# ANNUAL HOUSING ACTIVITIES REPORT FOR 2006

# FEDERAL HOME LOAN MORTGAGE CORPORATION

MARCH 16, 2007

## Table of Contents

## Introduction

Pursuant to § 307(f) of the Federal Home Loan Mortgage Corporation Act, as amended, 12 U.S.C. § 1456(f), the Federal Home Loan Mortgage Corporation (Freddie Mac) must annually submit a report on its activities to the Committee on Banking, Housing, and Urban Affairs of the Senate, the Committee on Financial Services of the House of Representatives and the Secretary of the U.S. Department of Housing and Urban Development (HUD).

The following constitutes Freddie Mac's 2006 Annual Housing Activities Report to the Congress and the Secretary of HUD under § 307(f) and HUD's regulation § 81.63, 24 C.F.R. § 81.63 (2004).[1]

[1] The statistical and financial information included in this report and in the tables attached to this report may not be comparable to information provided or to be provided in Freddie Mac's Monthly Volume Summaries, Information Statements and Information Statement Supplements, as the statistical and financial information included in this report and in the tables has been compiled and aggregated in accordance with specific HUD guidelines.

The information presented in the exhibits (and described in the related discussion) is derived from, and qualified by reference to, certain tables included in Freddie Mac's 2006 Annual Mortgage Report (2006 AMR), which is being delivered to HUD concurrently with this report. Some of the tables in the 2006 AMR are proprietary and not available to the general public.

## A. Information Required under § 307(f)(2)(A)

*§ 307(f)(2)(A) requires that this report include, in aggregate form and by appropriate category, statements of the dollar volume and number of mortgages on owner-occupied and rental properties purchased which relate to each of the annual housing goals established under such subpart.*

As set forth below and as illustrated in Exhibit 1, Freddie Mac believes it exceeded all three of the 2006 annual housing goals and the multifamily subgoal, and two of the three home purchase subgoals established by HUD, despite market conditions that have reduced housing affordability.[2] We narrowly missed achieving the special affordable subgoal, falling short by only 634 loans. We attribute this shortfall to difficult market

---

[2] Pursuant to § 1331(a) of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, 12 U.S.C. § 4561(a), the Secretary of HUD establishes affordable housing goals (the housing goal or housing goals) for Freddie Mac and the Federal National Mortgage Association (Fannie Mae) (collectively, the GSEs) each year. These housing goals are:

- Low- and Moderate-Income Housing Goal (12 U.S.C. § 4562): An annual goal for the purchase of mortgages on housing for low- and moderate-income families. ("Low-income families" are families with incomes at or below 80 percent of the area median income, and "moderate-income families" are families with incomes at or below 100 percent of the area median income).

- Central Cities, Rural Areas, and Other Underserved Areas Housing Goal (12 U.S.C. § 4564): An annual goal for the purchase of mortgages on housing located in central cities, rural areas and other underserved areas.

- Special Affordable Housing Goal (12 U.S.C. § 4563): An annual goal for the purchase of mortgages on rental and owner-occupied housing for low-income families in low-income areas and for very low-income families. ("Low-income areas" are census tracts in which the median area income does not exceed 80 percent of the area median income, and "very low-income families" are families with incomes at or below 60 percent of the area median income.)

The housing goals are expressed in percentage terms, as the minimum percentage of the total eligible housing units financed by a GSE's mortgage purchases in a particular year, and include units financed by the GSE's purchase of both single-family and multifamily mortgages. Housing units may count towards more than one housing goal category. In addition, both purchase and refinance mortgages count toward the housing goals.

HUD regulations that were published in 2004 and took effect in 2005 established home purchase subgoals under each of the housing goals. The home purchase subgoals apply specifically to mortgages that finance the purchase (not refinance) of single-family, owner-occupied properties located in metropolitan areas. The home purchase subgoals are expressed as percentages of the total number of mortgages purchased by the GSEs that finance the purchase (not refinance) of single-family, owner-occupied properties located in metropolitan areas.

In addition, the 1995 HUD regulations established a special affordable multifamily subgoal under the Special Affordable housing goal. The multifamily subgoal sets a minimum dollar volume of qualifying multifamily mortgage purchases that each GSE must meet annually.

conditions, including a rise in interest rates in the wake of a prolonged period of rapid house price appreciation. Although these market conditions have made homeownership less affordable for lower income households, we performed well on the goals and subgoals due to our continued efforts to extend the benefits of homeownership to lower income and underserved segments of the mortgage market.

In 2006, Freddie Mac purchased over 2.8 million mortgages on single-family properties, and over 5,000 mortgages on multifamily properties.[3]

Freddie Mac's performance on the annual housing goals for 2006:

- Low- and Moderate-Income Goal

  55.88 percent of the units financed by Freddie Mac's mortgage purchases in 2006 were affordable to low- and moderate-income families. These purchases totaled $164.3 billion in unpaid principal balance and financed over 1.6 million units. The low- and moderate-income housing goal for 2006 was 53 percent of the total number of units financed by our mortgage purchases.

- Underserved Areas Goal

  42.64 percent of the units financed by Freddie Mac's mortgage purchases in 2006 were located in underserved areas. These purchases totaled $169.6 billion in unpaid principal balance and financed over 1.3 million units. The underserved areas goal for 2006 was 38 percent of the total number of units financed by our mortgage purchases.

- Special Affordable Housing Goal

  26.46 percent of the units financed by Freddie Mac's mortgage purchases in 2006 were affordable to low-income families in low-income areas or to very low-income families. These purchases totaled $57.6 billion in unpaid principal balance and financed 793,000 units. The special affordable housing goal for 2006 was 23 percent of the total number of units financed by our mortgage purchases.

  In addition, $14.01 billion of the mortgages purchased by Freddie Mac in 2006 were qualifying multifamily mortgage purchases for purposes of the multifamily special affordable subgoal. For 2006, Freddie Mac's multifamily subgoal within the special affordable housing goal was $3.92 billion of qualifying multifamily mortgage purchases.

Freddie Mac's performance on the home purchase subgoals for 2006:

- Low- and Moderate-Income Subgoal

---

[3] The vast majority of these single-family and multifamily mortgages were eligible to count towards the housing goals. See Table 1 of the 2006 AMR for more information.

46.94 percent of the single-family, owner-occupied home purchase mortgages financed by Freddie Mac during 2006 were affordable to low- and moderate-income families. The low- and moderate-income subgoal for 2006 was 46 percent of the total number of single-family, owner-occupied home purchase mortgages financed by Freddie Mac during 2006.

- Underserved Areas Subgoal

  33.65 percent of the single-family, owner-occupied home purchase mortgages financed by Freddie Mac during 2006 were in underserved areas. The underserved areas subgoal for 2006 was 33 percent of the total number of single-family, owner-occupied home purchase mortgages financed by Freddie Mac during 2006.

- Special Affordable Housing Subgoal

  16.93 percent of the single-family, owner-occupied home purchase mortgages financed by Freddie Mac during 2006 were affordable to low-income families in low-income areas or to very low-income families. The special affordable housing subgoal for 2006 was 17 percent of the total number of single-family, owner-occupied home purchase mortgages financed by Freddie Mac during 2006. Freddie Mac narrowly missed this goal by 634 mortgages.

Freddie Mac's performance on the multifamily subgoal in 2006:

- Multifamily Special Affordable Subgoal

  In 2006, $14.01 billion of the multifamily mortgages purchased by Freddie Mac qualified for the multifamily special affordable subgoal, more than $10 billion above the 2006 requirement of $3.92 billion of qualifying multifamily mortgage purchases.

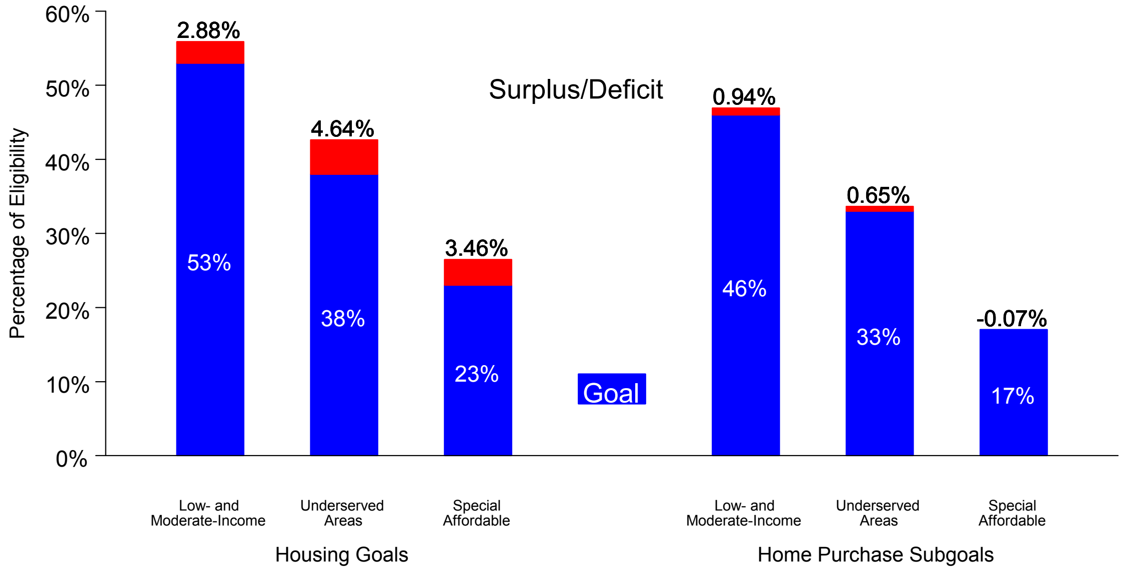
Freddie Mac's targeted purchases of single-family and multifamily mortgage-backed securities with high proportions of goal qualifying units contributed significantly to its performance on the goals. Purchases of asset-backed securities (ABS) accounted for 32.5 percent, for instance, of the total single-family units qualifying for the 2006 low and moderate-income housing goal.[4] Purchases of commercial mortgage-backed securities (CMBS) accounted for 56.4 percent of the total multifamily units qualifying for the 2006 low and moderate-income housing goal.[5]

---

[4] Freddie Mac considers a portion of the total housing units and/or mortgages represented by an ABS or CMBS security to be Freddie Mac financed units or mortgages for purposes of the housing goals, with the portion determined by the degree of Freddie Mac's participation in the relevant security. The figures and information in this report reflect the contributions made by Freddie Mac's purchases of ABS and CMBS securities to Freddie Mac's 2006 affordable housing goals and other affordable housing activities.

[5] These percentages are found in Tables 15 and 16 of the 2006 AMR. Owner-occupied units with missing income information and rental units with missing rent information are not included in the calculation of these percentages.

Exhibit 1:
Freddie Mac's Performance on the
2006 Housing Goals and Home Purchase Subgoals

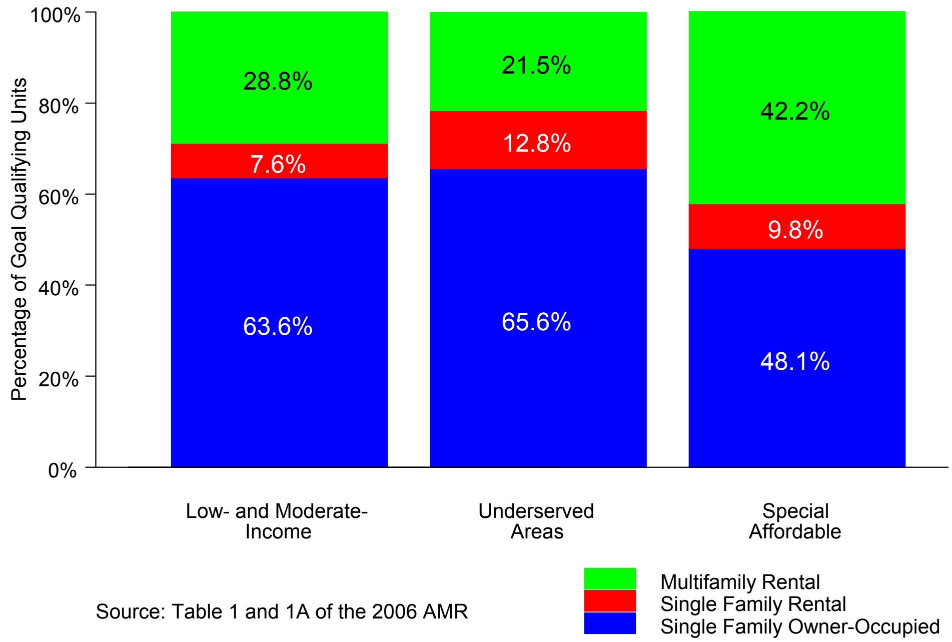



Source: Table 1 of the 2006 AMR

Freddie Mac's 2006 mortgage purchases supported a range of affordable housing opportunities for America's families. As illustrated in Exhibit 2, a significant portion of the mortgages purchased by Freddie Mac that qualified for the housing goals financed rental units. Approximately 36.4 percent of the total units qualifying for the low- and moderate-income housing goal were rental units. Of those rental units, multifamily units (properties with five or more units) represented 28.8 percent of the total units meeting the goal, while rental units in single-family properties represented 7.6 percent. Rental properties (both single-family rental and multifamily rental) represented 34.3 percent of the total units qualifying for the underserved areas housing goal and 52.0 percent of the total units meeting the special affordable housing goal.

## Exhibit 2:
## Freddie Mac's Housing Goals Purchases Support Rental Housing

Contribution to 2006 Goal Accomplishments by Property Type




Source: Table 1 and 1A of the 2006 AMR

Exhibit 3 shows for each affordable housing goal category the dollar volume of goal-qualifying mortgages that Freddie Mac purchased in 2006, and the number of units financed by goal-qualifying mortgages.

