

FREDDIE MAC
CONFIDENTIAL CAPITAL REVIEW

PRELIMINARY RESULTS

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BLACKROCK
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Project Purpose

Freddie Mac has engaged BlackRock to apply its mortgage models and expertise to assess its exposure to single family residential mortgages in the guarantee and ABS books

- What losses might Freddie Mac experience under various scenarios?
- What implications might these losses have for Freddie Mac's capital through 2010?

This document presents our preliminary answers prepared with limited data under a tight deadline

- Used primarily public FRE data to estimate losses on the guarantee portfolio
- Proprietary CUSIP-level data used for the ABS portfolio
- Applied simplified earnings-and-capital model to convert credit losses into capital projections
 - Utilized Street projections for key revenue and expense estimates
 - Did not mirror complexities of FRE accounting

Our final results will be based on a much more proprietary FRE data and closer approximation of FRE accounting

- BLK is assembling loan cohorts at the loan-level for the guarantee book
- Cash flows will be projected using 7 base and stress scenarios: 4 BLK scenarios and 3 FRE-defined scenarios
- BLK will work with FRE staff on refining the model for converting scenario outcomes to capital outcomes, with the aim of more closely approximating internal methods/accounting policies

The final analysis is targeted for completion by September 5

Key Conclusions on Capital Shortfall

Freddie Mac runs a substantial risk of falling short of current surplus capital requirements and possibly statutory minimums

- Base case reflects BlackRock's bearish outlook (25-30% peak-to-trough national house price decline, versus 10-15% so far)
- Reasonable stress case (50% higher default rate than base) - this is not a worst-case outcome

...But long-term solvency does not appear endangered - we do not expect Freddie Mac to breach critical capital levels even in stress case

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Estimated Capital (\$BN)*			
	FRE		
	2008 Q2	2009 E	2010 E
Statutory Requirement	29	29	29
OFHEO Requirement	34	34	34
Critical Capital	12	12	12
Base Case Capital	38**	36	35
Stress Case Capital	NA	29	26

* Numbers are estimates, have not been linked to actual financials and do not include recently reported results from 2008 Q2.

**Estimated; no adjustment for losses in Q2.

Other notes: Net interest income, non interest income and other financial variables used in the capital and earnings model were based on Wall Street estimates.

Model Logic and Underlying Data

Capital Model Overview

ABS Credit Projections

- Based on CUSIP-level FRE data
- Losses calculated using BLK models
- Impairments based on timing of economic losses



G-Fee Portfolio Credit Projections*

- Single Family credit exposure divided into collateral cohorts
- FRE loss projections used for prime cohorts (\$1.6 TN)
- Cumulative losses on Alt A cohorts projected using BLK models (\$190 BN)



Earnings / Balance Sheet Model

Retained and guarantee portfolio size held constant from 2008

Retained portfolio margins held constant from 2008

Guarantee portfolio margins grow at 10% annually from 2008 levels



Projected Capital for Year-End 2008, 2009, and 2010

* Excludes Multi-family business

Base Case and Stress Scenarios

For the Prime book, FRE Base Case and Stress scenarios are used

For the Alt A book, BLK scenarios are used

- Base Case reflects BlackRock's baseline settings of its econometric Alt-A models
- Stress Case reflects 50% higher defaults for Subprime and 25% for Alt-A

Assumptions and Caveats

This analysis should be viewed as preliminary

- Except for loss estimates on ABS portfolio, analysis is based on publicly available data
- Conducted in extremely short timeframe
- We have greater confidence in the gross loss estimates than in the capital calculations;
- Final capital results will be based on a more realistic financial model, developed in conjunction with Freddie Mac

Key assumptions for loss estimates

- Guarantee portfolio
 - Prime book loss assessment based on FRE projections
 - Mortgage insurance recoveries are implicitly incorporated in prime book based on FRE analysis - FRE assumptions may overstate MI recoveries in prime book; BLK analysis may understate in Alt-A book
 - Timing of recognition of accounting losses on whole loans is stylized and is not tied to actual FRE accounting policy or recently reported financial results
- A B S portfolio
 - ABS portfolio credit loss impairment evaluated only for those bonds on which a principal loss is predicted
 - Timing of impairments based on date of first predicted principal loss
 - Impairment equals the face amount at the first loss date times the difference between par and current market price
- Multi-Family book not modeled

