UNITED STATES OF AMERICA
SECURITIES AND EXCHANGE COMMISSION

NON-PROSECUTION AGREEMENT

1. This agreement arises out of an investigation by the Division of Enforcement (the "Division") of the United States Securities and Exchange Commission (the "Commission") into possible violations of the federal securities laws by the Federal Home Loan Mortgage Corporation (the "Respondent" or "Freddie Mac") and others that occurred in or about December 2006 through September 6, 2008, arising from, among other things, public statements concerning Freddie Mac's exposure to Subprime and Alt-A mortgages (collectively, the "Investigation"). Prior to a public enforcement action being brought by the Commission against Freddie Mac, without admitting or denying liability, Respondent has offered to accept responsibility for its conduct and to not dispute, contest, or contradict the factual statements set forth in Exhibit A, as specifically provided herein. Accordingly, the Commission and the Respondent enter into this Non-Prosecution Agreement (the "Agreement").

2. The Respondent is a corporation organized and operated under the laws of the United States of America, subject to the ongoing supervision of the Federal Housing Finance Agency ("FHFA"). On September 6, 2008, FHFA placed the Respondent into conservatorship, and as conservator, succeeded to all rights, titles, powers and privileges of the Respondent and its shareholders, officers, and directors with respect to the Respondent and its assets. As conservator, FHFA maintains a continuous on-site presence at the Respondent and provides substantial oversight over the Respondent, including, among other things, with respect to its corporate governance, regulatory compliance and operations. In addition, the United States Treasury has made substantial capital investments in the Respondent and holds senior preferred stock, as well as warrants representing an ownership stake of up to 79.9 percent of the Respondent's common stock.

3. In entering into this Agreement, the Commission recognizes the unique circumstances presented by the Respondent's current status, including the financial support provided to the Respondent by the U.S. Treasury, the role of another government agency (FHFA) as conservator, and the costs that may be imposed on U.S. taxpayers. Based on these circumstances and in consideration of the public interest, subject to the full, truthful, and continuing cooperation of the Respondent as described below and its satisfactory performance of all obligations and undertakings herein, the Commission and Respondent enter into this Agreement with the terms and conditions contained herein.

COOPERATION

4. The Respondent agrees to cooperate fully and truthfully in the Investigation and any other related enforcement litigation or proceeding to which the Commission is a party (the "Proceedings"), without regard to the time period in which the cooperation is required ("Cooperation Period"). In addition, the Respondent agrees to cooperate fully and truthfully, when directed by the Division's staff, in any other related official investigation or proceeding by any U.S. federal agency (the "Other Proceedings"). The Respondent acknowledges and

understands that its ongoing cooperation with the Commission is an important and material factor underlying the Commission's decision to enter into this Agreement. The full, truthful, and continuing cooperation of the Respondent shall include, but not be limited to:

a. identifying, assembling, organizing and producing, in a responsive and prompt manner, all non-privileged, non-attorney work-product documents, information, and other materials (including but not limited to providing reports or analyses of data concerning Respondent's models, credit risk reporting or data systems) to the Commission as requested by the Division's staff, wherever located, in the possession, custody, or control of the Respondent;

b. providing declarations authenticating all documents, information, and other materials produced to the Commission by Respondent upon request by the Division's staff;

c. providing declarations, upon request by the Division's staff, certifying that documents, information, and other materials produced to the Commission by Respondent comply with Federal Rule of Evidence 902(11)(A-C);

d. providing Federal Rule of Civil Procedure 30(b)(6) witnesses, and authenticating documents, for the purpose of establishing the facts set forth in Exhibit A;

e. using its best efforts to secure the full, truthful, and continuing cooperation, as defined in Paragraph 4, of Freddie Mac's current and former board members, officers, employees and agents, including making these persons available, when requested to do so by the Division's staff, for interviews and the provision of testimony in the investigation, deposition, trial and other judicial proceedings in connection with the Proceedings or Other Proceedings;

f. authenticating all documents, information, and other materials identified by the Division's staff, to the extent able to do so;

g. responding to all inquiries, when requested to do so by the Division's staff, in connection with the Proceedings or Other Proceedings;

h. producing to the Commission, in a responsive and prompt manner, any documents, information and materials not previously produced to the Commission that are provided formally or informally to any party for use in the Proceedings or Other Proceedings at the request of such party or otherwise;

i. notifying the Division's staff, in a prompt manner, of the receipt and substance of any request for documents, information or materials by a party to the Proceedings or Other Proceedings or the scheduling or facilitation of interviews or meetings between parties to the Proceedings or Other Proceedings (or their counsel) and any of Freddie Mac's current and former board members, officers, employees and agents in connection with the Proceedings or Other Proceedings;

j. maintaining the confidentiality of communications with the Division's staff relating to the cooperation required under paragraphs a-i above, and refusing to enter into, not entering into, modifying or withdrawing from existing formal or informal joint-defense agreements or arrangements with any person relating to the Proceedings or Other Proceedings to

the extent such agreements limit Respondent's ability to provide or share information with the Commission; *and*,

k. providing appropriate assistance to the Commission to obtain documents or other information necessary for the Commission to assess and respond to defenses raised in the Proceedings or Other Proceedings.

5. The full, truthful, and continuing cooperation of each person described in Paragraph 4(e) above will be subject to the procedures and protections of this Paragraph, and shall include, but not be limited to:

a. producing all non-privileged documents, information, and other materials as requested by the Division's staff;

b. appearing for interviews, at such times and places as requested by the Division's staff;

c. authenticating all documents, information, and other materials identified by the Division's staff, to the extent able to do so;

d. responding to all inquiries, when requested to do so by the Division's staff, in connection with the Proceedings or Other Proceedings; *and*,

e. testifying at deposition, at trial and in other judicial proceedings, when requested to do so by the Division's staff, in connection with the Proceedings or Other Proceedings.