## Exhibit 3:
## Freddie Mac's 2006 Mortgage Purchases Meeting Affordable Housing Goals

| | Low-and-Moderate Income Housing Goal | | Underserved Area Housing Goal | | Special Affordable Housing Goal | |
|---|---|---|---|---|---|---|
| | Volume ($billions) | Units Financed | Volume ($billions) | Units Financed | Volume ($billions) | Units Financed |
| **Single-Family** | $141.0 | 1,185,071 | $154.9 | 1,041,361 | $43.6 | 458,778 |
| Owner Occupied | $129.1 | 1,057,974 | $135.9 | 871,103 | $37.7 | 381,265 |
| Rental | $11.9 | 127,097 | $19.0 | 170,258 | $5.8 | 77,513 |
| **Multifamily Rental** | $23.3 | 479,035 | $14.7 | 285,756 | $14.0 | 334,602 |
| **Total** | $164.3 | 1,664,106 | $169.6 | 1,327,117 | $57.6 | 793,380 |

Source: Table 1, 1A and 1B of 2006 AMR

Note:

1. Owner-occupied units with missing income information and rental units with missing rent information are not included in the single-family dollar volumes.

2. Single Family Rental consists of rental units in investor-owned properties with 1 to 4 rental units and owner-occupied properties with 1 to 3 rental units.

3. Columns may not sum due to rounding.

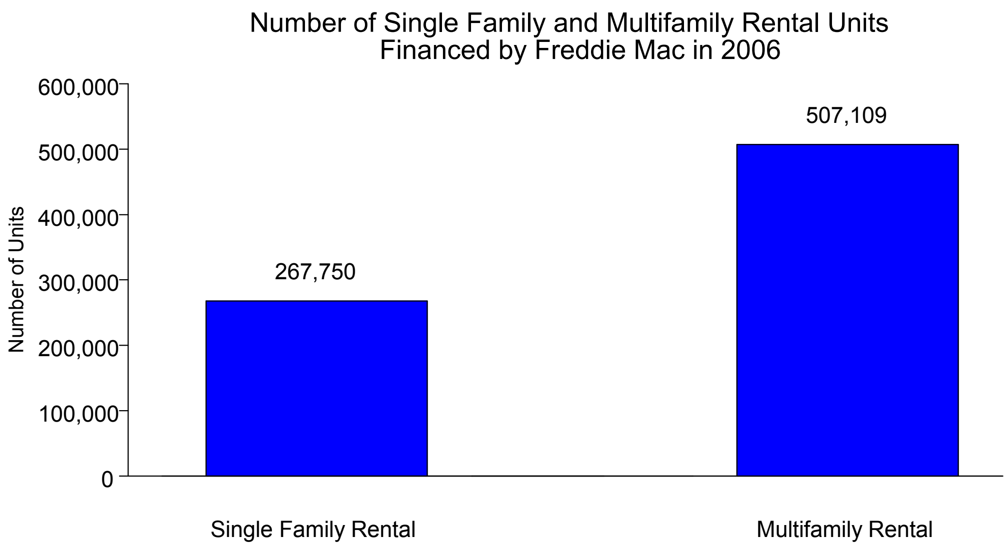
**B. Information Required under § 307(f)(2)(B)**

*§ 307(f)(2)(B) requires that this report include, in aggregate form and by appropriate category, statements of the number of families served by the Corporation, the income class, race, and gender of homebuyers served, the income class of tenants of rental housing (to the extent such information is available), the characteristics of the census tracts, and the geographic distribution of the housing financed.*

<u>Number of Families Served</u>

Freddie Mac's mortgage purchases during 2006 financed an aggregate of 3,261,040 units of housing, consisting of 2,486,181 units of owner-occupied housing and 774,859 units of rental housing. Exhibit 4 shows that Freddie Mac's purchases of mortgages funding rental housing support 267,750 rental units (34.6 percent) in single-family properties and 507,109 rental units (65.4 percent) in multifamily properties.

Exhibit 4:
Freddie Mac's Mortgage Purchases
Support Both Single-Family and Multifamily Rental Opportunities




Source: Table 1 of the 2006 AMR

Serving Low- and Moderate-Income Homeowners

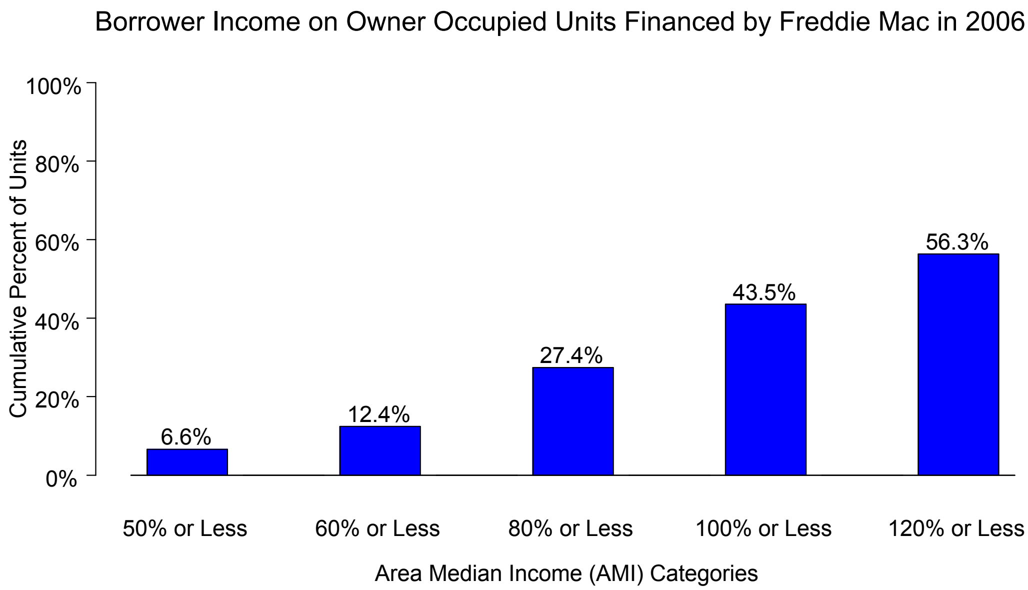
Through its mortgage purchases, Freddie Mac finances mortgages for families across a broad income spectrum. As shown in Exhibit 5, the incomes of families whose single-family home purchases or refinances Freddie Mac financed in 2006 generally ranged between $10,000 and $200,000. The mean income of families whose home purchase mortgages were purchased by Freddie Mac was $84,916; the mean income of families whose refinance mortgages were purchased by Freddie Mac was $78,893.

Exhibit 5:
Freddie Mac Serves Borrowers of All Incomes


Source: Freddie Mac Internal Data

During 2006, Freddie Mac purchased single-family mortgages supporting 2.5 million owner-occupied units of housing. As can be seen from Exhibit 6, 43.5 percent (1,046,169 units) were attributable to families with incomes at or below 100 percent of the area median income, 6.6 percent (159,694 units) were attributable to families whose incomes were 50 percent or less of the local area median income, and 27.4 percent (659,290 units) were attributable to families whose incomes were 80 percent or less of the local area median income.[6]

Exhibit 6:
Freddie Mac Supports Affordable Homeownership




Source: Table 2 of the 2006 AMR

<u>Serving Racially And Ethnically Diverse Families</u>[7]

In 2006, Freddie Mac's single-family mortgage purchases financed homes for 479,341 minority families. This included 210,704 families with a Hispanic or Latino borrower or co-borrower, 146,752 families who classify their race as African-American, 99,574 families who classify their race as Asian, and 36,088 families from other minority

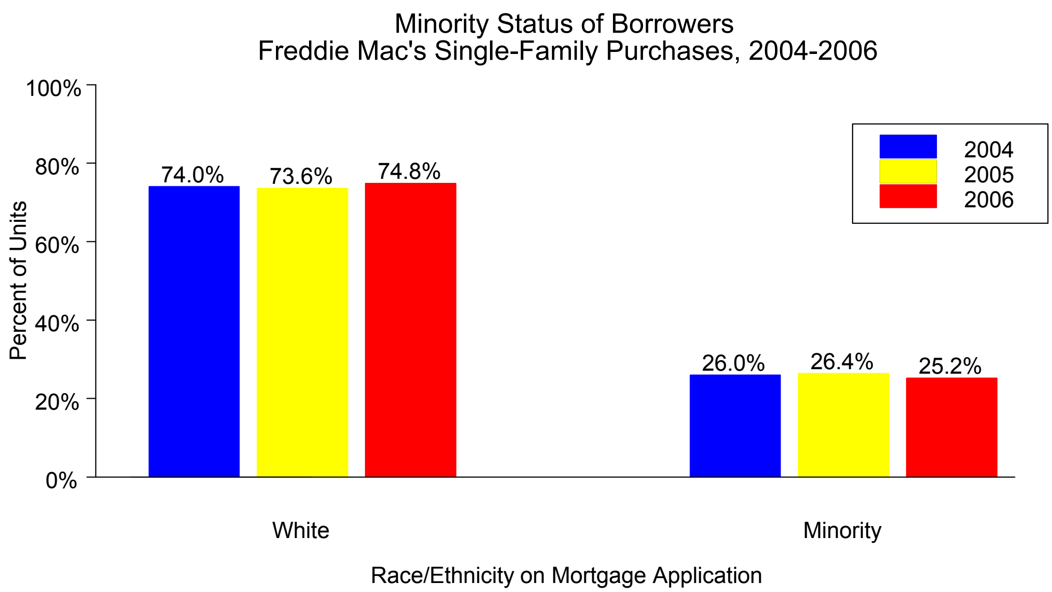
---

[6] We do not have borrower income information with respect to 3.2 percent (78,765) of the owner-occupied units in the single-family mortgages financed in 2006. Therefore, we excluded those units from the calculations underlying the information presented in this section and in Exhibit 6.

[7] In 2006, following consultations with HUD, Freddie Mac adopted a new counting protocol for reporting race and ethnicity information in AMR Tables 7A and 7B, which replace previous AMR Table 7. For comparison purposes, we have also re-calculated the race, ethnicity and minority results for 2004 and 2005 presented in Exhibits 7A and 7B using the new counting protocol.

groups.[8] Freddie Mac's purchases of mortgages made to minority families during 2006 comprised 25.2 percent of our single-family mortgage purchases for which the race and/or ethnicity of the borrower was known.[9] As illustrated in Exhibit 7A, the minority purchase rate in 2006 was about one percentage point lower than in 2004 and 2005. As shown in Exhibit 7B, which provides information on Freddie Mac's purchase rate for specific minority groups, the decline was almost entirely confined to the "other minority" category.

Exhibit 7A:
Freddie Mac's Purchase Rate Of Minority Mortgages

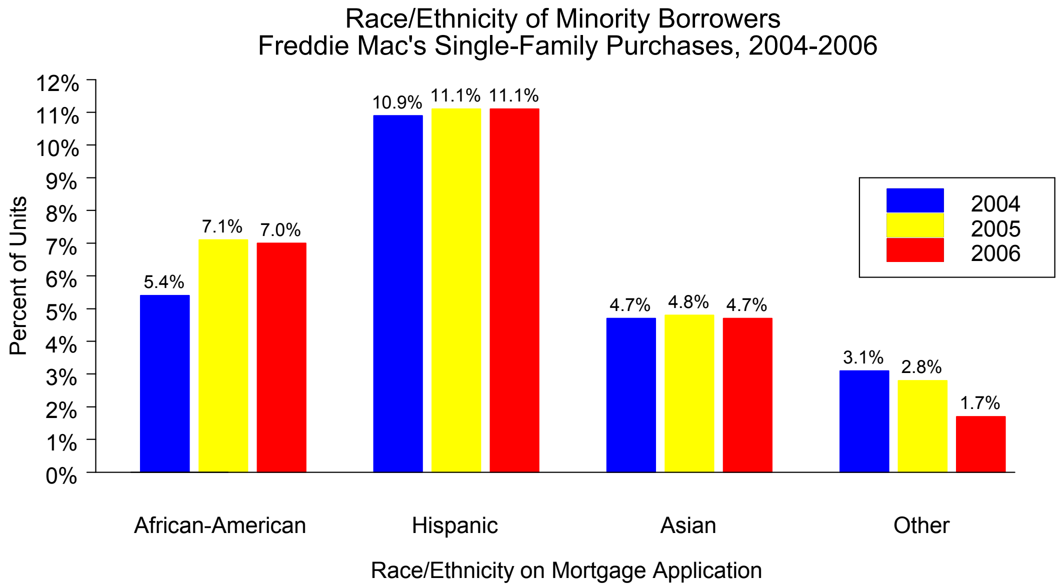



Note: The "White" category contains non-Hispanic Whites while the "Minority" category contains the total remainder of borrowers.

[8] The Hispanic borrower category overlaps with other minority categories, since borrowers may define themselves to be of Hispanic ethnicity and also belong to one or more racial classifications. Therefore, the sum of the individual classifications presented in this sentence (493,118 minority families) exceeds the total minority count of 479,341 minority families.

[9] Minority shares exclude mortgages where (a) ethnicity is non-Hispanic and race is missing; (b) race is White and ethnicity is missing; or (c) both race and ethnicity are missing. Because of missing race or ethnicity data, we excluded 30.8 percent (848,757) of the single-family mortgages we purchased in 2006 from the calculations underlying the information presented in this section and in Exhibits 7A and 7B.

## Exhibit 7B:
## Freddie Mac's Purchase Rate Of Minority Mortgages




Source: Table 7A and 7B of the 2006 AMR

Note: The "Other" category includes American Indian or Alaska Native, Native Hawaiian or Other Pacific Islander, loans that have white and minority race co-borrowers, and loans where a Borrower indicates two or more races.