ABS Portfolio Loss Assumptions and Results

“Other Than Temporary Impairment” accounting rule can trigger mark-to-market declines more severe than expected principal loss

- Accounting treatment requires securities to be marked to market if any principal loss is deemed “probable”
- Given the current market environment, MTM losses will likely exceed actual principal losses
 - Impairments diminish capital immediately
 - Future recoveries in market value do not flow through capital

ABS projections therefore depend on three uncertain variables

- Timing of impairment (see below)
- Face value at time of impairment (projected by model)
- Market value at time of impairment (based on current market value)

Impairment timing assumptions:

- Predicted losses in 2008 - 2010 impaired in 2008
- Predicted losses in 2011 - 2012 impaired in 2009
- Predicted losses in 2013 - 2014 impaired in 2010

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FRE			
	Total ABS Face: \$152 BN		
	ABS Principal Loss %	ABS Principal Loss (\$ BN)	2008 - 2010 Potential Impairment (\$BN)
Base Case*	2.3%	3.5	2.9
Stress	5.7%	8.7	4.3

* Loss estimates include the credit support of monoline wraps

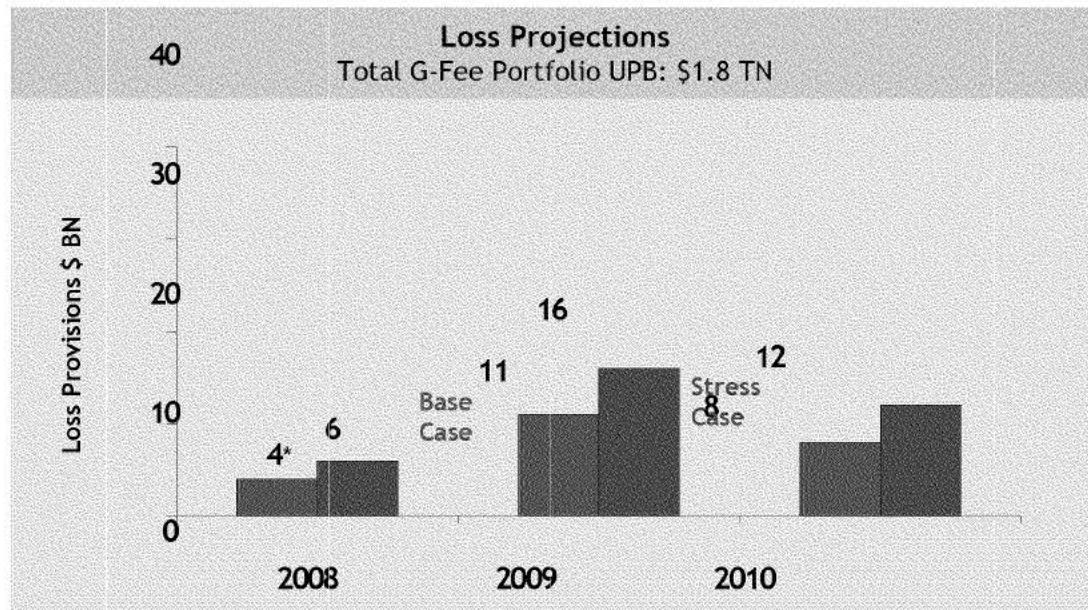
G-fee Portfolio Loss Assumptions and Projections

Prime portfolio losses were based on FRE's loss projections (FRE provided more detailed information on loss projections for its prime portfolio, which we believe to be reasonable)

We assume approximately 70% of cumulative losses will occur by the end of 2010

Our projections begin accumulating losses in the second half of 2008

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* Reflects remaining provisions for Q3 and Q4; adjusted for provisions already taken in Q1 and Street estimates for Q2 (at time of this analysis).