STATUTE OF LIMITATIONS

6. The Respondent agrees that the running of any statute of limitations applicable to any action or proceeding against it authorized, instituted, or brought by or on behalf of the Commission arising out of the Investigation (the "Enforcement Proceeding"), including any sanctions or relief that may be imposed therein, is tolled and suspended during the Cooperation Period.

a. The Respondent and any of its attorneys or agents shall not include the Cooperation Period in the calculation of the running of any statute of limitations or for any other time-related defense applicable to the Enforcement Proceeding, including any sanctions or relief that may be imposed therein, in asserting or relying upon any such time-related defense.

b. This agreement shall not affect any applicable statute of limitations defense or any other time-related defense that may be available to Respondent before the commencement of the Cooperation Period or be construed to revive an Enforcement Proceeding that may be barred by any applicable statute of limitations or any other time-related defense before the commencement of the Cooperation Period.

c. The running of any statute of limitations applicable to the Enforcement Proceeding shall commence again after the end of the Cooperation Period, unless there is an extension of the tolling period executed in writing by or on behalf of the parties hereto.

d. This agreement shall not be construed as an admission by the Commission relating to the applicability of any statute of limitations to the Enforcement Proceeding, including any sanctions or relief that may be imposed therein, or to the length of any limitations period that may apply, or to the applicability of any other time-related defense.

UNDERTAKINGS

7. During the Cooperation Period, the Respondent understands and agrees to perform the following undertakings:

a. to provide written notification to the Division, within five days, if it has been questioned in the context of an investigation, charged, or convicted of an offense related to the securities laws by any federal, state, or local law enforcement organization or regulatory agency; and

b. to submit a report to the Division detailing its efforts to identify and implement improved disclosure procedures since being placed into conservatorship on September 6, 2008, and, if requested, to meet with the Division's staff to discuss the report and its progress with respect to its obligations pursuant to this Agreement.

PUBLIC STATEMENTS

8. The Respondent agrees not to take any action or to make or permit any public statement through present or future attorneys, employees, agents, or other persons authorized to speak for it ("Related Person"), except in legal proceedings in which the Commission is not a party, denying, directly or indirectly, any aspect of this Agreement or creating the impression that the statements in Exhibit A to this Agreement are without factual basis. This paragraph is not intended to apply to any statement made by an individual in the course of any criminal, civil, or regulatory proceeding initiated by the government or self-regulatory organization against such individual, unless such individual is speaking on behalf of the Respondent.[1] If it is determined by the Commission that a public statement by the Respondent or any Related Person contradicts in whole or in part this Agreement, at its sole discretion, the Commission may bring an enforcement action in accordance with Paragraphs 15 through 18, but only provided that Respondent does not cure the statement by promptly making appropriate public statements or court filings satisfactory to the Commission after a reasonable opportunity to do so by the Commission.

9. Prior to issuing any press release concerning this Agreement, the Respondent agrees to have the text of the release approved by the staff of the Division.

SERVICE

10. The Respondent agrees to serve by hand delivery or by next-day mail all written notices and correspondence required by or related to this Agreement to Charles Cain, Assistant Director,

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[1] Nothing in this Agreement affects Respondent's and Related Person's (i) testimonial obligations or (ii) right to take legal or factual positions in litigation or other legal proceedings in which the Commission is not a party.

100 F Street, N.E., Washington, D.C. 20549 ((202) 551-4911), unless otherwise directed in writing by the staff of the Division.

VIOLATION OF AGREEMENT

11. The Respondent understands and agrees that it shall be a violation of this Agreement if it knowingly provides false or misleading information or materials in connection with the Proceedings or Other Proceedings. In the event of such misconduct, the Division will advise the Commission of the Respondent's misconduct and may make a criminal referral for providing false information (18 U.S.C. § 1001), contempt (18 U.S.C. §§ 401-402) and/or obstructing justice (18 U.S.C. § 1503 *et seq.*).

12. The Respondent understands and agrees that should the Division determine that the Respondent has failed materially to comply with any term or condition of this Agreement, the Division will notify the Respondent or its counsel of the fact and provide an opportunity for the Respondent to make a Wells submission pursuant to the Securities Act of 1933 Release No. 5310. Under these circumstances, the Division may, in its sole discretion and not subject to judicial review, recommend to the Commission an enforcement action against the Respondent for any securities law violations, including, but not limited to, the substantive offenses relating to the Investigation.

13. The Respondent understands and agrees that in any future enforcement action resulting from its violation of the Agreement, any documents, statements, information, testimony, or evidence provided by it during the Investigation, Proceedings or Other Proceedings, and any leads derived there from, may be used against it in future legal proceedings.

14. In the event it breaches this Agreement, the Respondent agrees not to dispute, contest, or contradict the factual statements contained in Exhibit A, or their admissibility, in any future Commission enforcement action against it.

COMPLIANCE WITH AGREEMENT

15. Subject to the full, truthful, and continuing cooperation of the Respondent, as described in Paragraphs 4 and 5, and compliance by Respondent with all obligations, prohibitions and undertakings in this Agreement, the Commission agrees not to bring any enforcement action or proceeding against the Respondent arising from the Investigation. This Agreement should not, however, be deemed to exonerate the Respondent or be construed as a finding by the Commission that violations of the federal securities laws have not occurred.

16. The Respondent understands and agrees that this Agreement does not bind other U.S. federal, state or self-regulatory organizations, but the Commission may, at its discretion, issue a letter to these organizations detailing the fact, manner, and extent of its cooperation during the Proceedings or Other Proceedings, upon the written request of the Respondent.

17. The Respondent understands and agrees that if it sells, merges, or transfers all or substantially all of its business operations as they exist as of the date of this Agreement, whether such a sale is structured as a stock or asset sale, merger, or transfer during the Cooperation

Period, it shall include in any contract for sale, merger, or transfer a provision binding the purchaser or successor in interest to the obligations set forth in this Agreement.

18. The Respondent understands and agrees that the Agreement only provides protection against enforcement actions arising from the Investigation and does not relate to any other violations, or to any individual or entity other than the Respondent.

VOLUNTARY AGREEMENT

19. The Respondent's decision to enter into this Agreement is freely and voluntarily made and is not the result of force, threats, assurances, promises, or representations other than those contained in this Agreement.

20. The Respondent has read and understands this Agreement. Furthermore, the Respondent has reviewed all legal and factual aspects of this matter with its attorney and is fully satisfied with its attorney's legal representation. The Respondent has thoroughly reviewed this Agreement with its attorney and has received satisfactory explanations concerning each paragraph of the Agreement. After conferring with its attorney and considering all available alternatives, the Respondent has made a knowing decision to enter into the Agreement.

21. The Respondent represents that its Board of Directors has duly authorized, in the resolution attached as Exhibit B to this Agreement, the execution and delivery of this Agreement, and that the person signing this Agreement has authority to bind the Respondent.

ENTIRETY OF AGREEMENT

22. This Agreement constitutes the entire agreement between the Commission and the Respondent, and supersedes all prior understandings, if any, whether oral or written, relating to the subject matter herein.

