denominated debt-related adjustments	(11)	(1)
Tax-related adjustments	4	1
Total reconciling items, net of taxes	(7)	
GAAP net income	$ 91	$ 125
Key metrics Multifamily:		
Balances and Growth:		
Average balance of Multifamily loan portfolio[1]	$ 58,812	$ 45,820
Average balance of Multifamily guarantee portfolio[1]	11,336	8,053
Purchases Multifamily loan portfolio[1]	4,063	3,119
Purchases Multifamily guarantee portfolio[1]	2,382	20
Liquidation Rate Multifamily loan portfolio (annualized rate)	5.5%	14.9%
Credit:		
Delinquency rate[2]	0.04%	0.06%
Allowance for loan losses	$ 71	$ 30

(1) Based on unpaid principal balance.

(2) Based on net carrying value of mortgages 60 days or more delinquent or in foreclosure.

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Segment Earnings for our Multifamily segment decreased $27 million, or 22%, in the first quarter of 2008 compared to the first quarter of 2007 primarily due to lower net interest income, higher LIHTC losses and higher provision for credit losses. The net interest income of this segment declined $48 million in the first quarter of 2008, compared to the first quarter of 2007, primarily due to lower yield maintenance fee income. Flat or declining property values and a difficult credit market during the first quarter of 2008 have made refinancing less appealing to borrowers than it was during the first quarter of 2007 when there was a high volume of refinancing activities due to a favorable interest rate environment and rapid property price appreciation. In addition to interest and yield maintenance fees earned on retained mortgage loans, net interest income for the Multifamily segment includes an allocation of interest income on cash balances held by our Investments segment related to multifamily activities. LIHTC losses increased $9 million in the first quarter of 2008 compared to the first quarter of 2007, primarily reflecting marginally higher property level operating losses and higher impairments recognized on the LIHTC funds. Provision for credit losses for our Multifamily segment increased $6 million primarily due to an increase in the severity rate and an increase in the impaired population. Loan purchases into the Multifamily loan portfolio were $4.1 billion in the first quarter of 2008, a 30% increase when compared to the first quarter of 2007, as we continue to provide stability and liquidity for the financing of rental housing nationwide.

CONSOLIDATED BALANCE SHEETS ANALYSIS

The following discussion of our consolidated balance sheets should be read in conjunction with our unaudited consolidated financial statements, including the accompanying notes. Also see INTERIM MD&A CRITICAL ACCOUNTING POLICIES AND ESTIMATES for more information concerning our more significant accounting policies and estimates applied in determining our reported financial position.

Retained Portfolio

As of March 1, 2008 the voluntary growth limit on our retained portfolio is no longer in effect.

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Table 81 provides detail regarding the mortgage loans and mortgage-related securities in our retained portfolio.

Table 81 Characteristics of Mortgage Loans and Mortgage-Related Securities in our Retained Portfolio

	March 31, 2008			December 31, 2007		
	Fixed Rate	Variable Rate	Total	Fixed Rate	Variable Rate	Total
	(in millions)					
Mortgage loans:						
Single-family[1]						
Conventional:[2]						
Interest-only	$ 311	$ 985	$ 1,296	$ 246	$ 1,434	$ 1,680
Amortizing	23,649	1,345	24,994	20,461	1,266	21,727
Total conventional	23,960	2,330	26,290	20,707	2,700	23,407
RHS/FHA/VA	1,206		1,206	1,182		1,182
Total single-family	25,166	2,330	27,496	21,889	2,700	24,589
Multifamily[3]	56,429	4,409	60,838	53,114	4,455	57,569
Total mortgage loans	81,595	6,739	88,334	75,003	7,155	82,158
PCs and Structured Securities:[1][4]						
Single-family	257,795	86,399	344,194	269,896	84,415	354,311
Multifamily	269	2,387	2,656	2,522	137	2,659
Total PCs and Structured Securities	258,064	88,786	346,850	272,418	84,552	356,970
Non-Freddie Mac mortgage-related securities:[1]						
Agency mortgage-related securities:[5]						
Fannie Mae:						
Single-family	23,072	29,745	52,817	23,140	23,043	46,183
Multifamily	692	156	848	759	163	922
Ginnie Mae:						
Single-family	449	172	621	468	181	649
Multifamily	63		63	82		82
Total agency mortgage-related securities	24,276	30,073	54,349	24,449	23,387	47,836
Non-agency mortgage-related securities:						
Single-family:						