Serving Households Headed by Both Genders

In 2006, 41.9 percent of the single-family mortgages purchased by Freddie Mac financed homes for male/female co-borrowers, 33.4 percent financed homes for male borrowers (any co-borrowers on these mortgages are male as well), and 24.7 percent financed homes for female borrowers (any co-borrowers on these mortgages are female as well).[10]

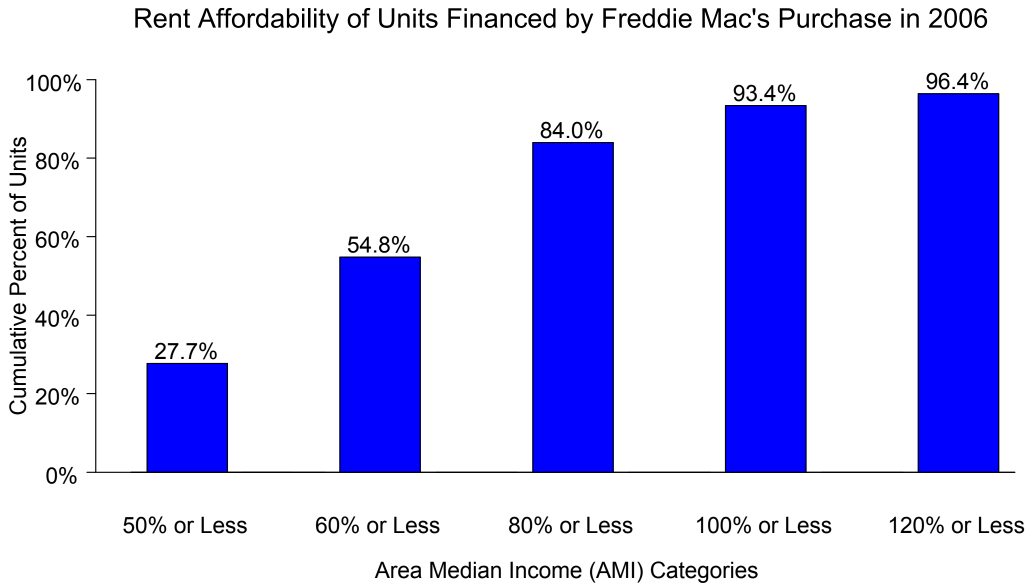
Providing Affordable Rental Opportunities

As demonstrated in Exhibit 8, 93.4 percent or 572,030 of the rental units in the properties underlying the single-family and multifamily mortgages we purchased had rent levels affordable to families making 100 percent or less of the local area median income. In particular, 27.7 percent (169,784 units) had rent levels affordable to families making 50 percent or less of the local area median income, and 84.0 percent (514,400) had rent levels affordable to families making 80 percent or less of the local area median income.[11]

[10] We do not have information on the borrower's gender with respect to 17.6 percent (484,140) of the single-family mortgages we purchased. Therefore, we excluded those mortgages from the calculations underlying the information presented in this section.

[11] We do not have rent information with respect to 21.0 percent (162,521) of the rental units related to single-family and multifamily mortgages we purchased in 2006. Therefore, we excluded those units from the calculations underlying the information presented in this section and in Exhibit 8.

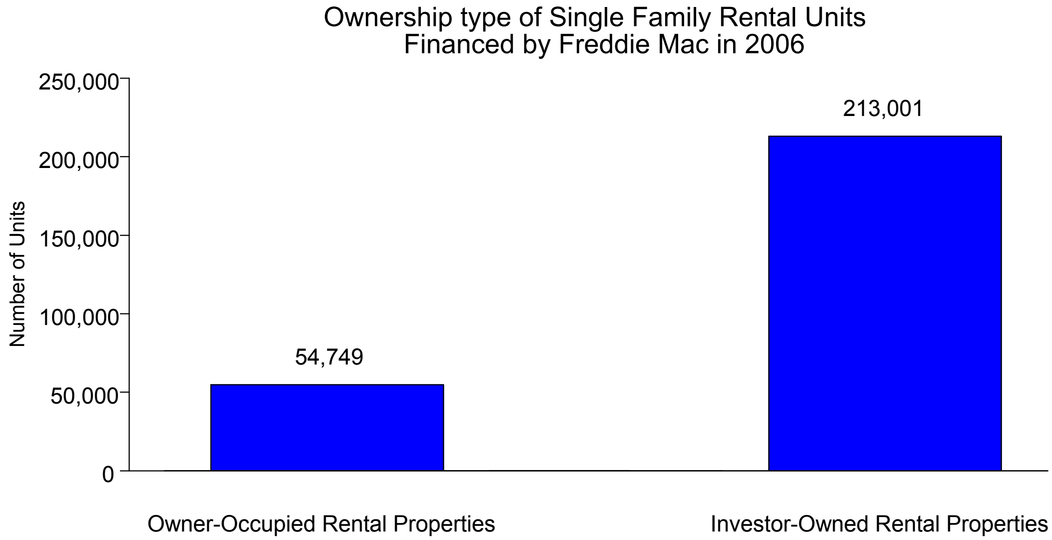
Exhibit 8:
Freddie Mac Supports Affordable Rental Housing




Source: Table 3 and 4 of the 2006 AMR

In 2006, Freddie Mac purchased mortgages for single-family rental properties with an unpaid principal balance of $32.5 billion (involving properties with at least one rental unit and a total of no more than four rental units), of which $5.7 billion were for owner-occupied properties and $26.8 billion were for investor-owned properties. As indicated in Exhibit 9, these single-family rental types provided 54,749 and 213,001 units, respectively.

Exhibit 9:
Freddie Mac Supports Single-Family Rental Properties




Source: Table 1 of the 2006 AMR

In 2006, Freddie Mac's multifamily mortgage purchases and related activities (involving properties with five or more rental units) totaled $26.9 billion ($11.3 billion of mortgage purchases and $15.6 billion in credit enhancements, risk sharing, and securities purchases). Through multifamily mortgage purchases and related activities, Freddie Mac helps make rental housing affordable to all segments of the low- and moderate-income markets, including very low-income households.

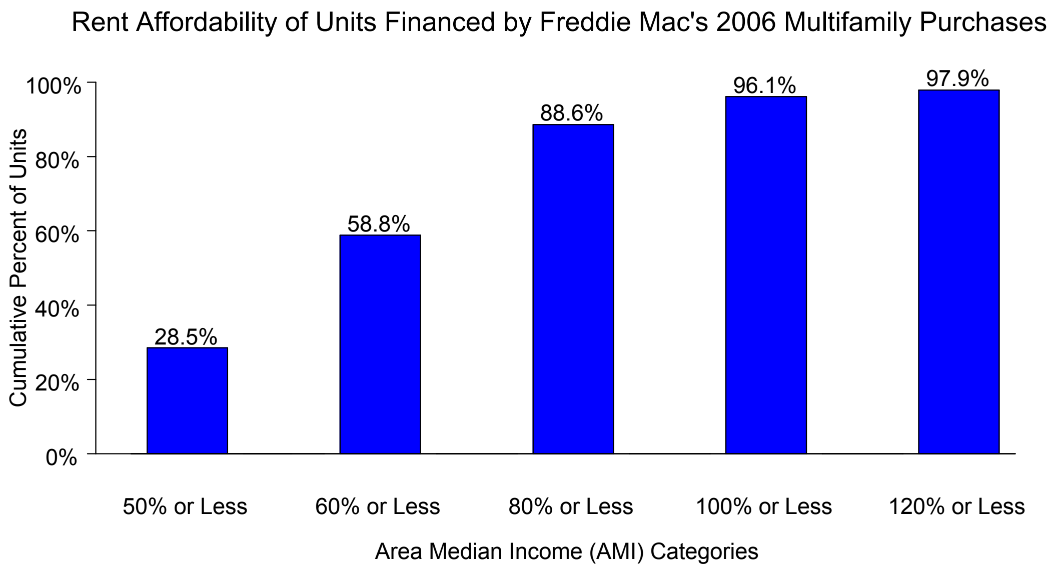
Our multifamily activities financed 507,109 units of rental housing in 2006. Of the multifamily rental units for which we have rental information, 96.1 percent were affordable to renters with incomes at or below the median income for their residential area.[12]

Freddie Mac's multifamily financing activities play a vital role in our service to very low-, low- and moderate-income families. As illustrated in Exhibit 10, of the multifamily units we financed in 2006 for which we have rental information, 28.5 percent were affordable to families with incomes at or below 50 percent of the area median income. Cumulatively, 88.6 percent of our multifamily units were affordable to families with incomes at or below 80 percent of median income. Only 3.9 percent of the multifamily

[12] We do not have rent information with respect to 5.9 percent (30,135) of the rental units in the multifamily mortgages we purchased in 2006. Therefore, we excluded those units from the calculations underlying the information presented in this section and in Exhibit 10.

units we financed in 2006 had rents affordable only to families with incomes above the local area median. Our multifamily financing activities in 2006 included the purchase of $14.0 billion in mortgages meeting the criteria for the multifamily special affordable housing subgoal (mortgages serving very low-income families or low-income families living in low-income neighborhoods).

Exhibit 10:
Freddie Mac Supports Affordable Multifamily Rental Units

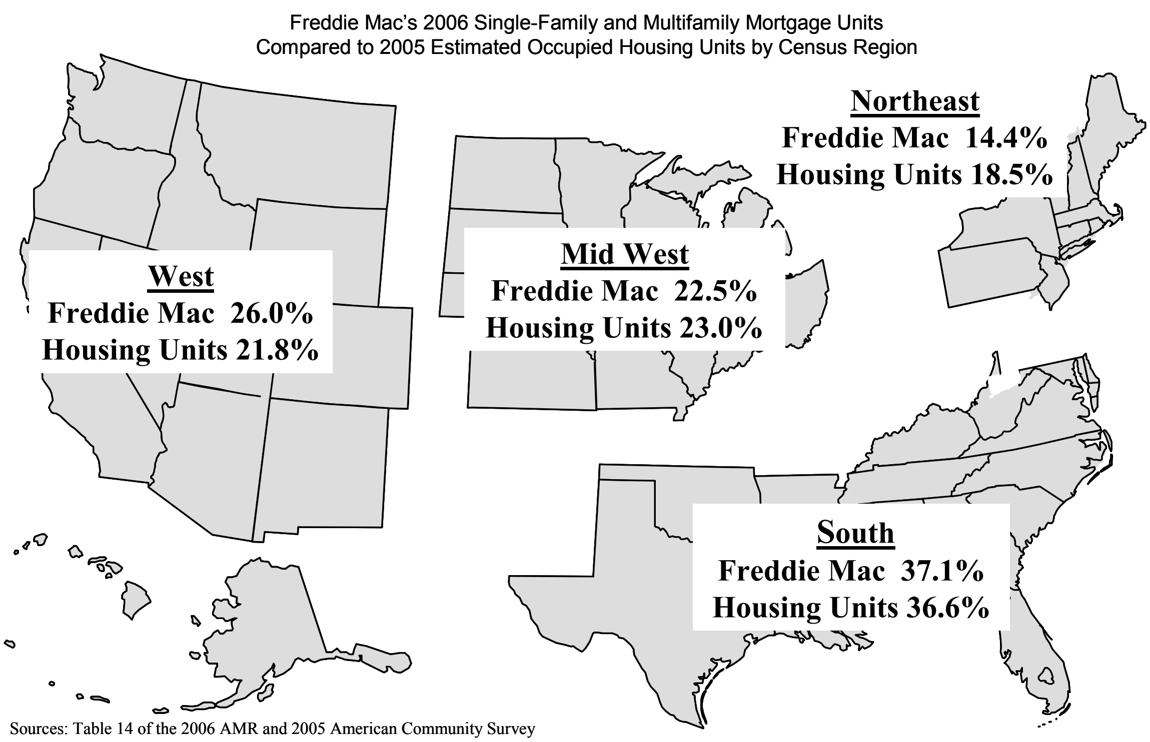



Source: Table 4 of the 2006 AMR

Serving Families Nationwide

Freddie Mac's nationwide network of lenders enables us to serve families all over the country. As shown in Exhibit 11, the housing units financed by Freddie Mac's 2006 mortgage purchases are distributed across the U.S. in similar proportions to the distribution of the stock of occupied housing units, as measured by the 2005 American Community Survey of the U.S. Census. The difference between the distribution of housing units financed by Freddie Mac's mortgage purchases in 2006 and the overall housing stock distribution in 2005 is due, in part, to differences in mortgage market activity between regions and regional variation in Freddie Mac's share of the housing units financed in 2006.[13]

Exhibit 11:
Freddie Mac Serves Homeowners Across the Nation

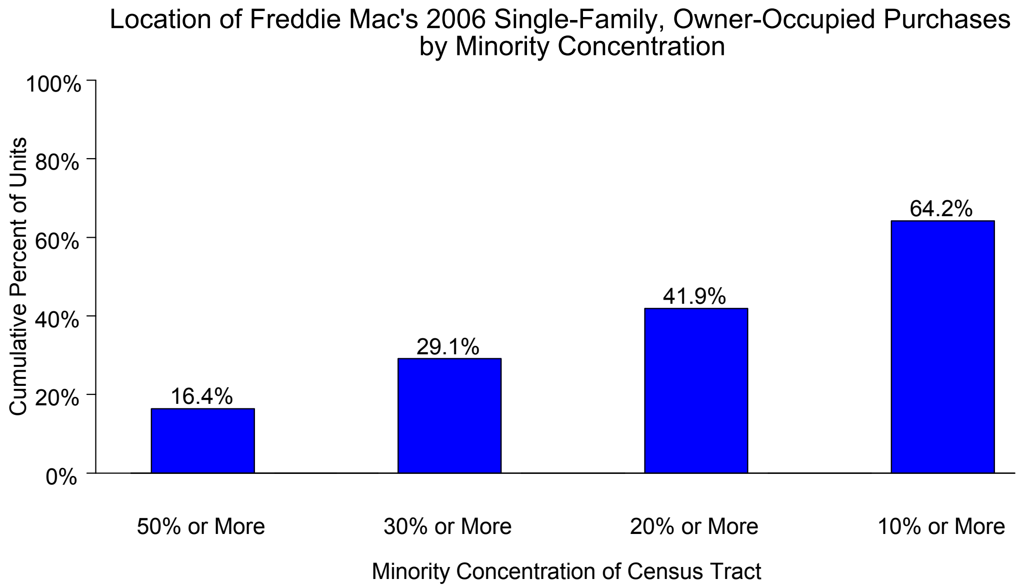



Sources: Table 14 of the 2006 AMR and 2005 American Community Survey
Note: Does not include Puerto Rico, Guam, or Virgin Islands. Percentages for estimated occupied housing unit do not sum up to 100% because of rounding.

[13] In this section, we use the 2005 distribution of housing stock as a basis for measuring our performance, because a direct measure of the overall mortgage market for 2006 is unavailable as of the date of this Report. The best known measure of total mortgage market activities is the Home Mortgage Disclosure Act (HMDA) data. However, as of the date of this Report, HMDA data are only available for 2005. It should also be noted that the HMDA data do not capture all multifamily housing activities, which limits the usefulness of the data.

In 2006, Freddie Mac purchased mortgages supporting owner-occupied and rental housing in a variety of neighborhoods. For owner-occupied housing, as illustrated in Exhibit 12, 16.4 percent of the owner-occupied units we financed in 2006 were located in census tracts in which 50 percent or more of the residents were minorities as measured by the 2000 U.S. Census. A total of 64.2 percent of the units we financed were located in census tracts in which at least 10 percent of the residents were minorities.