23. This Agreement cannot be modified except in writing, signed by the Respondent and an authorized representative of the Commission.

24. This agreement may be executed in counterparts.

25. In the event an ambiguity or a question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by the parties hereto, and no presumption or burden of proof shall arise favoring or disfavoring the Commission or the Respondent by virtue of the authorship of any of the provisions of the Agreement.

The signatories below acknowledge acceptance of the foregoing terms and conditions.

RESPONDENT:

12/13/11 Date	Charles Edgar Haldeman, Jr. Charles E. Haldeman, Jr. CEO, Freddie Mac 8200 Jones Branch Drive McLean, VA 22102-3110

Attached hereto is the Certificate of the Secretary to the Board of Directors of Freddie Mac, certifying that Charles E. Haldeman, Jr. is, and at the time of the signing and delivery of the Agreement was, the duly appointed, qualified and acting Chief Executive Officer of Freddie Mac and duly authorized to execute the Agreement on behalf of Freddie Mac, and that the signature of Charles E. Haldeman, Jr. appearing on the Agreement is his genuine signature.

RESPONDENT'S COUNSEL:

Approved as to form:

Date	Neal E. Sullivan, Esq. Bingham McCutchen LLP 2020 K Street NW Washington, DC 20006-1806

SECURITIES AND EXCHANGE COMMISSION
DIVISION OF ENFORCEMENT:

Date	Robert Khuzami Director, Enforcement Division United States Securities and Exchange Commission 100 F Street, N.E. Washington, D.C. 20549

The signatories below acknowledge acceptance of the foregoing terms and conditions.

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_____ Date	_____ Charles E. Haldeman, Jr. CEO, Freddie Mac 8200 Jones Branch Drive McLean, VA 22102-3110

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RESPONDENT'S COUNSEL:

Approved as to form:

Dec 13 2011 Date	Neal E. Sullivan, Esq. Bingham McCutchen LLP 2020 K Street NW Washington, DC 20006-1806

SECURITIES AND EXCHANGE COMMISSION
DIVISION OF ENFORCEMENT:

December 15, 2011 Date	Robert Khuzami Director, Enforcement Division United States Securities and Exchange Commission 100 F Street, N.E. Washington, D.C. 20549

EXHIBIT A

STATEMENT OF FACTS

Freddie Mac

1. Federal Home Loan Mortgage Corporation ("Freddie Mac") is a government-sponsored enterprise that was chartered by Congress in 1970 to support liquidity, stability and affordability in the secondary mortgage market, where existing mortgage-related assets are purchased and sold. Freddie Mac manages its business through three reportable segments: (1) single-family guarantee, (2) multifamily, and (3) investments. Freddie Mac's primary business segment is its single-family guarantee portfolio, through which it guarantees the payment of principal and interest on single-family mortgage related securities, in exchange for guarantee fees. The single family business purchases residential mortgages and mortgage-related securities in the secondary mortgage market and securitizes them as Freddie Mac mortgage-backed securities, known as Participation Certificates ("PCs"). Freddie Mac guarantees the payment of principal and interest on the mortgage loans that underlie these PCs. The 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. Through the investment segment, which includes the retained portfolio, the company invests principally in mortgage-related securities and single-family mortgages, including its own PCs.

2. In or about November 2007, Freddie Mac began reporting significant credit losses in its portfolio of mortgage-related assets and guaranty contracts. On November 20, 2007, Freddie Mac reported a net loss of $2 billion, which reflected "a higher provision for credit losses and losses on mark-to-market items." For the period January 1, 2007 through March 31, 2011, Freddie Mac reported cumulative net losses of $88.1 billion.

3. From 1992 until July 30, 2008, Freddie Mac's primary regulator was the Office of Federal Housing Enterprise Oversight.

4. On July 30, 2008, when the President signed into law the Housing and Economic Recovery Act of 2008, the Federal Housing Finance Agency ("FHFA") became Freddie Mac's primary regulator. On September 6, 2008, FHFA placed Freddie Mac into conservatorship, and as conservator succeeded to all rights, titles, powers and privileges of Freddie Mac, its shareholders, and the officers or directors of Freddie Mac with respect to the company and its assets.

5. On July 8, 2010, Freddie Mac's common stock was delisted from the New York Stock Exchange. Freddie Mac's common stock presently is traded in the over-the-counter market and quoted on the OTC Bulletin Board under the ticker symbol "FMCC." Freddie Mac's debt securities are actively traded in the over-the-counter market.

6. From March 23, 2007 through August 6, 2008 (the "Relevant Period"), Freddie Mac published mortgage credit risk disclosures in annual information statements and periodic information statement supplements posted on its website and, as of August 6, 2008, in periodic

filings with the Securities and Exchange Commission. These disclosures included information on Freddie Mac's single-family credit guarantee portfolio which consisted of mortgage loans and PCs backed by mortgage loans (whether held in its portfolio or by third parties).

7. During the Relevant Period, Freddie Mac provided disclosures regarding its exposure to Alt-A and subprime mortgage loans in its single-family mortgage credit guarantee portfolio.

Subprime Disclosures

8. During the Relevant Period, Loan Prospector ("LP") was Freddie Mac's proprietary automated underwriting system ("AUS"). Loan originators used LP to obtain an AUS score, which could be used to determine the terms on which a loan could be sold to Freddie Mac. For example, whether a loan could be sold to Freddie Mac without certain representations and warranties or without additional cost.

9. LP was based on performance models calibrated to loans in Freddie Mac's guarantee portfolio and to other data acquired by Freddie Mac. Using these models, LP generated a score reflecting an estimate of the risk of default associated with loans. Freddie Mac grouped these numerical scores into six bands or "grades," roughly corresponding to the level of anticipated risk: A+, A1, A2, A3, C1 or C2. The first four categories were called "Accept" loans; the C1 and C2 categories were designated "Caution" loans. In general, loans categorized as C1 or C2 were those with multiple higher risk characteristics, such as high LTVs, low FICOs, unusual property types or high debt-to-income ratios.

10. In 1998, Freddie Mac developed its "A-minus" offering under which a loan that scored C1 under LP could be sold to Freddie Mac on the same terms as an Accept loan with the payment of an additional fee by the seller. Contemporaneous Freddie Mac internal documents described A-minus loans as comprising "approximately 50 percent of subprime loans," and as "[m]ortgages that generally comprise the first and second tier of subprime lender risk grades."