Subprime[6]	479	92,590	93,069	498	100,827	101,325
Alt-A and other[7]	3,604	46,136	49,740	3,762	47,551	51,313
Commercial mortgage-backed securities	25,360	39,141	64,501	25,709	39,095	64,804
Obligations of states and political subdivisions[8]	14,135	50	14,185	14,870	65	14,935
Manufactured housing[9]	1,222	212	1,434	1,250	222	1,472
Total non-agency mortgage-related securities[10]	44,800	178,129	222,929	46,089	187,760	233,849
Total unpaid principal balance of retained portfolio	$ 408,735	$ 303,727	712,462	$ 417,959	$ 302,854	720,813
Premiums, discounts, deferred fees, impairments of unpaid principal balances and other basis adjustments			240			(655)
Net unrealized losses on mortgage-related securities, pre-tax			(24,762)			(10,116)
Allowance for loan losses on mortgage loans held-for-investment			(356)			(256)
Total retained portfolio per consolidated balance sheets			$ 687,584			$ 709,786

(1) Variable-rate single-family mortgage loans and mortgage-related securities include those with a contractual coupon rate that, prior to contractual maturity, is either scheduled to change or is subject to change based on changes in the composition of the underlying collateral. Single-family mortgage loans also include mortgages with balloon/reset provisions.

(2) Includes $1.9 billion and $2.2 billion as of March 31, 2008 and December 31, 2007, respectively, of mortgage loans categorized as Alt-A due solely to reduced documentation standards at the time of loan origination. Although we do not categorize our single-family loans into prime or subprime, we recognize that certain of the mortgage loans in our retained portfolio exhibit higher risk characteristics. Total single-family loans include $1.3 billion at both March 31, 2008 and December 31, 2007, of loans with higher-risk characteristics, which we define as loans with original LTV ratios greater than 90% and borrower credit scores less than 620 at the time of loan origination. See INTERIM MD&A CREDIT RISKS Mortgage Credit Risk Table 109 Characteristics of Single-Family Mortgage Portfolio for more information on LTV ratios and credit scores.

(3) Variable-rate multifamily mortgage loans include only those loans that, as of the reporting date, have a contractual coupon rate that is subject to change.

(4) For our PCs and Structured Securities, we are subject to the credit risk associated with the underlying mortgage loan collateral.

(5) Agency mortgage-related securities are generally not separately rated by nationally recognized statistical rating organizations, but are viewed as having a level of credit quality at least equivalent to non-agency mortgage-related securities AAA-rated or equivalent.

(6) Single-family non-agency mortgage-related securities backed by subprime residential loans include significant credit enhancements, particularly through subordination. For information about how these securities are rated, see Table 84 Investments in Non-Agency Securities backed by Subprime and Alt-A and Other Loans in our Retained Portfolio , Table 85 Ratings of Non-Agency Mortgage-Related Securities backed by Subprime Loans

at March 31, 2008 , and Table 86 Ratings of Non-Agency Mortgage-Related Securities backed by Subprime Loans at March 31, 2008 and May 5, 2008 .

(7) Single-family non-agency mortgage-related securities backed by Alt-A and other mortgage loans include significant credit enhancements, particularly through subordination. For information about how these securities are rated, see Table 84 Investments in Non-Agency Securities backed by Subprime and Alt-A and Other Loans in our Retained Portfolio , Table 88 Ratings of Non-Agency Mortgage-Related Securities backed by Alt-A Loans at March 31, 2008 , and Table 89 Ratings of Non-Agency Mortgage-Related Securities backed by Alt-A and Other Loans at March 31, 2008 and May 5, 2008 .

(8) Consist of mortgage revenue bonds. Approximately 63% and 67% of these securities held at March 31, 2008 and December 31, 2007, respectively, were AAA-rated as of those dates, based on the lowest rating available.

(9) At March 31, 2008 and December 31, 2007, 33% and 34%, respectively, of mortgage-related securities backed by manufactured housing bonds were rated BBB– or above, based on the lowest rating available. For the same dates, 93% of manufactured housing bonds had credit enhancements, including primary monoline insurance that covered 24% of the manufactured housing bonds. At both March 31, 2008 and December 31, 2007, we had secondary insurance on 72% of these bonds that were not covered by the primary monoline insurance. Approximately 27% and 28% of these mortgage-related securities were backed by manufactured housing bonds AAA-rated at March 31, 2008 and December 31, 2007, respectively, based on the lowest rating available.

(10) Credit ratings for most non-agency mortgage-related securities are designated by no fewer than two nationally recognized statistical rating organizations. Approximately 84% and 96% of total non-agency mortgage-related securities held at March 31, 2008 and December 31, 2007, respectively, were AAA-rated as of those dates, based on the lowest rating available.