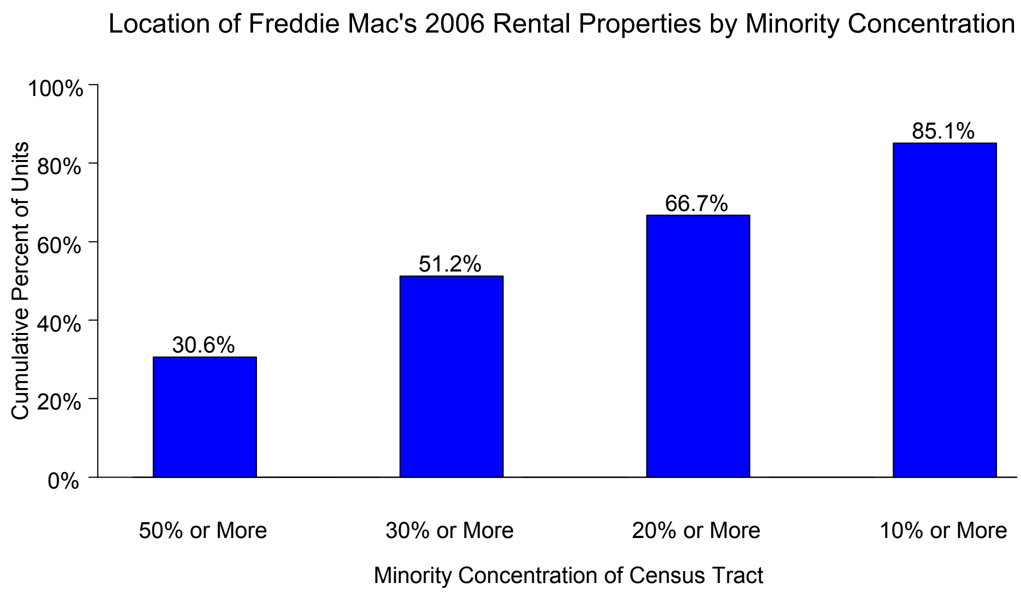
Exhibit 12:
Freddie Mac's Purchases Support Home Ownership
In Diverse Neighborhoods




Source: Table 11 of the 2006 AMR

For rental housing, as illustrated in Exhibit 13, about 30.6 percent of the single-family and multifamily rental units we financed during 2006 were located in census tracts in which 50 percent or more of the residents were minorities as measured by the 2000 U.S. Census. Approximately 85.1 percent of the rental units we financed were located in census tracts in which at least 10 percent of the residents were minorities.

Exhibit 13:
Freddie Mac's Purchases Support Rental Units In Diverse Neighborhoods




Source: Table 12 of the 2006 AMR

## C Information Required under § 307(f)(2)(C)

*§ 307(f)(2)(C) requires that this report include a statement of the extent to which the mortgages purchased by the Corporation have been used in conjunction with public subsidy programs under federal law.*

Freddie Mac works in conjunction with federal public subsidy programs that support homeownership and rental housing in a number of ways, including:

- purchasing single-family mortgages in conjunction with federal subsidy programs that assist borrowers by subsidizing down payments and closing costs and/or by reducing interest rates on first or second mortgages;
- purchasing single-family mortgages that are guaranteed or insured through federal programs;
- helping to build and renovate low-income rental properties through the federal Low-Income Housing Tax Credit program;
- purchasing, on the open market, tax-exempt mortgage revenue bonds backed by mortgages that utilize a tax exempt structure to assist borrowers by reducing the interest rate on the underlying mortgages and/or by subsidizing the down payment; and
- credit enhancing tax-exempt bonds issued by state housing finance agencies to fund the development of affordable housing – for additional details, please see the subsection titled Enhancements to Services and Products in Section H.

Described below are examples of Freddie Mac products and offerings that are used in conjunction with federal programs to increase the opportunity for homeownership.

Affordable Seconds

Most of our affordable mortgage products allow for the combination of a subsidized second mortgage (known as an Affordable Second) with a first mortgage. Freddie Mac purchases the first mortgage under our standard mortgage purchase process (either for cash or in exchange for Freddie Mac Participation Certificates under our guarantor program) and the lender or other entity holds the second mortgage. Many of the Affordable Second mortgages are subsidized using federal funds, including funds from HUD's HOME Investment Partnerships (HOME) and Community Development Block Grant (CDBG) programs. Affordable Seconds reduce a significant barrier to homeownership by allowing all or a portion of the down payment and closing costs to be financed as part of the mortgage financing. With Affordable Seconds, Freddie Mac allows total financing of up to 105 percent of the value of the property with the first mortgage (purchased by Freddie Mac) allowed up to 100 percent of the value of the property.

Section 8 Homeownership Program

Freddie Mac works with public housing agencies to support HUD's Homeownership Voucher Program under Section 8 of the U.S. Housing Act of 1937 (Section 8). This innovative HUD program allows people to apply their Section 8 housing vouchers towards their mortgage payments. Freddie Mac permits lenders to deduct the full amount of the housing voucher from the mortgage payment before applying qualification ratios, which greatly increases the borrower's ability to qualify for a mortgage. Lenders can also add the amount of the housing voucher to a borrower's stable monthly income to help the borrower qualify for a mortgage. Under this program, borrowers receive credit and homeownership counseling.

Individual Development Accounts

All of our affordable mortgage products permit borrowers to make down payments consisting of funds that have been matched through an Individual Development Account (IDA) homebuyers savings program. IDA savings programs require that a borrower make regular deposits to a savings account established to save toward the purchase of a home. A public agency, nonprofit organization, lender or employer matches the borrower's savings using funds from a variety of sources including CDBG funds, foundations and employers.

Federal Loan Guarantee Programs

Freddie Mac purchases mortgages backed by many federal guarantee and/or insurance programs, including the U.S. Department of Agriculture's (USDA) Guaranteed Rural Housing Program (both Section 502 and leveraged lending), HUD's Section 184 Indian Housing Loan Guarantee Program, and programs operated by the Federal Housing Administration and the Department of Veterans Affairs. These federally-backed programs are designed for borrowers with specific needs that may not be adequately addressed through conventional financing. We provide liquidity and efficiency to this market by purchasing and/or securitizing these mortgages.

Low-Income Housing Tax Credits

In 2006, Freddie Mac continued to be a leader in the Low-Income Housing Tax Credit (LIHTC) market. We invest as a limited partner in qualified LIHTC partnerships formed for the purpose of providing funding for affordable multifamily rental properties. In 2006, we invested $500 million in LIHTCs. Our total portfolio of LIHTCs now exceeds $6.8 billion.

LIHTC investments are an effective tool that combines private sector capital, government incentives and community-based housing expertise for the benefit of low-income renters. Our investment in LIHTCs provides important support for the creation or rehabilitation of rental housing for America's lowest-income families. Altogether, Freddie Mac's investments have financed the construction or rehabilitation of more than 335,429 rental units for very low- and low-income families in 4,825 affordable multifamily housing communities in all 50 states, the District of Columbia, Puerto Rico and the U.S. Virgin Islands.  Although these rental units do not count toward Freddie Mac's affordable housing goals, these investments contributed to meeting the needs of the nation's low-income renters.

For additional details relating to our investments in LIHTCs, please see the subsection titled Enhancements to Services and Products in Section H below.

## D. Information Required under § 307(f)(2)(D)

*§ 307(f)(2)(D) requires that this report include statements of the proportion of mortgages on housing consisting of 1 to 4 dwelling units purchased by the Corporation that have been made to first-time homebuyers, as soon as providing such data is practicable, and identifying any special programs (or revisions to conventional practices) facilitating homeownership opportunities for first-time homebuyers.*

In 2006, Freddie Mac purchased 292,169 mortgages of first-time homebuyers, representing 31.9 percent of the owner-occupied, purchase money mortgages for which we have information on the borrower's ownership history.[14] We acquired almost 90.7 percent of the first-time homebuyer purchase money mortgages under our standard processes, while slightly more than 9.3 percent were acquired from our special first-time homebuyer initiatives. These results suggest that many first-time homebuyers can finance their homes with standard mortgage products, but that some families need specially-targeted initiatives.

Described below are some of the creative initiatives and mortgage products that we have developed to assist families achieve homeownership. Many of these initiatives and products are designed to help low- and moderate-income borrowers overcome barriers to homeownership, and do not exclusively target first-time homebuyers. However, by helping reduce these barriers to homeownership, these initiatives and products help more borrowers buy their first home.

Home Possible[SM]

The Home Possible suite of mortgage products is designed to include many of the features we have successfully tested over the last several years and provide them in one group of products available to all of our customers. These products reduce barriers to homeownership by reducing the minimum required down payment and providing flexible credit and payment terms.

Home Possible accomplishes these objectives by:

- being available to all Freddie Mac Seller/Servicers with no negotiated contracting required (the offering is available under our Single-Family Seller/Servicer Guide);
- requiring the use of our automated underwriting tool Loan Prospector ® (LP), which provides timely and consistent underwriting evaluations;
- offering flexible credit terms – Home Possible offers expanded underwriting payment ratios and options for borrowers who may have less-than-perfect credit;
- allowing Home Possible mortgages to be originated as adjustable rate mortgages;
- allowing Home Possible mortgages to finance 2-4 unit properties;

[14] We do not have information on the borrower's ownership history for 7.4 percent (73,372) of the single-family, owner-occupied, purchase money mortgages we purchased in 2006. Therefore, we excluded those mortgages from the calculations underlying the information presented in this section.

- increasing loan-to-value (LTV) ratios on 2-unit properties from 95 percent to 97 percent;
- increasing LTV ratios on 3-4 unit properties from 80 percent to 95 percent;
- allowing for flexible sources of funds for down payments, closing costs, financing costs, prepaid items and escrow expenses; and
- providing affordable housing options, including manufactured homes and mortgages secured by cooperative units.

In 2006 we made the following enhancements to the Home Possible suite of mortgages to make these mortgages even more affordable for more borrowers:

- allowing borrower contributions as low as $0.00 on a one-unit single family home;
- reducing the required borrower contribution from 5% to 3% on 2-4 unit properties;
- allowing 2-1 temporary subsidy buydown plans that allow borrowers to qualify at a below–market rate and increase the borrowers' buying power;
- changing the requirement for face-to-face homeownership counseling on 2-4 unit properties to allow alternative counseling choices;
- removing income limitations on properties located in areas affected by Hurricanes Katrina and Rita; and
- allowing 40-year fixed-rate mortgages.

In 2006, Freddie Mac retired its Affordable Gold 97 product, and incorporated a number of its beneficial features into the Home Possible suite of mortgages, including:

- allowing the use of mortgage credit certificates (MCCs) to assist more borrowers in qualifying;
- allowing Rural Housing Service leveraged second loans; and
- providing a 97% LTV product with 3% borrower funds contribution and a reduced post-settlement delivery fee.

One of the most significant benefits of Home Possible is Neighborhood Solution℠. Under Neighborhood Solution, teachers, firefighters, law-enforcement officers, and healthcare workers receive additional underwriting flexibility that helps them buy a home in the communities they serve. In 2006, military personnel were added to the Neighborhood Solution program and can now take advantage of the extra benefits offered by the program. These underwriting features include expanded debt-to-income ratios and two temporary subsidy buydown plans, which when combined with qualification based on below-market rates, substantially increase a borrower's buying power. Neighborhood Solution is available under two of our affordable products, the Home Possible 100 Mortgage and the Home Possible 97 Mortgage.

Reduced mortgage insurance coverage required on Home Possible mortgages lowers a borrower's monthly payments and allows more borrowers to qualify for mortgages.

Flexible secondary financing options expand the funding sources available to borrowers for down payment and closing costs.

Freddie Mac 100

For some families, the largest barrier to homeownership is lack of funds for a down payment. To help alleviate this problem, Freddie Mac offers the Freddie Mac 100 mortgage product. The Freddie Mac 100 allows a 100 percent LTV and requires only that the borrower contribute his or her own funds (including gift funds) to the transaction in an amount equal to the lesser of three percent of the loan amount or $500 to pay closing costs. The Freddie Mac 100 is also available to borrowers who may not have been able to refinance their mortgages because they had little or no equity in their homes.

Affordable Seconds

Another major challenge for many first-time homebuyers is accumulating funds for various closing costs such as origination costs, appraisal fees, title insurance, rehabilitation costs, and prepaid items, including real estate taxes and mortgage insurance premiums. To help families overcome these barriers, Freddie Mac made it easier in 2006 for families to receive an Affordable Seconds product in conjunction with the Home Possible suite of mortgages. This allows low- and moderate-income borrowers to use subsidized secondary financing to qualify for affordable mortgages. Payments on the subsidized secondary financing may be excluded from the borrower's debt-to-income ratio if they are deferred for at least the first five years. For more information, please see the subsection titled Affordable Seconds in Section C above.

Affordable Seconds are available on all Freddie Mac Home Possible mortgages as well as the ALT 97 and Freddie Mac 100 products.

Alt 97℠

Freddie Mac's Alt 97 product can help reach borrowers who have good credit but limited cash savings for a down payment. This product incorporates many of the underwriting flexibilities included in our former Affordable Gold product, including expanded debt ratios. The borrower may obtain the three percent down payment from a combination of nontraditional sources, such as gifts or grants. The Alt 97 is an excellent product for first-time homebuyers with limited funds and for borrowers with low equity who want to refinance their homes to take advantage of lower rates.

Workforce Housing

We improved our employer assisted housing policies during 2005 to include more products and options for initiative participants to work with employers that provide this increasingly popular employee benefit. We expanded the types of loans and grants an employer can use and expanded the products a lender can use for these initiatives. For more information, please see the subsection titled Workforce Home Benefit in Section K below.

In early 2006, HUD provided guidance to Freddie Mac on marketing our Workforce Home Benefit initiatives. The Workforce Home Benefit initiatives we established conform to HUD's guidance. We confine our Workforce Home Benefit marketing activities to those that are business-to-business only. In addition, Freddie Mac does not recommend one specific lender to the employer. We also present our Workforce Home Benefit plans to employers and assist with implementation and administration.

Guaranteed Rural Housing

Freddie Mac is working with the Rural Housing Service on further use of the guaranteed rural housing (GRH) program. The GRH program allows for LTV ratios up to 102 percent that include the financing of the guarantee provided by the agency. This enhancement reduces the out-of-pocket costs that borrowers in rural markets are required to pay.