11. As of November 1998, an internal Freddie Mac document titled Credit Policy Book described mortgage loans that received an LP C2 rating as having a credit quality of "subprime."

12. In 1999, in order to manage the company's risk exposure to "traditional subprime residential mortgages," Freddie Mac developed a model to estimate the likelihood that a loan was being made to someone who traditionally would have borrowed through the subprime channel. The model scored mortgage loans on a variety of credit risk characteristics, such as debt ratio, FICOs, and time since most recent foreclosure, and generated a "subprime score" which, if the score was below certain thresholds, resulted in an automatic LP rating of C1 or C2. In addition, the model contained certain overrides that required a mortgage loan to receive an LP C1 or C2 rating if certain characteristics were present, such as a debt-to-income ratio greater than 50 percent, assuming that the loan did not possess certain specific mitigating factors.

13. During the Relevant Period, Freddie Mac also purchased loans that qualified under the Federal National Mortgage Association ("Fannie Mae") Expanded Approval ("EA") program. On August 17, 2005, a direct report to Freddie Mac's Senior Vice President, Credit Policy & Portfolio Management, signed an internal policy document authorizing increased purchases of EA loans. Comments by the direct report to Freddie Mac's SVP for Credit Policy and others annexed to the document stated:

- "[B]ased on an analysis of available data, there is also high risk associated with the purchase of EA Mortgages, since performance compares to subprime products."
- "[EA loans] appear to be subprime in nature."

14. On August 20, 2007, Freddie Mac's SVP, Credit Policy & Portfolio Management ("SVP for Credit Policy"), described EA loans as "clearly subprime."

15. The approximate aggregate amount (in billions of U.S. dollars), measured by unpaid principal balance, of C1, C2 and EA loans on Freddie Mac's single-family credit guarantee book at the end of the following periods was as follows:

Single-Family Guarantee Portfolio							
Period	**EA**	**C1**	**C2**	**Total C1 and C2**	**Total C1, C2 and EA**	**Total Single-Family Guarantee Portfolio**	**% Total C1, C2 and EA of Total Single-Family Guarantee Portfolio**
1Q05	$1	$39	$35	$74	$75	$1,220	6%
2Q05	$1	$42	$37	$79	$80	$1,244	6%
3Q05	$1	$47	$39	$86	$87	$1,274	7%
4Q05	$2	$53	$42	$95	$97	$1,318	7%
1Q06	$2	$60	$47	$107	$109	$1,360	8%
2Q06	$2	$64	$50	$114	$116	$1,387	8%

Single-Family Guarantee Portfolio							
Period	EA	C1	C2	Total C1 and C2	Total C1, C2 and EA	Total Single-Family Guarantee Portfolio	% Total C1, C2 and EA of Total Single-Family Guarantee Portfolio
3Q06	$2	$71	$54	$125	$127	$1,428	9%
4Q06	$3	$78	$60	$138	$141	$1,467	10%
1Q07	$4	$89	$67	$156	$160	$1,528	10%
2Q07	$6	$100	$77	$177	$183	$1,586	12%
3Q07	$8	$110	$88	$198	$206	$1,642	13%
4Q07	$11	$118	$98	$216	$227	$1,692	13%
1Q08	$11	$123	$104	$227	$238	$1,739	14%
2Q08	$11	$127	$106	$233	$244	$1,784	14%

16. During the Relevant Period, Freddie Mac's single-family guarantee segment entered into contracts with certain larger customers that required the companies to sell to or securitize with Freddie Mac a specified minimum share of their eligible loan originations, subject to certain conditions and exclusions. The purchase and securitization of mortgage loans from customers under these longer-term contracts had fixed pricing schedules for Freddie Mac's guarantee fees that were negotiated at the outset of the contract. Freddie Mac referred to these transactions as "flow" activity (the "flow channel"), which represented the majority of Freddie Mac's purchase volumes during the Relevant Period. The remainder of Freddie Mac's purchases and securitizations of mortgage loans during the Relevant Period occurred in "bulk" transactions for which purchase prices and guarantee fees were negotiated on an individual transaction basis.

17. During the Relevant Period, in addition to purchasing and guaranteeing the payment of principal and interest on loans that had been underwritten using Loan Prospector, Freddie Mac also purchased and guaranteed the payment of principal and interest on loans underwritten using automated underwriting systems created by others.

18. During the Relevant Period, Freddie Mac tracked, in senior-level presentations and other documents, the relative risk of mortgages purchased through automated underwriting systems other than Loan Prospector. Freddie Mac used an internal modeling system called LP Emulator to conduct a post-purchase evaluation of all loans. Freddie Mac used the term "defect rate" to track the percentage of all loans purchased on terms equivalent to LP "Accept" loans that were scored by the LP Emulator as "Caution." The designation as part of a "defect rate" signified that, among other things, Freddie Mac was taking on greater credit risk than projected by the original assessment.

19. In the second quarter of 2003, Freddie Mac's aggregate defect rate of purchases from the flow channel was at 1.1 percent. As Freddie Mac's share of residential mortgages purchased through automated underwriting systems other than LP increased, however, so did the defect rate. In August 2007, the aggregate defect rate of all purchases from the flow channel was 21.1%.

20. During a June 7, 2007 Board committee meeting attended by Freddie Mac's Executive Vice President, Investments and Capital Markets (and later Chief Business Officer) (the "CBO"), and the SVP for Credit Policy, among others, the following information was presented:

- As of January 2007, approximately 40 percent of Freddie Mac's flow channel purchases came through Fannie Mae's own proprietary automated underwriting system, called Desktop Underwriter ("DU"), and through an automated underwriting system used by Countrywide Financial Corporation ("Countrywide"), called "CLUES."

- "Fannie Mae-approve loans have a much higher defect rate than Freddie Mac-accept loans[.]"

- "Fannie Mae-approves have higher share of low FICO loans and subprime-like loans[.]"

- "Countrywide is particularly volatile and a high proportion of defects are subprime in nature[.]"

- The defect rate for Freddie Mac's purchases through both DU and CLUES at that time was at least 20 percent.

21. During the Relevant Period, one of Freddie Mac's largest customers was Countrywide. Countrywide organized its business into two channels – the "Retail" channel and the "TPO" (third-party originator) channel. Countrywide's Retail channel included Full Spectrum Lending. Full Spectrum Lending was a subprime lending division.