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The unpaid principal balance of our retained portfolio decreased slightly at March 31, 2008 compared to December 31, 2007. The unpaid principal balance of our mortgage-related securities held in our retained portfolio decreased by $14.5 billion during the first quarter of 2008, while our mortgage loans balance increased by $6.2 billion over the same period. The overall net decrease in the unpaid principal balance of our retained portfolio was primarily due to our efforts to maintain our capital above mandatory limits required by OFHEO. Our mandatory target capital surplus was reduced by OFHEO to 20% from 30% above our statutory minimum capital requirement on March 19, 2008 and we have taken steps to redeploy capital to take advantage of favorable OAS levels in the second quarter of 2008.

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Table 82 summarizes amortized cost, estimated fair values and corresponding gross unrealized gains and gross unrealized losses for available-for-sale securities and estimated fair values for trading securities by major security type held in our retained portfolio.

Table 82 Available-for-Sale Securities and Trading Securities in our Retained Portfolio

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(in millions)		
March 31, 2008				
Retained portfolio:				
Available-for-sale mortgage-related securities:				
Freddie Mac	$ 263,021	$ 3,516	$ (1,568)	$ 264,969
Fannie Mae	36,278	455	(163)	36,570
Ginnie Mae	457	21		478
Subprime	93,023	2	(17,089)	75,936
Alt-A and other	49,840	11	(10,976)	38,875
Commercial mortgage-backed securities	64,616	160	(1,719)	63,057
Manufactured housing	1,109	137	(22)	1,224
Mortgage revenue bonds	14,103	66	(813)	13,356
Total available-for-sale mortgage-related securities	$ 522,447	$ 4,368	$ (32,350)	$ 494,465
Trading mortgage-related securities:				
Freddie Mac				$ 88,397
Fannie Mae				18,010
Ginnie Mae				216
Other				35
Total trading mortgage-related securities				$ 106,658
December 31, 2007				
Retained portfolio:				
Available-for-sale mortgage-related securities:				
Freddie Mac	$ 346,569	$ 2,981	$ (2,583)	$ 346,967
Fannie Mae	45,688	513	(344)	45,857
Ginnie Mae	545	19	(2)	562
Subprime	101,278	12	(8,584)	92,706
Alt-A and other	51,456	15	(2,543)	48,928
Commercial mortgage-backed securities	64,965	515	(681)	64,799
Manufactured housing	1,149	131	(12)	1,268
Mortgage revenue bonds	14,783	146	(351)	14,578
Total available-for-sale mortgage-related securities	$ 626,433	$ 4,332	$ (15,100)	$ 615,665

Trading mortgage-related securities:				
Freddie Mac				$ 12,216
Fannie Mae				1,697
Ginnie Mae				175
Other				1
Total trading mortgage-related securities				$ 14,089

March 31, 2007

Retained portfolio:				
Available-for-sale mortgage-related securities:				
Freddie Mac	$ 352,339	$ 1,728	$ (4,551)	$ 349,516
Fannie Mae	43,349	392	(501)	43,240
Ginnie Mae	664	18	(4)	678
Subprime	120,985	51	(74)	120,962
Alt-A and other	56,764	65	(267)	56,562
Commercial mortgage-backed securities	50,966	234	(694)	50,506
Manufactured housing	1,143	167		1,310
Mortgage revenue bonds	13,781	296	(42)	14,035
Total available-for-sale mortgage-related securities	$ 639,991	$ 2,951	$ (6,133)	$ 636,809
Trading mortgage-related securities				
Freddie Mac				$ 7,085
Fannie Mae				905
Ginnie Mae				211
Total trading mortgage-related securities				$ 8,201

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Table 83 shows the fair value of available-for-sale securities held in our retained portfolio as of March 31, 2008 and December 31, 2007 that have been in a gross unrealized loss position less than 12 months or greater than 12 months.

Table 83 Available-For-Sale Securities Held in Our Retained Portfolio in a Gross Unrealized Loss Position

	Less than 12 months		12 months or Greater		Total	
March 31, 2008	**Fair Value**	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**
			(in millions)			
Retained portfolio:						
Mortgage-related securities:						
Freddie Mac	$ 36,370	$ (512)	$ 44,743	$ (1,056)	$ 81,113	$ (1,568)
Fannie Mae	5,078	(22)	8,070	(141)	13,148	(163)
Ginnie Mae	36		3		39	
Subprime	49,118	(10,052)	26,606	(7,037)	75,724	(17,089)
Alt-A and other	23,795					