Community Reinvestment Act Portfolios

We continued to enhance our ability to purchase more mortgages from lenders who maintain portfolios of mortgages to low-income borrowers as part of their Community Reinvestment Act (CRA) lending activities. By providing liquidity to this market, we free up capital for lenders to originate more mortgages to CRA qualifying borrowers.

Efforts to Expand Homeownership Opportunities for Hispanic Families

As described below, in 2006 Freddie Mac introduced several new initiatives as part of its commitment to increase the Hispanic homeownership rate. These efforts are also designed to expand homeownership access to minority and low and moderate-income families, and close the gap between minority and non-minority homeownership rates.

In September 2006, Fannie Mae and Freddie Mac jointly announced the availability of 83 non-executable Spanish translations of the Fannie Mae/Freddie Mac Uniform Instruments to help lenders and others in the residential mortgage industry better serve Spanish-language dominant consumers in becoming homeowners. The translations are meant to complement the English-language documents a mortgage borrower signs. The translations are provided for 54 security instruments, 20 promissory notes, and nine related documents.

In 2006 Freddie Mac introduced "Mi Casa Propia: A Bilingual Mortgage Guide" to guide potential Hispanic borrowers through the homebuying process. The target audience for this Guide is first-time homebuyers whose primary language is Spanish. Freddie Mac developed Mi Casa Propia to help bridge the information gap blocking many Hispanic families from becoming homeowners.

Mi Casa Propia is currently being piloted with several lenders in high Hispanic growth areas of the country. Freddie Mac will use the lender feedback to determine how best to rollout Mi Casa Propia more broadly in 2007.

Section 8 Rental to Homeownership

Please see the subsection titled Section 8 Homeownership Program in Section C above.

Individual Development Accounts

Please see the subsection titled Individual Development Accounts in Section C above.

## E. Information Required Under § 307(f)(2)(E)

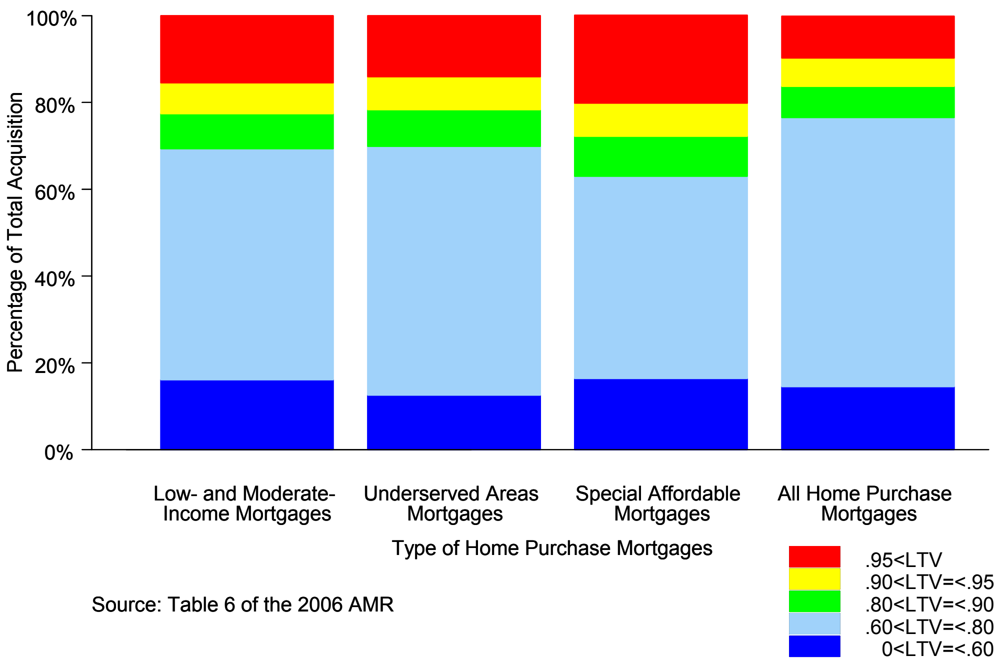
*§ 307(f)(2)(E) requires that this report include, in aggregate form and by appropriate category, the data provided to the Secretary under subsection (e)(1)(B) [loan-to-value ratios of purchased mortgages at the time of origination].*

Over 81.1 percent of the total single-family, owner-occupied mortgages acquired by Freddie Mac in 2006 had an LTV of 80 percent or less. Mortgages with an LTV of between 80 percent and 95 percent constituted 13.8 percent of the mortgages acquired in 2006. Mortgages with an LTV of over 95 percent constituted 5.1 percent of the mortgages acquired in 2006.

Exhibit 14 compares the LTV distribution on the goal qualifying, single-family home purchase mortgages we acquired in 2006 with the LTV distribution on all single-family home purchase mortgages we acquired in 2006. On average, the mortgages contributing to each of the affordable housing goals had higher LTV ratios than did the overall portfolio of mortgages acquired by Freddie Mac during 2006. Freddie Mac believes the differences between the goal qualifying LTV distributions and the overall LTV distribution is the result of variations in available wealth for down payment across the respective pools of borrowers.

Exhibit 14:
Goal Qualifying Mortgages Have Higher LTVs

Loan-to-Value Ratio of Freddie Mac's 2006 Home Purchase Mortgage Acquisitions




Source: Table 6 of the 2006 AMR

## F. Information Required Under § 307(f)(2)(F)

*§ 307(f)(2)(F) requires that this report compare the level of securitization versus portfolio activity.*

During the year ended December 31, 2006, Freddie Mac purchased $502 billion of mortgages and mortgage-related securities and issued $360 billion of guaranteed Participation Certificates (PCs) and Structured Securities.

As of December 31, 2006, more than $1.477 trillion of Freddie Mac guaranteed PCs and Structured Securities were issued in the global capital markets. Of this amount, Freddie Mac held $354 billion in its Retained portfolio, or 24 percent of the total guaranteed PCs and Structured Securities issued. At year-end 2006, Freddie Mac's Retained Portfolio was approximately $704 billion, a decrease of approximately one percent compared to year-end 2005.[15]

The information presented above is derived from our December 2006 Monthly Volume Summary (MVS), and is subject to the qualifications set forth therein. The December 2006 MVS is unaudited and subject to change.[16]

---

[15] In response to a request by the Office of Federal Housing Enterprise Oversight (OFHEO), we announced on August 1, 2006 that we would voluntarily limit the annual growth of our Retained portfolio to no more than 2.0 percent annually (and 0.5 percent quarterly), based on the carrying value of the retained mortgage portfolio as contained in the June 30, 2006 minimum capital report to OFHEO filed on July 28, 2006. The limit, which was effective as of July 1, 2006, will remain in place until we return to producing and publicly releasing quarterly financial statements prepared in conformity with generally accepted accounting principles, or GAAP.

[16] For more information, please see the December 2006 MVS, which can be found at the following location: http://www.freddiemac.com/investors/volsum/pdf/1206mvs.pdf. A glossary of selected terms used in the December 2006 MVS can be found at the following location: http://www.freddiemac.com/investors/volsum/glossary.html.

## G. Information Required Under § 307(f)(2)(G)

*§ 307(f)(2)(G) requires that this report assess underwriting standards, business practices, repurchase requirements, pricing, fees, and procedures, that affect the purchase of mortgages for low- and moderate-income families, or that may yield disparate results based on the race of the borrower, including revisions thereto to promote affordable housing or fair lending.*[17]

Underwriting Standards, Credit Policy and Other Business Practices

Freddie Mac constantly seeks to increase access to sustainable homeownership opportunities. To that end, we assess the likely impact of any changes to our underwriting standards, credit policies, servicing standards and other business practices on low-income and protected-class borrowers through careful quantitative and legal analysis.

Freddie Mac uses and encourages lenders to use technology, such as LP, our automated underwriting system, that is designed to make the mortgage finance system more objective and fair. We take specific steps to ensure that LP and other technology tools are used in a way that promotes fairness in the mortgage process and greater access to credit. We periodically review these tools to ensure that they remain fair and unbiased for all borrowers, regardless of protected class.

LP does not make lending decisions. It instead provides a risk assessment to the lender of "Accept" (meaning the mortgage meets Freddie Mac's underwriting standards for purchase) or "Caution" (which requires lenders to make a further review of the application to determine if the mortgage meets Freddie Mac's underwriting standards). LP does not consider prohibited characteristics, such as the borrower's race or national origin when making a risk assessment. We believe that LP does a better job of distinguishing between high- and low-risk mortgages than manual underwriting, and that, through automated underwriting, low- and moderate-income and minority borrowers are more likely to obtain a mortgage on favorable terms than they would through manual underwriting. Automated underwriting is more accurate than manual underwriting in predicting default for both minority and non-minority families. In addition, and on a negotiated basis, Freddie Mac purchases mortgages that have been underwritten by other automated underwriting systems.

In 2006, we continued to refine LP with the aim of increasing the number of borrowers we can serve, including low- and moderate-income borrowers. Through enhancements to LP, we increased the percentage of "Accept" responses in connection with mortgages to lower income borrowers. We built on enhancements over the last few years that improved our affordable mortgage products and allowed LP to automatically determine when a borrower meets the median income and property location requirements for these

[17] As implemented by § 81.43(a) of the HUD's regulations, 24 C.F.R. § 81.43(a) (2005).

products. This eliminates the need for the lender to perform manual processes and makes it easier for the lender to offer our affordable mortgage products to qualified borrowers.

In 2006, Freddie Mac eliminated the LP submission fee on mortgages that receive a “Caution” response on the first submission. As a result, mortgages that previously may have not been submitted to LP due to the concern that the mortgage might receive a “Caution” response, and thus incur a fee, might now be submitted and in some cases receive an “Accept” response.

In 2006, Freddie Mac continued to enhance the Home Possible suite of affordable mortgage products by adding additional features and flexibilities to allow more low- to moderate-borrowers to qualify. We also introduced our 40-year mortgage, which amortizes the monthly payments over a longer term thereby reducing the monthly payment. This offering increases the affordability of housing for low- to moderate-income homebuyers.

Freddie Mac’s underwriting guidelines and credit policies are designed to balance market needs, maintain credit quality, and result in sustainable homeownership for borrowers. The origination of mortgages that end up in foreclosure can be disastrous for families and their neighborhoods. Through marketing and customer support materials and training, we seek to ensure that our guidelines and policies are not misinterpreted or misunderstood to create unnecessary barriers for borrowers.

Freddie Mac may provide favorable pricing on a negotiated basis, or may waive certain fees, to encourage lenders to sell Freddie Mac mortgages that meet the income-based and/or geographic criteria of the affordable housing goals.

Under our agreements with lenders, we have the right to request that lenders repurchase mortgages sold to us if those mortgages do not comply with those agreements. As a result, we sometimes request that Sellers repurchase mortgages sold to us, or indemnify us against losses on those mortgages. We make repurchase requests on a case-by-case basis. In 2006, repurchase requests on performing mortgages (without regard to year of purchase) were 0.16 percent of 2006 single-family purchase volume. This percentage is higher than the 2005 percentage of .03 percent and can be attributed to the increased number of repurchases due to ineligible property type. Our 2006 repurchase rate (as a percentage of 2006 purchase volume), excluding repurchases for ineligible property types, is consistent with our 2005 percentage at .03 percent.

Hurricane Relief

In 2005, Freddie Mac temporarily eased several underwriting and servicing requirements to assist homeowners in areas affected by Hurricanes Katrina and Rita. In 2006, Freddie Mac extended these temporary changes, which helps borrowers obtain mortgages to rebuild their homes or to purchase new homes. These changes also helped keep borrowers in their homes and protect their financial interests in their homes. We provided this temporary relief to borrowers who suffered property damage from these disasters; some of these borrowers who received this relief were borrowers with very low-, low- and moderate incomes, or borrowers living in underserved areas. Through our continued efforts, Freddie Mac was able to ease the housing burdens for thousands of displaced homeowners and renters in the Gulf region.

The temporary servicing and underwriting requirements included the following:

- extending our forbearance policy to any homeowner who needed it four more times (February, May, August, and November 2006) through March 2007 – this assistance benefited nearly 35,000 homeowners;
- extending our temporary servicing policies to continue to suspend credit reporting and refrain from charging late fees or pursuing collections from borrowers who fell short on their mortgage payments;
- asking servicers to continue to waive prepayment penalties where possible for families with prepayment penalty mortgages on their homes;
- extending our streamlined loan modification requirements so servicers could continue to help homeowners hold on to their homes – through loan modifications or repayment plans – this enabled more than 4,000 homeowners to keep their homes. Freddie Mac also continued to suspend foreclosures; then lifted the moratorium gradually using a zone approach; and
- eliminating the median income limits for Home Possible mortgages through the end of the year so people with incomes above the limits could qualify for a mortgage.

Freddie Mac also implemented Workforce Home Benefit initiatives to provide incentives for first responders and others to return to the Gulf region to rebuild or buy new homes through low-cost mortgages.

Working with its partners, Freddie Mac provided $10 million in humanitarian aid that placed more than 2,100 families into temporary or permanent housing, including single-family homes in Freddie Mac's portfolio of real estate owned (REO) homes and apartments in a building held by Freddie Mac's REO portfolio. In addition, the Freddie Mac Foundation and Freddie Mac continued to make grants to nonprofits providing housing solutions and supportive services to children, families and communities in the Gulf region.

Freddie Mac also worked with the Community College Foundation, NeighborWorks America and 23 local nonprofit partners to provide two *HomeHelpExpress* eBuses, which traveled to hurricane-devastated neighborhoods and offered free online resources to homeowners. In 2006, the *Home Help Express* eBuses made over 450 stops in Mississippi and Louisiana, providing services to more than 5,500 people. For additional Katrina related activities by Freddie Mac, please see the subsection titled <u>Affordable High Touch Servicing</u> below.

Freddie Mac believes its actions to provide disaster and humanitarian relief to hurricane victims are consistent with the spirit of our mission to provide liquidity, stability and affordability in the residential mortgage market.

Mortgage Servicing

At the end of 2006, more than 11 million mortgages were being serviced on behalf of Freddie Mac. We are constantly searching for new ways to more accurately assess risk of default and help families avoid mortgage foreclosures. Low- and moderate-income families and neighborhoods are particularly vulnerable to the harmful effects of foreclosures.