22. Countrywide delivered loans from both of its origination channels to Freddie Mac. Countrywide Retail deliveries to Freddie Mac included approximately $3 billion worth of loans from Full Spectrum Lending in 2006; $6 billion in 2007; and $2 billion in 2008.

23. Beginning in or about early 2007, executive-level reports prepared for monthly meetings of Freddie Mac's Enterprise Risk Management Committee (the "ERMC") attended by senior executives at Freddie Mac observed that "[l]oan level risk grades are blurred as capital retreats in [the] subprime market, increasing the risk that we are already purchasing subprime loans under existing acquisition programs." This language continued to appear in essentially the same form in these reports throughout 2007. Freddie Mac's Chief Executive Officer and Chairman of the Board of Directors (the "CEO"), Freddie Mac's Chief Financial Officer (the "CFO"), and the CBO generally attended these ERMC meetings.

24. In February 2007, Freddie Mac's senior executives, including the CEO, CFO, CBO and the SVP for Credit Policy, attended a two-day offsite meeting. A presentation used at the meeting stated the following:

- Freddie Mac was "taking on more risky product . . .and combining higher-risk loans with higher-risk borrowers[.]"
- Freddie Mac was purchasing and guaranteeing increasing amounts of "risk layering" loans, "leading to more 'Cautions[.]'"
- "'Caution' loans have greater default costs . . . resulting in higher expected losses[.]"
- Freddie Mac "already purchase[d] subprime-like loans . . .but with considerably lower fees[.]"
- The "worst 10% of [Freddie Mac's] Flow Business" were "subprime-like loans[.]"

25. In March 2007, Freddie Mac's senior executives, including the CEO, CFO, CBO and SVP for Credit Policy, attended a Board of Directors meeting. The CBO and the former President and Chief Operating Officer (the "COO") led a discussion at the meeting concerning a slide in which the "worst 10% of [Freddie Mac's] Flow Business" was listed as an example of "subprime-like loans" the company already purchased, and in which they conveyed:

- "We already purchase subprime-like loans to help achieve our HUD goals . . . [b]ut we receive considerably lower fees than subprime loans would fetch in the market."
- "Some of our current purchases have subprime-like risk[.]"
- "[F]ixed-rate subprime doesn't look all that different than the bottom of our purchases, with returns five to six times as great, not universal for all subprime."

26. On March 23, 2007, Freddie Mac published its Information Statement and Annual Report to Stockholders for the Fiscal Year Ended December 31, 2006 (the "2006 IS"). Freddie Mac stated in the 2006 IS that:

> Participants in the mortgage market often characterize 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 loan-to-value ratios, low FICO 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 increasing the availability of mortgage credit.
>
> While we do not characterize the single-family loans underlying the PCs and Structured Securities in our credit guarantee portfolio as either prime or subprime, we believe that, based on lender-type, underwriting practice and product structure, the number of loans underlying these securities that are subprime is not significant. Also included in our credit guarantee portfolio are Structured Securities backed by non-agency mortgage-related securities where the underlying collateral was identified as being subprime by the original issuer. At December 31, 2006 and 2005, the Structured Securities backed by subprime mortgages constituted approximately 0.1 percent and 0.2 percent, respectively of our credit guarantee portfolio.
>
> With respect to our Retained portfolio, we do not believe that any meaningful amount of the agency securities we hold is backed by subprime mortgages. However, at December 31, 2006 and 2005, we held approximately $124 billion and $139 billion, respectively, of non-agency mortgage-related securities backed by subprime loans. These securities include significant credit enhancement based on their structure and more than 99.9 percent of these securities were rated AAA at December 31, 2006.

27. The same day that Freddie Mac released the 2006 IS, it held an earnings conference call with research analysts. On the earnings conference call, Freddie Mac's CFO discussed the company's "very low levels" of credit-related expenses, and attributed that "to the fact that our portfolio is predominantly based on long-term fixed-rate mortgages, our overall average LTV ratio is about 57 percent, and we have little to no exposure to the subprime risk layered mortgage products that have drawn so much activity lately."

28. At December 31, 2006, Freddie Mac's single-family credit guarantee portfolio consisted of approximately $141 billion of C1, C2 and EA loans, which equated to approximately 10 percent of Freddie Mac's single-family credit guarantee portfolio. As described above, Freddie Mac disclosed in its 2006 IS that the number of subprime loans underlying the PCs and Structured Securities in its single-family credit guarantee portfolio was "not significant."

29. During 2007, Freddie Mac internally explored the possibility of offering a new product, referred to as the "model subprime offering."

30. One project undertaken by the team charged with developing the model subprime offering involved an analysis of Freddie Mac's existing products. Those existing products were compared to the proposed parameters for purchasing and guaranteeing mortgages under the model subprime offering. Under the direction of Freddie Mac's SVP for Credit Policy, the team concluded in June 2007 that:

- "Subprime mortgages are not considered unique in the industry. An analysis of Freddie Mac's existing products indicates our current A-minus offering has credit risk and product parameters (business terms) that match, and in some cases, are broader than those outlined in the proposed model Subprime offering."

- The model subprime offering "will compete with affordable offerings like Home Possible and [Fannie Mae's] MyCommunityMortgage, as well as our LP A-minus offering and [Fannie Mae's] newly revamped EA program."

31. Senior executives and officials within Freddie Mac, including Freddie Mac's CBO, were aware of the conclusions of this analysis.

32. On May 11, 2007, the then-head of External Reporting, in an e-mail including Freddie Mac's SVP for Credit Policy, among others, remarked on a draft version of a speech to be given by Freddie Mac's CEO at the UBS Global Financial Services Conference (the "UBS Conference"): "We need to be careful how we word this. Certainly our portfolio includes loans that under some definitions would be considered subprime. Look back at the subprime language in the annual report and use that as a guide as what to say. Basically, we said we don't have a definition of subprime and we don't acquire loans from subprime lenders. We should reconsider making as sweeping a statement as we have 'basically no subprime exposure.'"

33. On May 14, 2007, Freddie Mac's CEO spoke at the UBS Conference (the "May 14 speech") and stated: "As we discussed in the past, at the end of 2006, Freddie had basically no subprime exposure in our guarantee business, and about $124 billion of AAA rated subprime exposure in our retained portfolio."

34. On May 17, 2007, Freddie Mac's CBO gave a speech at the Lehman Brothers 10th Annual Financial Services Conference (the "May 17 speech") and stated: "As we discussed in the past, at the end of 2006, Freddie had basically no subprime exposure in our guarantee business, and about $124 billion of AAA rated subprime exposure in our retained portfolio."