During the past few years, delinquency and foreclosure rates on mortgages purchased by Freddie Mac have dropped overall. At year-end 2006, the overall delinquency rate for Freddie Mac's single-family mortgages was 52 basis points (based on the number of mortgages that were 90 days or more delinquent or in foreclosure). While defaulted loan volumes have stayed somewhat consistent, the percent has declined due to (i) the normalization of inventory after the impacts of the hurricanes, and (ii) the increased overall portfolio size with a concentration of newly funded loans that have not yet reached their peak default years. In addition, Freddie Mac's use of innovative tools to assist families who have experienced problems in making their mortgage payments also helped those families avoid foreclosure.

In 2006, Freddie Mac joined NeighborWorks America, the Ad Council, Homeownership Preservation Foundation and 15 lending institutions in a national outreach effort to encourage mortgage borrowers in financial distress to seek help to avoid foreclosure. The national ad campaign developed by the Ad Council, which includes TV, radio and print media, urges homeowners in financial distress to call a national hotline for assistance. Callers are provided with budget counseling and referrals to the callers' mortgage servicers for workout options.

In 2006, Freddie Mac began offering a free course for staff members of non-profit counseling agencies titled "Alternatives to Foreclosure for Counselors." This course provides counselors with comprehensive training on available alternatives to foreclosure and techniques for working with servicers to keep borrowers out of foreclosure.

Freddie Mac and its Servicers help keep borrowers in their homes through active management of delinquent mortgages, including measures such as loan modifications, repayment plans and forbearance. The total number of loans with foreclosure alternatives was approximately 59,100, 60,000, 48,300, and 46,900 for the years ended December 31, 2006, 2005, 2004, and 2003 respectively. The increase in foreclosure alternatives in 2005 was primarily driven by forbearance agreements related to single-family loans affected by Hurricane Katrina.

Using Automated Tools to Preserve Homeownership

Freddie Mac has found that early intervention with troubled borrowers significantly decreases the likelihood of foreclosure; the longer a mortgage is delinquent, the greater the likelihood of foreclosure. For that reason, we provide Servicers with automated tools that allow them to identify and work with borrowers most likely to encounter problems making their mortgage payments. In 1997, Freddie Mac introduced EarlyIndicator® (EI), a state-of-the-art, statistically based delinquency management tool that assists the mortgage industry in helping more borrowers avoid foreclosure, makes delinquency management more effective and efficient for mortgage Servicers, and reduces credit losses for investors.

Freddie Mac continues to improve EI, and in 2004, released Version 5.0 of EI, which is used to determine the likelihood of a mortgage becoming more seriously delinquent or continuing through to a loss-producing state. EI generates two types of assessments: "collection" (mortgages overdue for one payment) and "loss mitigation" (mortgages overdue for two or more payments, including mortgages in foreclosure). The collection assessment measures the likelihood of a borrower owing two payments, while the loss mitigation assessment measures the likelihood of a delinquent mortgage resulting in a loss (i.e., REO, short payoff, third party sale, charge-off or deed-in-lieu of foreclosure). By the end of 2006, 57 mortgage Servicers, including 17 sub-prime Servicers,were licensed to use EI. These Servicers collectively serviced more than eight million of Freddie Mac's mortgages at the end of 2006.

We also offer Servicers a number of free default management tools and training, which allow Servicers to manage delinquent mortgagors, borrower workouts, and default and foreclosure expenses more efficiently.

Affordable High Touch Servicing

In 2004, we introduced the Affordable High Touch Servicing pilot to help determine the effectiveness of using non-profit homeownership counselors as trusted intermediaries to increase the contact rate with delinquent borrowers and reduce foreclosure rates. This pilot targets delinquent borrowers (whose mortgage payments are at least 45 days late) that our Servicers have been unable to contact. Due to its effectiveness, the pilot became a baseline initiative in 2006.

The need for this initiative was supported by a Foreclosure Avoidance Research Survey commissioned by Freddie Mac in 2005, which showed that the majority of delinquent borrowers in the survey were not only unaware of the options that are available to assist them when in default, but were very interested in talking to a housing counseling agency when faced with a mortgage delinquency.

The lenders that are participating in this initiative include Wells Fargo, Bank of America, ABN AMRO, R&G Mortgage, National City and Washington Mutual. The participating non-profit agencies include Consumer Credit Counseling Services (CCCS) of San Francisco and CCCS of Atlanta.

During 2006, over 6,000 delinquent borrowers were contacted by housing counseling agencies through the initiative. The resulting contact rate was approximately 28 percent (representing borrowers whom the original mortgage Servicers had not been able to contact) and the contact to foreclosure avoidance rate was approximately 54 percent (representing the percentage of contacted borrowers who were able to avoid foreclosure).

In response to the Gulf Coast hurricanes of late 2005, Freddie Mac set aside 65 properties from its REO inventories in Dallas, Houston and Atlanta to offer rent-free housing for six months to impacted families. Homes were selected for the program based on location and general condition, and if needed, they were completely repaired for immediate move-in. Freddie Mac contracted with several nonprofit organizations such as HomeFree USA, The Power Center of Windsor Village and the Houston Urban League to provide various services such as family selection, home placement, homebuyer education and financial / employment assistance.

Affordable Housing Advisory Council

Freddie Mac's Affordable Housing Advisory Council meets twice a year to give us expert advice on new and better ways to increase opportunities for affordable housing. The Council is comprised of leaders in the affordable housing field, including lenders, real estate professionals, builders, representatives from community-based and other non-profit and for-profit organizations, and state and local government agencies actively engaged in the field. During our spring 2006 meeting we discussed new ways to reach the first-time homebuyer. The fall meeting focused on delinquency intervention strategies and the role Freddie Mac could play in assisting delinquent homeowners.

Combating Predatory Lending

Freddie Mac is committed to promoting responsible lending practices and curbing predatory lending practices. As part of that commitment, we have instituted significant measures designed to protect consumers from predatory lending practices. These measures include policies, educational campaigns in communities across the country, and targeted mortgage products.

*HOEPA and high-cost mortgages:* Freddie Mac does not purchase high-rate or high-fee mortgages that are covered by the Home Ownership and Equity Protection Act of 1994 (HOEPA). Freddie Mac was the first secondary mortgage market institution to adopt this policy. In addition, Freddie Mac does not purchase high-cost home mortgages as defined by statute in the following 14 states: Arkansas, Georgia, Illinois, Indiana, Kentucky, Maine, Massachusetts, Nevada, New Jersey, New Mexico, New York, Oklahoma, Rhode Island and Tennessee.

*Mandatory arbitration clauses:* Freddie Mac does not buy mortgages originated on or after August 1, 2004, that contain mandatory arbitration clauses that deny borrowers access to the court system. Freddie Mac was the first secondary mortgage market investor to adopt such a policy.

*Prepayment penalties:* Since 2000, Freddie Mac has not purchased prime mortgages that impose a prepayment penalty for a term of more than five years. Since March 2002, we have not invested in subprime mortgages with a prepayment penalty of more than three years. Freddie Mac was the first secondary mortgage market investor to adopt such a stringent policy on mortgages with prepayment penalties.

*Single premium credit insurance:* Freddie Mac does not purchase mortgages containing a prepaid single-premium credit insurance policy obtained in connection with the origination of the mortgage, regardless of whether the premium is financed in the mortgage amount or paid from the borrower's funds.

*Credit reporting:* Freddie Mac requires all lenders servicing Freddie Mac mortgages to report monthly borrower mortgage payments to the major credit repositories. As a result, the repositories will have on file not only negative information about borrowers who fail to make mortgage payments, but also positive information about borrowers who are making timely payments on their mortgages. This may permit borrowers to obtain lower-cost mortgages as their credit history improves.

*Amendments to Freddie Mac's Seller-Servicer Guide:* Effective January 1, 2006, Freddie Mac updated our Seller-Servicer Guide to include the following representations and warranties from our Seller/Servicers in order to more fully enhance the anti-predatory lending policies announced by Freddie Mac in December 2000:

- Points and fees charged in connection with mortgages sold to Freddie Mac do not exceed 5 percent. For small mortgages, a maximum of $1,000 may be used in lieu of the 5 percent limitation.

- For mortgages that include prepayment penalties, the mortgage must provide a benefit to the borrower such as a rate or fee reduction; the borrower must be offered the choice of another mortgage not including the prepayment penalty; the prepayment penalty cannot be imposed upon default; and the terms of the prepayment penalty must be adequately disclosed.

- Borrowers who qualified for a lower-cost mortgage product should not be steered to a higher-cost product.

In addition, although HOEPA by its terms applies only to refinance mortgages, Freddie Mac also does not buy purchase money mortgages that trigger HOEPA's rate and fee thresholds.

*Don't Borrow Trouble®:* Freddie Mac's Don't Borrow Trouble campaign, begun in 2000, continues to be one of the most comprehensive anti-predatory lending public education initiatives in the nation. There are now almost 50 participating Don't Borrow Trouble campaigns across the country, including two statewide and four local campaigns that were launched in 2006. For more information, please see the subsection titled Don't Borrow Trouble in Section K below.

## H. Information Required Under § 307(f)(2)(H)

*§ 307(f)(2)(H) requires that this report describe trends in both the primary and secondary multifamily housing mortgage markets, including a description of the progress made, and any factors impeding progress, toward standardization and securitization of mortgage products for multifamily housing.*

National Trends in the Primary and Secondary Multifamily Mortgage Markets

Freddie Mac closed a record $28.8 billion in new multifamily business transactions in 2006, a 10 percent increase over the 2005 volume of $26.2 billion. This volume includes approximately $1.2 billion in targeted affordable housing products, which finance apartments that receive some form of government subsidy. All together, Freddie Mac's multifamily transactions financed approximately 478,000 apartment homes affordable to families earning low or moderate incomes.

Nationally, multifamily lending volumes for 2006 were estimated to be slightly higher (1%) than last year's record volume.[18] Market fundamentals (vacancy and rent levels) improved in 2006, interest rates remained low and there was only a slight movement upwards in capitalization rates.[19] These conditions resulted in relatively high levels of refinancing, acquisition, and rehabilitation/construction lending activity throughout the country. Property values continued to increase, as improving occupancy and effective rent rates more than overcame the slight increase in capitalization rates.

Lending volumes were strong throughout the year and were supported by improving fundamentals (occupancy levels and rent growth) in nearly all major markets.[20] Nationally, mortgage debt on multifamily properties grew to more than $714.6 billion in the third quarter of 2006,[21] from $679.7 billion in the fourth quarter of 2005 (representing an annualized increase of 6.85 percent). Nationally, multifamily fixed mortgage rates remained historically low, but increased from 5.22 percent in the third quarter of 2005 to 6.05 percent in the third quarter of 2006.[22]

The national vacancy rate continued to improve, decreasing from 5.7 percent in the fourth quarter of 2005 to 5.4 percent by the end of the third quarter of 2006.[23] At the same time, rent concessions for new and renewed leases were decreasing and this supported effective

---

[18] Mortgage Bankers Association, *Quarterly Survey of Commercial/Multifamily Originations*, Fourth Quarter 2006

[19] The capitalization rate is the rate of return that is applied to a multifamily project's net operating income to generate an estimate of the value of the property during underwriting. Capitalization rates vary between local markets and between property types.

[20] Real Capital Analytics *Capital Trends Monthly (Apartments),* December 2006

[21] Data for the fourth quarter of 2006 is not yet available.

[22] Data for the fourth quarter of 2006 is not yet available.

[23] Data for the fourth quarter of 2006 is not yet available.

rent growth of 4.3 percent from the third quarter of 2005 to the third quarter of 2006.[24] Both of these trends are broadly based, and indicate improving fundamentals in most major markets in the country.

Based on U.S. Census Bureau preliminary data for 2006, about 293,000 new multifamily units started in 2006, a 5.8 percent decrease from 2005.[25] This is a relatively low level of new multifamily construction from a historical standpoint, and when combined with units leaving the market due to condominium conversions, the 2006 year-end multifamily housing supply may actually be lower than the previous year for a second year in a row. This reduction in available units for rent is part of what is driving the improving occupancy and effective rent rates noted above.

The credit quality of Freddie Mac's multifamily portfolio remained very good with the 60 days or more delinquency rate at five basis points at the end of 2006. The dollar amount ($29.5 million) of these delinquencies is higher than at the end of 2005; however, this is due to a single delinquent loan in Florida with an unpaid principal balance of $29.5 million. By comparison, at the end of 2005, five loans were delinquent with an aggregate unpaid principal balance of nearly $2.5 million (0.44 basis points of the portfolio at that time).

Overall credit quality in the multifamily market remained stable. The industry-wide delinquency rate remains very low by historical standards. The American Council of Life Insurers *Mortgage Portfolio Profile –Third Quarter 2006* shows that its members' multifamily portfolios' 60-day delinquency rates have stayed extremely low at four basis points, up only slightly from one basis point for the same period in 2005.[26] This stability is further supported by CMBS apartment performance data showing that the populations of 60 days or more delinquent in outstanding conduit multifamily portfolios improved from 1.22 percent at the end of 2005 to 0.66 percent, according to Trepp, a provider of CMBS, multifamily, and commercial mortgage information.

The secondary multifamily mortgage market continues to increase in size and liquidity, and has become more competitive, as GSEs, commercial banks, insurance companies and other financial entities compete to purchase and securitize multifamily mortgages. This heightened competition has resulted in a significant amount of business done with no risk premium built into the pricing. Due to these market conditions, many market participants have had to loosen credit practices to maintain market share. This trend is unlikely to change until a significant credit event forces a correction.

In 2006, an aggregate of $165 billion of fixed-rate domestic CMBS were issued, compared to $139 billion in 2005, an increase of 19 percent. The multifamily portion of that marketplace was $27 billion, compared to $22 billion in 2005, an increase of 23 percent. Freddie Mac purchased $15.6 billion of the $27 billion multifamily fixed-rate

[24] Data for the fourth quarter of 2006 is not yet available.
[25] U.S. Census, New Residential Construction in December 2006
[26] Data for full year 2006 is not yet available.

domestic securities issued in 2006. This represented a planned modest reduction in CMBS purchases compared to 2005.