35. Freddie Mac's single-family credit guarantee portfolio is the Company's largest business segment (by portfolio unpaid principal balance), which purchases and guarantees the payment of principal and interest on mortgage loans originated by lenders and packages such loans into mortgage-backed securities. Freddie Mac's retained portfolio is under the Company's Investments segment, and holds mortgage-related securities and single-family mortgages for investment purposes.

36. On June 14, 2007, Freddie Mac published its Financial Report for the Three Months Ended March 31, 2007 (the "1Q07 ISS"). In the 1Q07 ISS, Freddie Mac did not include any statement regarding its exposure to subprime loans in its single-family credit guarantee portfolio.

37. On the same day that Freddie Mac released its 1Q07 ISS, Freddie Mac held a conference call to discuss its earnings for the quarter ended March 31, 2007. On that call, Freddie Mac's CFO stated that "[a]t the end of the first quarter, our total reserves for credit loss stood at $545 million or roughly 3 basis points of the total mortgage portfolio. . . . Just a reminder – we do not hold subprime loans directly so there is no contribution in the numbers I just mentioned from subprime. Also, we continue to expect no losses from our subprime-backed AAA-rated ABS security exposure."

38. In a memorandum dated June 15, 2007, the Chair of Freddie Mac's Disclosure Committee informed the Chair of Freddie Mac's Audit Committee that there was no clear definition of subprime loans in the market.

39. At March 31, 2007, Freddie Mac's single-family credit guarantee portfolio consisted of approximately $160 billion of C1, C2 and EA loans, which equated to approximately 10 percent of Freddie Mac's single-family credit guarantee portfolio. As described above, in the 1Q07 ISS, Freddie Mac did not include any statement regarding its subprime exposure in its single-family guarantee portfolio.

40. On August 30, 2007, Freddie Mac published its Financial Report for the Three and Six Months Ended June 30, 2007 (the "2Q07 ISS"). Freddie Mac stated in the 2Q07 ISS that:

> 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 loan-to-value 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.

> We estimate that approximately $2 billion, or 0.1 percent, and $3 billion, or 0.2 percent, of loans underlying our single-family mortgage portfolio, at June 30, 2007 and December 31, 2006, respectively, were classified as subprime mortgage loans.
>
> With respect to our Retained portfolio, at June 30, 2007 and December 31, 2006, we held investments of approximately $119 billion and $124 billion, respectively, of non-agency mortgage-related securities backed by subprime loans. These securities include significant credit enhancement, particularly through subordination, and approximately 99.9 percent of these securities held at June 30, 2007, were rated AAA at August 27, 2007.

41. At June 30, 2007, Freddie Mac's single-family credit guarantee portfolio consisted of approximately $182 billion of C1, C2 and EA loans, which equated to approximately 12 percent of Freddie Mac's single-family credit guarantee portfolio. As described above, when describing its single-family credit guarantee portfolio, Freddie Mac disclosed in its 2Q07 ISS that, at June 30, 2007, it had approximately $2 billion, or 0.1 percent, of loans underlying its single-family credit guarantee portfolio that were classified as subprime mortgage loans. Freddie Mac made no other disclosure in its 2Q07 ISS quantifying its subprime exposure in its single-family credit guarantee book of business as of June 30, 2007.

42. On November 20, 2007, Freddie Mac published its Financial Report for the Three and Nine Months Ended September 30, 2007 (the "3Q07 ISS"). Freddie Mac stated in the 3Q07 ISS that:

> 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 loan-to-value 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.
>
> We estimate that approximately $5 billion and $3 billion of loans underlying our Structured Transactions at September 30, 2007 and December 31, 2006, respectively, were classified as subprime mortgage loans. With respect to our retained portfolio, at September 30, 2007 and December 31, 2006, we held investments of approximately $105 billion and $124 billion, respectively, of non-agency mortgage-related securities backed by subprime loans.

> These securities include significant credit enhancement, particularly through subordination, and approximately 97.6% of these securities were rated AAA at November 15, 2007.
>
> Between September 30 and November 15, 2007, credit ratings for several mortgage-related securities backed by subprime loans with an aggregate unpaid principal balance of $2.5 billion were downgraded from AAA to a lesser investment-grade rating by at least one nationally recognized statistical rating organization. To date, we have not recorded any impairment charges on these securities because we have the ability and intent to hold these securities for a period of time sufficient to recover all unrealized losses; however, since these are designated as available-for-sale securities, there are $55 million of unrealized losses, net as of September 30, 2007 that are reflected in AOCI. We expect that these and any further credit downgrades of our non-agency mortgage-related securities backed by subprime loans will result in declines in their fair value.

43. At September 30, 2007, Freddie Mac's single-family credit guarantee portfolio consisted of approximately $206 billion of C1, C2 and EA loans, which equated to approximately 13 percent of Freddie Mac's single-family credit guarantee portfolio. As described above, when describing its single-family credit guarantee portfolio, Freddie Mac disclosed in its 3Q07 ISS that at September 30, 2007, it had approximately $5 billion of loans underlying its Structured Transactions that were classified as subprime mortgage loans. Freddie Mac made no other disclosure in its 3Q07 ISS quantifying its subprime exposure in its single-family credit guarantee book of business as of September 30, 2007.

44. On December 11, 2007, Freddie Mac's CEO gave a speech at the Goldman Sachs Financial Services Conference (the "December 11 speech"), during which he stated: "Finally, we feel that our credit position in the current guarantee book, actually, is very near the best of the entire industry. A very major reason for this is that we have very low exposures to alt A in risk-layered mortgage products in the guarantee business. We didn't do any subprime business." Later, in response to a question from the audience, the CEO added "[i]n terms of our insight in the subprime stuff, we didn't buy any subprime loans. I mean, we bought some securities, which we can go through, and we think we're fine in. We bought them for goal purposes. But we didn't buy in [sic] guarantee, essentially any subprime loans. So we weren't in that business."

45. On February 28, 2008, Freddie Mac published its Information Statement and Annual Report to Stockholders for the fiscal year ended December 31, 2007 (the "2007 IS"). Freddie Mac stated in the 2007 IS that:

> 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 downgrades to our non-agency mortgage-related securities backed by subprime loans could occur and may result in additional declines in their fair value.

46. Freddie Mac's "Higher Risk Combinations" disclosure stated that, as of December 31, 2007, approximately one percent of single-family mortgage loans it guaranteed were made to borrowers with credit scores below 620 and had original LTV ratios above 90 percent at the time of mortgage origination.

47. At December 31, 2007, Freddie Mac's single-family credit guarantee portfolio consisted of approximately $226 billion of C1, C2 and EA loans, which equated to approximately 13 percent of Freddie Mac's single-family credit guarantee portfolio. As described above, when describing its single-family credit guarantee portfolio, Freddie Mac disclosed in its 2007 IS that at December 31, 2007, it had approximately $6 billion of loans underlying its Structured Transactions that were classified as subprime mortgage loans. Freddie Mac made no other disclosure in its 2007 IS quantifying its subprime exposure in its single-family credit guarantee book of business as of December 31, 2007.

48. On May 14, 2008, Freddie Mac published its Financial Report for the Three Months Ended March 31, 2008 (the "1Q08 ISS"). Freddie Mac stated in the 1Q08 ISS that:

> 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 "*Higher Risk Combinations*" for further information). In addition, we estimate that approximately $4 billion of security collateral underlying our Structured Transactions at both March 31, 2008 and December 31, 2007 were classified as subprime.
>
> With respect to our retained 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. The unrealized losses, net of tax, on these securities that are below AAA-rated are included in AOCI and totaled $5 billion and $504 million as of March 31, 2008 and December 31, 2007, respectively. In addition, there were $6 billion of unrealized losses, net of tax, 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 receive substantial monthly remittances of principal repayments on these securities, which totaled more than $8 billion during the first quarter of 2008.

49. At March 31, 2008, Freddie Mac's single-family credit guarantee portfolio consisted of approximately $239 billion of C1, C2 and EA loans, which equated to approximately 14 percent of Freddie Mac's single-family credit guarantee portfolio. As described above, when describing its single-family credit guarantee portfolio, Freddie Mac disclosed in its 1Q08 ISS that at March 31, 2008, it had approximately $4 billion of security collateral underlying its Structured Transactions that were classified as subprime. Freddie Mac made no other disclosure in its 1Q08 ISS quantifying its subprime exposure in its single-family credit guarantee book of business as of March 31, 2008.

50. On July 18, 2008, Freddie Mac filed a Form 10 Registration Statement with the Commission ("Form 10"). In its Form 10, Freddie Mac repeated verbatim the subprime disclosure from Freddie Mac's 2007 IS, described above at paragraph 45.

51. Freddie Mac's first periodic report following its registration with the Commission occurred on August 6, 2008, when it filed a Form 10-Q for the quarterly period ended June 30, 2008 (the "2Q08 10-Q"). Freddie Mac stated in the 2Q08 10-Q that:

> 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 "*Higher Risk Combinations*" for further information). In addition, we estimate that approximately $6 billion of security collateral underlying our Structured Transactions at both June 30, 2008 and December 31, 2007 were classified as subprime.

With respect to our retained portfolio, at June 30, 2008 and December 31, 2007, we held investments of approximately $86 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 91% and 100% of these securities were investment grade at June 30, 2008 and December 31, 2007, respectively. During 2008, the credit characteristics of these securities have experienced significant and rapid declines. See "CONSOLIDATED BALANCE SHEET ANALYSIS — Retained Portfolio" for further discussion and our evaluation of these securities for impairment.

52. At June 30, 2008, Freddie Mac's single-family credit guarantee portfolio consisted of approximately $244 billion of C1, C2 and EA loans, which equated to approximately 14 percent of Freddie Mac's single-family credit guarantee portfolio. As described above, when describing its single-family credit guarantee portfolio, Freddie Mac disclosed in its 2Q08 10-Q that at June 30, 2008, it had approximately $6 billion of security collateral underlying its Structured Transactions that were classified as subprime. Freddie Mac made no other disclosure in its 2Q08 10-Q quantifying its subprime exposure in its single-family credit guarantee book of business as of June 30, 2008.

53. Freddie Mac's CEO and CFO both certified the 2006 IS, the 2Q07 ISS, the 3Q07 ISS, the 2007 IS, the 1Q08 ISS, and the 2Q08 10-Q. The certifications stated, among other things:

- "Based on my knowledge, this [Report] does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this [Report.]"

- "Based on my knowledge, the consolidated financial statements, and other financial information included in this [Report], fairly present in all material respects the financial condition, results of operations and cash flows of Freddie Mac as of, and for, the periods presented in this [Report]."

54. Freddie Mac's CBO sub-certified the 2006 IS, the 2Q07 ISS, the 3Q07 ISS, the 2007 IS, the 1Q08 ISS, and the 2Q08 10-Q. Freddie Mac's SVP for Credit Policy sub-certified the 2006 IS, the 2Q07 ISS and the 2Q08 10-Q. Those sub-certifications stated, among other things:

- "Based upon my role and responsibilities, I have reviewed the appropriate sections of the [Report]."

- "I have consulted with such members of my staff and others whom I thought should be consulted in connection with my execution of this attestation."

- "Based upon my role and responsibilities, but limited in all respects to the matters that come to my attention in fulfilling my responsibilities as [CBO or SVP for Credit Policy], I hereby certify to the best of my knowledge and belief that:"

- "The [Report] does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, to not be misleading."

- "The financial statements and other financial information included in the [report] fairly present, in all material respects, the financial condition and results of operations, and cash flows of the Company as of and for the periods presented in the [Report]."

55. In addition to sub-certifying the disclosures as described above in paragraph 54, the SVP for Credit Policy served on the disclosure committee that considered the 1Q08 ISS and 2Q08 10-Q.

Freddie Mac's Alt-A Disclosures

56. Prior to June 14, 2007, Freddie Mac did not publicly disclose its quantitative exposure to Alt-A loans.

57. On June 14, 2007, Freddie Mac held its first quarter of 2007 financial results conference call with research analysts. In response to an analyst's question, Freddie Mac's CBO stated "[t]he mix of our portfolio that is defined as Alt-A by our customers, because that is really the only way you get at that designation, we would estimate that maybe 5 percent or less of our portfolio that comes through flow is Alt-A, and on the bulk business it is about 2. So I am comfortable saying it is less than 10."

58. On August 30, 2007, in its 2Q07 ISS, Freddie Mac disclosed the following:

> Many mortgage market participants classify single-family loans 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 mortgage loans originated as Alt-A 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 Alt-A exposure in loans underlying our single-family mortgage 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 loan should be classified as Alt-A. We estimate that approximately $120 billion, or eight percent, of loans underlying our single-family mortgage portfolio at June 30, 2007 were classified as Alt-A mortgage loans. For these loans, our average credit score was 715 and our estimated current LTV ratios were 71 percent.