In 2006, Freddie Mac responded to the considerable competitive pressures in the secondary market with improved internal processes, more streamlined executions and enhanced product offerings. Additionally, Freddie Mac continues to monitor trends in the primary market. Of particular interest is the increasing number of lender consolidations. As described below, Freddie Mac is taking steps to expand its presence in the small loan and targeted affordable secondary markets. Freddie Mac believes this action may help remediate the issues posed by a shrinking number of lender customers in the conventional primary market. Growth in these markets is also crucial for our continued ability to meet our affordable housing goals.

<u>Freddie Mac Multifamily Initiatives</u>

Freddie Mac helps meet the need for affordable rental housing by credit enhancing or purchasing (directly or through our CMBS investments) the multifamily mortgages made by numerous financial institutions. The majority of our non-CMBS multifamily business is originated by primary lenders in our Program Plus® and Targeted Affordable lender networks.

Working through our networks, Freddie Mac supports the financing of affordable apartment communities across America through a variety of products and services. Some of the highlights from 2006 are described below.

*Conventional Mortgages:* Improvements in customer service and business operations along with Freddie Mac's in-demand product suite contributed to a record volume year, with $14.2 billion of conventional multifamily mortgages purchased.

For the first time, Freddie Mac's seniors housing mortgage purchases exceeded the $1 billion mark, with approximately $1.5 billion funded. Freddie Mac is a leader in the growing seniors housing market and Freddie Mac's in-house expertise and broad array of financing options enable it to efficiently execute transactions that expand the availability of affordable housing for seniors, such as the purchase of eight mortgages totaling $130 million secured by eight seniors housing properties, comprising 1,361 units in Florida, Virginia, Colorado and Ohio.

Freddie Mac's Early-Rate Lock delivery and Streamlined Refinance products performed well in 2006 with 56 percent of transactions featuring Early-Rate Lock and over $1.7 billion of Streamlined Refinances funded. Freddie Mac also made progress with its newest multifamily product enhancements, Premier Lease-Up and High-Leverage executions. These innovations, first introduced in late-2005, have allowed Freddie Mac to make permanent financing available to borrowers in the process of achieving full occupancy (Premier Lease-Up) and to more borrowers (High-Leverage), enhancing Freddie Mac's and its approved-lenders' competitive position in the marketplace. For example, in 2006 Freddie Mac purchased a $90 million portfolio of mortgages secured by five properties in the Carolinas, Georgia, and Texas using Premier Lease-Up and High-Leverage executions. These properties comprised 1,420 units, all of which are affordable to low- and moderate-income renters. Half of the tenants in the Columbia, SC units are military personnel.

Freddie Mac's continued support of the Gulf Coast region after Hurricane Katrina is a good example of Freddie Mac's ability to bring stability to the housing markets in the geographic areas most in need. In 2006, Freddie Mac provided rental housing for almost 17,000 families in the Gulf Coast region with the purchase of 55 multifamily loans totaling $733 million. Also in 2006, Freddie Mac's Multifamily Asset Resolution Department worked with our lenders to assist borrowers by providing continued forbearance and helping to reconstruct many Freddie Mac properties in the Gulf Coast regions. By the end of the year, with only one exception, all Multifamily loans in the area had been fully reinstated and all properties and dwelling units were rebuilt and available for occupancy. These properties house over 5,900 families. Freddie Mac remains committed to bringing liquidity, stability and affordability to the Gulf region as the affected areas continue to recover.

Enhancements to Services and Products

In 2006, Freddie Mac made enhancements to our services and products to better meet the need of lenders (and their borrowers) for customized Low-Income Housing Tax Credit debt, with the goal of bringing greater speed and ease of execution to the market and increasing our targeted affordable purchases.

One of our key efforts to bring speed and efficiency to the targeted affordable market is the development of a delegated underwriting program. Our approach to development includes three phases: 1) Initial; 2) Interim; and 3) Full delegation.

In the Initial phase of delegated underwriting, Freddie Mac continues to perform full underwriting contemporaneously with the lender after screening all transactions with the lender. Freddie Mac agrees to expedited centralized underwriting, and the lender agrees to underwrite pursuant to an underwriting standard contract in a master relationship agreement as well as to share risk for losses.

In the Interim phase of delegated underwriting, the lender continues to underwrite pursuant to the master agreement underwriting standard and to share risk for losses. The underwriting process is streamlined, with the lender and Freddie Mac screening all transactions and the lender thereafter performing full underwriting without contemporaneous underwriting by Freddie Mac. Freddie Mac checks the full underwriting after the closing.

In the proposed Full Delegation phase, the underwriting standard is provided by a to-be developed delegated underwriting guide. The lender no longer screens transactions with Freddie Mac but clears credit exceptions beyond the underwriting standards with Freddie

Mac. The lender performs full underwriting based on the guide and Freddie Mac checks the underwriting after the closing. As in prior phases, the lender shares risk for losses. In 2006, we increased the number of lenders approved for the Initial phase of our Delegated Underwriting Initiative, bringing the total to seven, and graduated one lender to the Interim phase. Also, based on our experience in the Initial Phase of Delegated Underwriting, we have made additional processing improvements, such as increasing the maximum individual transaction amount from $15 million to $25 million.

We continue to invest in our prior approval business as well. In 2006, we updated our Affordable Forward Commitment execution for Low-Income Housing Tax Credit transactions for both tax-exempt bond credit enhancements and cash mortgages by adding a new moderate rehabilitation execution (LIHTC Mod Rehab). The LIHTC Mod Rehab execution is designed for borrowers that are acquiring properties with affordable units and seeking to finance moderate rehabilitation while keeping their tenants in place. Its benefits include competitive pricing and access to maximum proceeds. Examples of typical Mod Rehab improvements include upgrades to the interior finish of units, lobbies and elevator cabs; new kitchen and bathroom cabinets and fixtures; new boilers and roofs; brick pointing; and parking lot resurfacing.

Preservation of Affordable Housing

Freddie Mac encourages the preservation of affordable housing not only with its new LIHTC Mod Rehab product, but also by making the full array of its conventional and affordable products available for properties with federal, state and local government subsidies. A few of Freddie Mac's many 2006 preservation success stories include the following:

Markham Gardens, Staten Island, NY: Freddie Mac provided financing through its Delegated Underwriting initiative that will help renovate a vacant Staten Island, NY, public housing complex, Markham Gardens, into 240 new apartments. The complex will accommodate a mix of incomes, with a number of the rental units reserved for Section 8 voucher recipients referred by the New York City Housing Authority, including former Markham Garden public housing tenants who want to return.

McDaniel Glen, Atlanta, Georgia: Freddie Mac issued forward commitments to fund two 30-year permanent loans for two multifamily buildings that are part of the HOPE VI revitalization of an Atlanta public housing property. McDaniel Glen is being redeveloped by The Housing Authority of the City of Atlanta and the City of Atlanta. Once constructed, the new housing, which will be called Columbia Residences and Columbia Seniors, will contain a total of 329 units consisting of mixed-income families and seniors, including those qualifying for public housing. The loans were originated and underwritten by lenders through the initial phase of Freddie Mac's Delegated Underwriting initiative. Through the use of Freddie Mac's Forward Commitment executions, the seller/servicer was able to allow the sponsor, Columbia Residential, to fix the permanent loan interest rates at initial closing, thereby eliminating interest rate risk over the 24-month construction and lease-up period.

Standardization and Securitization

Although standardization and securitization are powerful tools in the development of new Multifamily financing programs, they are not always the best solution for all types of borrowers. In certain cases the borrower's need for flexibility drives a demand for customization. Additionally, the complex nature of preservation and targeted affordable housing transactions makes standardization of these transactions difficult. Although our Delegated Underwriting initiative will not reduce the need for customization of targeted affordable deals, it does provide better guidance for underwriting and enables quicker, more efficient processing of these transactions.

Freddie Mac remains a reliable high-volume purchaser of CMBS. Our purchase activity has contributed to the progress of standardization and securitization of mortgage products for multifamily housing by giving the CMBS issuers more comfort in putting more of their money at risk during the period in which they collect multifamily mortgages for securitization. Our increased purchases of CMBS also have (i) helped to lower the spreads on multifamily mortgages originated for CMBS and (ii) led to a greater level of comfort among multifamily lenders who originate multifamily mortgages for CMBS. The lower spreads and greater level of comfort have, in turn, resulted in an increased willingness by those CMBS lenders to lend on a wider range of multifamily property types than previously securitized. Freddie Mac believes that its participation in this market has also lead to greater standardization of the due diligence requirements for multifamily properties backing the CMBS.

In order to devote the resources needed to complete the remediation of our internal control environment, Freddie Mac decided to limit the number of business related initiatives we undertook in 2006, which caused us to delay certain enhancements to our multifamily securitization products and executions. Discussed below are a few multifamily transactions in 2006 that involved enhancements to our securitization products and executions.

- Enhancing our Tax-Exempt Bond Securitization product with the introduction of the Freddie Mac Forward Tax-Exempt Bond Securitization Enhancement. The Tax-Exempt Bond Securitization (TEBS) program is a streamlined execution that brings capital market efficiencies to the affordable housing market, offering owners of multifamily housing revenue bonds the potential for larger proceeds for affordable housing transactions. Freddie Mac's Class A Multifamily Variable Rate Certificates, which it issues in connection with TEBS transactions, are fully guaranteed tax-exempt and taxable securities supported by pools of tax-exempt and taxable multifamily housing revenue bonds. Through the TEBS execution, owners of bonds are able to limit their capital exposure by exchanging their unenhanced bonds for senior Class A Certificates and subordinate Class B Certificates (the latter of which are retained by the bond owner and pledged to Freddie Mac). The Forward Tax-Exempt Bond Securitization enhancement provides all the benefits of the standard TEBS product, plus Freddie Mac's forward commitment to securitize pools of fixed-rate multifamily housing revenue bonds through the TEBS execution within a specified timeframe and within a pre-agreed fee and subordination structure. Forward TEBS combines the advantages of TEBS with certainty of both pricing and execution.

- Completing a multifamily structured securitization with features designed to accommodate and preserve some borrower flexibility for the life of the loan. The transaction allowed Freddie Mac to tap into the capital markets and distribute risk in the form of B-pieces (which are subordinated tranches with a first loss position). Following a structured securitization model used in our single-family business, the multifamily transaction involved the securitization of existing mortgages held in Freddie Mac's Retained portfolio. In the future, Freddie Mac plans to focus on new originations, particularly, both small loans and higher risk loans, thereby improving liquidity for these types of loans.

- Developing an innovative new small loan CMBS execution that enabled us to invest in over $1.4 billion of privately placed, small loan CMBS bonds. These transactions were unique in that the underlying collateral was almost exclusively small multifamily hybrid ARMs, and the bonds were structured not as conventional fixed-rate CMBS bonds, but as Weighted Average Coupon (WAC) bonds, thereby providing the originators the ability to effectively securitize and sell a more flexible (and familiar) mortgage product to owners of small multifamily properties. By investing in AAA CMBS backed by less traditional multifamily mortgage collateral, we have significantly helped increase liquidity in the small balance multifamily market and contributed to the establishment of a new sector within the multifamily mortgage securities market, all while maintaining a relatively conservative credit risk position.

## I. Information Required Under § 307(f)(2)(I)

*§ 307(f)(2)(I) requires that this report describe trends in the delinquency and default rates of mortgages secured by housing for low- and moderate-income families that have been purchased by the Corporation, including a comparison of such trends with delinquency and default information for mortgage products serving households with incomes above the median level that have been purchased by the Corporation, and evaluate the impact of such trends on the standards and levels of risk of mortgage products serving low- and moderate-income families.*

Freddie Mac's greater than 90 day delinquency rate for single-family mortgages remained low during 2006 and ended the year at 52 basis points, down from 69 basis points at year-end 2005.

Our analysis of the performance of mortgages serving low- and moderate-income families shows increasingly higher rates of delinquency and default relative to mortgages on units serving households with incomes above the median level.[27]

The data shows that the delinquency rate on mortgages to low- and moderate-income borrowers on average was about 2.1 times higher than the rate on mortgages to higher income borrowers with respect to mortgages acquired during years 1996-2005. Since 2001, as eligibility for higher risk mortgage products has expanded, the relative delinquency rate on mortgages to low- and moderate-income families has become worse.

For mortgages acquired by Freddie Mac in 2005, the delinquency rate on mortgages to low- to moderate-income borrowers was 1.7 times higher than the rate on mortgages to higher income borrowers.[28] The relative default rate is also consistently higher on mortgages for low- to moderate-income borrowers than on mortgages for higher income borrowers with performance becoming significantly worse since 2000.[29] Freddie Mac

[27] The information presented in this section and in Exhibit 15 is based upon an analysis of a sample of unseasoned, conforming, conventional, forward amortizing, first liens, non graduated equity mortgages/graduated payment mortgages. The delinquency (default) rates presented in Exhibit 15 were determined by dividing mortgages serving low- and moderate-income families by the delinquency (default) rates for mortgages serving households with incomes above the median level. Delinquency is defined as the borrower ever being 90 or more days delinquent on the mortgage within 12 months of Freddie Mac's acquisition. Default is defined as a foreclosure, deed-in-lieu of foreclosure, or third party sale occurring at any point since Freddie Mac acquired the mortgage. With respect to the delinquency rate, we analyzed only the performance during the first year so that we could present a trend over time that avoided commingling mortgages of different ages. The analysis presented here does not control for other risk factors, such as LTV or credit history.

[28] For mortgages acquired by Freddie Mac in 2005, the delinquency rate on mortgages to low- to moderate-income borrowers was 0.51 percent, the rate on mortgages to higher income borrowers was 0.29 percent and the overall rate on single-family owner-occupied mortgages was 0.38 percent.

[29] As of December 31, 2006 (and with respect to mortgages acquired since 1996), the default rate on mortgages to low- to moderate-income borrowers was 0.77 percent, the rate on mortgages to higher income

regularly evaluates the delinquency and default rates of mortgages secured by housing for low- and moderate-income families. Freddie Mac uses this information to update our underwriting and eligibility requirements for our affordable mortgage products to ensure that lenders apply prudent underwriting standards when qualifying prospective borrowers.