59. The same day that Freddie Mac released the 2Q07 ISS, it held a financial results conference call with research analysts. On the conference call, Freddie Mac's CFO said: "On mortgage product concentrations, we have low exposure to all day [sic] and risk-layered loans, and when taken together, these represent about 8 percent of the total single-family guarantee portfolio. On the Alt-A side, as of the end of June, we guaranteed $120 billion of loans that were either identified by the originator as Alt-A or had reduced levels of documentation."

60. At June 30, 2007, Freddie Mac's single-family credit guarantee portfolio consisted of approximately $462 billion of reduced documentation loans, which equated to approximately 29 percent of Freddie Mac's single-family credit guarantee portfolio. Only a portion of these loans were included in Freddie Mac's disclosed amount of $120 billion.

61. Freddie Mac's quantification of its Alt-A exposure was derived from seller-identified loans and an internal model known as DEFCAP that was used to calculate its guarantee obligation. Certain reduced documentation loan programs were not flagged as "low- or no-doc" loans within the DEFCAP model based upon determinations made at the time. Those determinations were not reviewed in connection with providing public disclosure of the company's exposure to Alt-A loans. As such, those loans were not included in Freddie Mac's quantification of its Alt-A exposure in its 2Q07 ISS.

62. On October 15, 2007, Freddie Mac's Vice President, Customer Facing Models and Analytics, wrote an e-mail in which he stated: "It is said that Countrywide 'Fast and Easy' loans, for example, have . . . morphed into some aggressive true 'Low Doc' dimensions more recently." However, Freddie Mac determined not to flag Countrywide's Fast and Easy loans as "low- or no-doc" in the DEFCAP model; thus, they were not included in the quantification of Alt-A loan exposure that Freddie Mac provided in its public disclosures.

63. On November 20, 2007, in the 3Q07 ISS, Freddie Mac disclosed the following regarding its Alt-A exposure as of September 30, 2007:

> 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 mortgage loans originated as Alt-A 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 Alt-A exposure in loans underlying our single-family mortgage 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 loan should be classified as Alt-A. We estimate that approximately $131 billion, or 8%, of loans underlying our single-family mortgage portfolio at September 30, 2007 were classified as Alt-A mortgage loans. For these loans, our average credit score was 715 and our estimated current average LTV ratio was 72%.

64. At September 30, 2007, Freddie Mac's single-family credit guarantee portfolio consisted of approximately $484 billion of reduced documentation loans, which equated to approximately 30 percent of Freddie Mac's single-family credit guarantee portfolio.

65. On February 28, 2008, in the 2007 IS, Freddie Mac disclosed the following regarding its Alt-A exposure as of December 31, 2007:

> 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.

66. At December 31, 2007, Freddie Mac's single-family credit guarantee portfolio consisted of approximately $505 billion of reduced documentation loans, which equated to approximately 30 percent of Freddie Mac's single-family credit guarantee portfolio.

67. On May 14, 2008, in the 1Q08 ISS, Freddie Mac disclosed the following regarding its Alt-A exposure as of March 31, 2008:

> 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 mortgage loans originated as Alt-A 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 Alt-A exposure in loans underlying our single-family mortgage 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 loan should be classified as Alt-A. We estimate that approximately $188 billion, or 11%, of loans underlying our guaranteed PCs and Structured Securities at March 31, 2008 were classified as Alt-A mortgage loans. We estimate that approximately $2 billion, or 7%, of our investments in single-family mortgage loans in our retained portfolio were classified as Alt-A loans as of March 31, 2008. For all of these Alt-A loans combined, the average credit score was 723, the estimated current average LTV ratio was 76% and the delinquency rate, excluding certain Structured Transactions, was 2.32% at March 31, 2008.

68. At March 31, 2008, Freddie Mac's single-family credit guarantee portfolio consisted of approximately $527 billion of reduced documentation loans, which equated to approximately 30 percent of Freddie Mac's single-family credit guarantee portfolio.

69. On July 18, 2008, Freddie Mac filed a Form 10 with the Commission. In its Form 10, Freddie Mac repeated verbatim the Alt-A disclosure from Freddie Mac's 2007 IS, described above at paragraph 65.

70. On August 6, 2008, in the 2Q08 10-Q, Freddie Mac disclosed the following regarding its Alt-A exposure as of June 30, 2008:

> 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 mortgage loans originated as Alt-A 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 Alt-A exposure in loans underlying our single-family mortgage 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 loan should be classified as Alt-A. We estimate that approximately $188 billion, or 10%, of loans underlying our guaranteed PCs and Structured Securities at June 30, 2008 were classified as Alt-A mortgage loans. In addition, we estimate that approximately $2 billion, or approximately 7%, of our investments in single-family mortgage loans in our retained portfolio were classified as Alt-A loans as of June 30, 2008. For all of these Alt-A loans combined, the average credit score was 724, the estimated current average LTV ratio, based on our guaranteed exposure, was 78%. The delinquency rate for these Alt-A loans was 3.72% and 1.86% at June 30, 2008 and December 31, 2007, respectively. We implemented several changes in our underwriting and eligibility criteria in 2008 to reduce our acquisition of certain higher-risk loan products, including Alt-A loans. As a result there are approximately $14 billion of single-family Alt-A mortgage loans in our retained portfolio and underlying our PCs and Structured Securities as of June 30, 2008 that were originated in 2008 as compared to $60 billion remaining as of June 30, 2008 that were originated in 2007.

71. At June 30, 2008, Freddie Mac's single-family credit guarantee portfolio consisted of approximately $541 billion of reduced documentation loans, which equated to approximately 30 percent of Freddie Mac's single-family credit guarantee portfolio.

72. On November 6, 2009, Freddie Mac disclosed in its third quarter Form 10-Q the following:

> In determining our Alt-A exposure on loans underlying our single-family mortgage 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, as well as a combination of certain credit attributes and expected performance characteristics at acquisition which, when compared to full documentation loans in our portfolio, indicate that the loan should be classified as Alt-A. There are circumstances where loans with reduced documentation are not classified as Alt-A because we already own the credit risk on the loans or the loans fall within various programs which we believe support not

classifying the loans as Alt-A. For our non-agency mortgage-related securities that are backed by Alt-A loans, we classified securities as Alt-A if the securities were labeled as Alt-A when sold to us.