## Exhibit 15:
## Lower Income Borrowers Default More Frequently Than Higher Income Borrowers

*Delinquency and Default Rate Of Lower Income Borrowers (below median income) Relative to the Delinquency and Default Rate of Higher Income Borrowers (above median income)*

| Year of Acquisition | Relative Delinquency Rate | Relative Default Rate |
|---|---|---|
| 1996 | 1.5 | 1.6 |
| 1997 | 1.7 | 1.7 |
| 1998 | 1.5 | 1.8 |
| 1999 | 1.7 | 1.8 |
| 2000 | 1.9 | 2.5 |
| 2001 | 1.9 | 2.5 |
| 2002 | 2.8 | 3.7 |
| 2003 | 2.7 | 4.1 |
| 2004 | 2.3 | 3.6 |
| 2005 | 1.7 | 3.1 |
| Average | 2.1 | 2.4 |

Source: Internal Freddie Mac delinquency study.

Note: Exhibit 15 displays the delinquency and default performance of lower income borrowers, as compared with the delinquency and default performance of higher income borrowers. The relative delinquency and default rates presented in the Exhibit were determined by dividing the delinquency (default) rates for mortgages serving low- and moderate-income families by the delinquency (default) rates for mortgages serving households with incomes above the median level.

See footnote 27 for additional explanation of the definitions and methodology related to this Exhibit.

borrowers was 0.32 percent and the overall rate on single-family owner-occupied mortgages was 0.49 percent.

## J. Information Required Under § 307(f)(2)(J)

*§ 307(f)(2)(J) requires that this report describe in the aggregate the seller and servicer network of the Corporation, including the volume of mortgages purchased from minority-owned, women-owned, and community-oriented lenders, and any efforts to facilitate relationships with such lenders.*

Freddie Mac purchases mortgages from a network of almost 2,300 lenders, benefiting borrowers across the U.S. and its territories. Freddie Mac purchases mortgages from all major lender types. Some of these firms sell mortgages to Freddie Mac regularly, while others sell to us only occasionally. Of the total Seller network, almost 1,100 lenders sold mortgages to us in 2006. Minority- or women-owned lenders comprised approximately four percent of the lenders in Freddie Mac's network at the end of 2006, and community-oriented lenders comprised approximately 89 percent of the lenders in Freddie Mac's network at the end of 2006.

In 2006, we purchased approximately $10 billion of mortgages from community lenders and approximately $50 billion of mortgages from regional lenders, which includes mortgages we purchased from minority- and women-owned lenders. Freddie Mac purchased almost $1.3 billion of mortgages from minority -and women-owned lenders in 2006. In 2006, Freddie Mac created a cross-divisional team to evaluate approaches and provide recommendations designed to increase both the number of minority-owned lenders that sell to Freddie Mac, and the number of mortgages that we purchase from these lenders. That team will continue its work in 2007.

Freddie Mac renewed and enhanced its relationship with the National Association of Professional Mortgage Women (NAPMW) in 2006, entering into a new educational alliance and becoming NAPMW's top sponsor. NAPMW is a nationwide organization of approximately 4,000 mortgage professionals that focuses on the professional development of its members through training and mortgage certifications. Through the alliance, NAPMW members are benefiting from a variety of both on-site and web-based educational courses, as well as customized classes provided by Freddie Mac.

In 2006, Freddie Mac continued its efforts to facilitate relationships with community-oriented lenders. To that end, we renewed and enhanced our Community Lending Alliances with the American Bankers Association, America's Community Bankers, the Independent Community Bankers and the Credit Union National Association. The alliances are negotiated collectively, which allows small, community-based institutions to have greater access to the secondary mortgage market on terms that would be more difficult for the institutions to obtain individually. The alliances help participating lenders improve their mortgage origination capabilities, by providing them with access to a comprehensive package of product offerings, tools and services. Over 500 lenders are currently taking advantage of the alliance offerings provided by Freddie Mac. In 2006, approximately 13 percent of the dollar volume of mortgages that Freddie Mac purchased from community and regional lenders came from participants in one of the Community Lending Alliances.

## K. Information Required Under § 307(f)(2)(K)

*§ 307(f)(2)(K) requires that this report describe the activities undertaken by the Corporation with non-profit and for-profit organizations and with State and local governments and housing finance agencies, including how the Corporation's activities support the objective of comprehensive housing affordability strategies under section 105 of the Cranston-Gonzalez National Affordable Housing Act.*

### National Initiatives

Freddie Mac undertakes numerous activities on behalf of our lender customers in support of affordable housing, with state and local governments, housing finance agencies, and a wide variety of non-profit and for-profit organizations. The following section describes some of the initiatives we launched in 2006, as well as developments concerning some of our ongoing activities.

#### Mortgage Revenue Bonds and Housing Finance Agencies

In 2006, Freddie Mac made a series of targeted investments in approximately $3 billion of single-family mortgage revenue bonds (MRBs) issued by various state and local housing finance agencies (HFAs). Although these purchases did not qualify for the affordable housing goals, we bought these MRBs as part of our effort to support affordable housing, as the HFAs are required to use the proceeds from the sales of the MRBs to originate below-market interest rate mortgages to very low-, low- and moderate-income first-time homebuyers.

Our purchases provide liquidity for such bonds, which helps the HFAs ensure continued availability of lower-cost financing for first-time homebuyers with limited incomes. In turn, this promotes neighborhood stability and revitalization through increased homeownership.

We also purchased approximately $116 million in newly issued multifamily MRBs from 6 different state, county and local housing agencies. These bonds are issued by state, county or city government agencies to finance mortgages on properties owned by nonprofit entities or other owners that agree to keep rents at affordable levels.
In 2006, Freddie Mac began to work with state and local HFAs and national lenders (serving as master servicers) to include the use of Freddie Mac PCs as collateral for single family mortgage revenue bonds. Subsequently, those efforts lead to those master servicers swapping approximately $139 million of mortgages originated by lenders pursuant to a Mortgage Revenue Bond program for Freddie Mac PCs. These PCs helped support first time homebuyers in states such as Washington and Delaware.

For Freddie Mac, supporting HFAs has become increasingly important to our efforts to expand affordable homeownership opportunities for low- to moderate-income homebuyers and minority and immigrant families in underserved markets.

By fall 2006, Freddie Mac had fulfilled its commitment to purchase $1 billion in MRBs from housing finance agencies in Alabama, Florida, Louisiana, Mississippi and Texas to assist in the process of rebuilding following the Gulf Coast hurricanes. The MRBs are being used to help provide low-cost mortgage financing through participating lenders for more than 10,000 families in those states.

Financial Literacy Outreach

Freddie Mac makes available to local and national organizations a comprehensive financial education curriculum – *CreditSmart®* and *CreditSmart Español*. Freddie Mac believes that by educating consumers about smart credit habits and helping them understand the importance of obtaining and maintaining good credit, we can empower them with the skills and information necessary to achieving homeownership.

*CreditSmart* and *CreditSmart Español* are a consumer education and community-based outreach and education curriculum focused on helping consumers get and keep good credit. *CreditSmart* and *CreditSmart Español* educate consumers about credit and money management, provide insight into how lenders assess credit histories, and explain the role of credit in achieving financial goals.

Freddie Mac provides *CreditSmart* and *CreditSmart Español* to consumers and potential homebuyers in collaboration with homebuyer education providers, lenders, real estate professionals, churches, African American and Hispanic organizations, colleges, and universities. The curricula are available on www.freddiemac.com.

Working in tandem with nonprofit organizations, Freddie Mac initiated 90 lender initiatives in 2006 utilizing the *CreditSmart* and *CreditSmart Español* tools. For example, in 2006, Freddie Mac teamed up with two non-profit organizations to offer *CreditSmart* financial education workshops to their members. In the first initiative, Freddie Mac worked with Esperanza USA, a Hispanic faith-based organization, to provide *CreditSmart* financial education workshops in Philadelphia and Allentown/ Bethlehem, PA, and Camden, NJ. Over 900 consumers attended these workshops. In the second initiative, Freddie Mac worked with the Fraternal Order of Police (FOP) to make *CreditSmart* financial education workshops available to FOP members in eight cities across the United States: Albuquerque, Chicago, Columbus, Miami, Philadelphia, Pittsburgh, St. Louis, and Washington, DC. Over 115 FOP members in these cities were trained to conduct the workshops, and the 56,000 members in these cities will be encouraged to participate in them.

Five years after the *CreditSmart* curriculum was officially launched, Freddie Mac convened a symposium to discuss financial education challenges facing communities nationwide; more than 200 key decision-makers from nonprofits, government agencies, and other community organizations attended the symposium. At the symposium, Freddie Mac announced the winners of its inaugural 2006 Successful Models in Financial Education Awards and its Champions of Financial Literacy Awards. Four organizations were awarded with Successful Models in Financial Education Awards, which recognize exemplary achievements in the field of financial education.

Welcome Home

In September 2004, Freddie Mac, in collaboration with the Mortgage Bankers Association, the National Puerto Rican Coalition, the Department of Defense, and four sponsoring lending institutions—BB&T, CitiMortgage, GMAC, and U.S. Bank Home Mortgage—launched *Welcome Home*, a free web-based training and employment initiative that prepares Spanish-speaking military personnel for potential post-service careers in mortgage loan origination, brokering, servicing, and processing. In 2005, family members of service men and women became eligible to participate in Welcome Home.

*Welcome Home* is designed to enable the mortgage finance industry to better serve the fast growing population of Hispanic borrowers by creating a trained group of bilingual candidates for employment in the residential and commercial lending industry. This initiative demonstrates Freddie Mac's commitment to be an industry leader by improving all aspects of mortgage financing service for Hispanic borrowers.

As of December 2006, 466 service men and women and family members had signed up for *Welcome Home* and begun coursework on the path to becoming trained mortgage industry professionals. The total enrollment of *Welcome Home* has more than doubled since December 2005 as a result of a comprehensive marketing plan, including outreach on military bases and coverage through Hispanic media outlets, begun late in 2005 to increase awareness of the initiative. Several other lenders, in addition to the four lead sponsoring lenders, have signed up as participating employers who will provide employment screenings for graduates of *Welcome Home*.

Workforce Home Benefit

Freddie Mac's *Workforce Home Benefit* initiative is a "turnkey" approach to developing and implementing employer-assisted homeownership (EAH) plans. These plans provide employers with a way to help get their employees into homes of their own, and also expand homeownership opportunities for lower-income families, first-time homebuyers and other traditionally underserved groups. Since the inception of Workforce Home Benefit in 2004, we have helped to develop and implement 38 employer-assisted homeownership initiatives throughout the U.S.

Our *Workforce Home Benefit* initiative assists employers in designing, implementing and administering an EAH plan for their employees. As part of these initiatives, Freddie Mac may help employers identify organizations that can provide homebuyer education, financial literacy and credit counseling to their employees. Freddie Mac offers a full range of affordable mortgage products that may be used in conjunction with an EAH plan. These initiatives also feature employer assistance with down payment and closing costs, and access to the participating lenders' affordable mortgage products.

In the fall of 2005, HUD reviewed how *Workforce Home Benefit* initiatives worked and our role in them. We discontinued pending *Workforce Home Benefit* initiatives while

HUD engaged in that review. In early 2006, HUD provided us with guidance on marketing our *Workforce Home Benefit* initiatives and advised that we may proceed with all pending initiatives taking into account HUD's guidance as we go forward. We therefore have resumed working with organizations toward establishing *Workforce Home Benefit* initiatives.

Don't Borrow Trouble®

*Don't Borrow Trouble* is a comprehensive consumer awareness campaign that combines public education and counseling services to help homeowners avoid predatory lending practices. Each *Don't Borrow Trouble* campaign uses a combination of ads, billboards, websites, and public service announcements in English and Spanish to educate borrowers about predatory lending practices and encourage them to call a 1-800 number for referrals to local government and non-profit agencies to help them understand and resolve specific lending problems. We believe it is the most comprehensive consumer awareness/foreclosure prevention campaign of its kind.

*Don't Borrow Trouble* was pioneered in Boston by Mayor Thomas M. Menino and the Massachusetts Community & Banking Council. Since 2000, Freddie Mac has been expanding the *Don't Borrow Trouble* campaign nationwide. For each state or locality that launches a *Don't Borrow Trouble* campaign, Freddie Mac provides seed funding, marketing assistance, and a bilingual *Don't Borrow Trouble* toolkit of media materials to be adapted to the specific needs of the locality. Freddie Mac has also funded on-site training provided by the National Consumer Law Center to prepare members of the local referral networks to respond to calls. Local officials and leaders of community-based organizations at each of the sites take the lead in creating local coalitions to collaborate on the campaign, assembling a local referral network, raising additional funds and managing the day-to-day operation of the campaigns.

Six new *Don't Borrow Trouble* campaigns were launched in 2006, of which two were statewide campaigns. Since we began expanding *Don't Borrow Trouble* in 2000, almost 50 local and statewide campaigns have been launched and these campaigns have assisted more than 100,000 consumers across the U.S.

Mobile Homeownership and Outreach Center (e-Bus)

Freddie Mac is working with Washington Mutual, BB&T, and Fifth Third Bank to sponsor the Mobile Homeownership and Outreach Center or e-Bus initiative. Each e-Bus is a full size commercial bus retrofitted as a self-contained mobile homeownership center with computer workstations and Internet connectivity. The e-Bus helps deliver homeownership guidance and financial education to minority and low-to-moderate income consumers in the communities where they live. On the e-Bus, consumers have the opportunity to speak with mortgage experts to get a personalized evaluation of their finances and qualifications for a mortgage, as well as help filling out a mortgage application. In 2006, over 30,000 consumers received information through the e-Bus initiative.

## Get the Facts!

*Get the Facts!,* formerly known as *Homeownership: Let the TRUTH Move You*, is a dynamic outreach and education initiative intended to dispel common misconceptions about buying and owning a home in America. At the core of *Get the Facts!* is an interactive workshop designed to break down barriers of misinformation that keep African-American and Hispanic families from exploring homeownership as a possibility. The workshop is based on a Freddie Mac survey that revealed that minority households have extensive misunderstandings regarding the home buying process.

*Get the Facts!* is typically delivered by community-based organizations as a one-hour workshop and preamble to homebuyer education. In 2006, *Get the Facts!* was implemented in 29 locations across the U.S.

## Nuestro Barrio

*Nuestro Barrio* (Our Neighborhood) is a Spanish-language 13 episode TV mini-series about Hispanic life in the United States that uses the telenovela, or soap opera format to engage and educate consumers on financial literacy, predatory lending and homeownership. This broadcast quality product with English subtitles was produced by Community Reinvestment Association of North Carolina's Media Advocacy division and made possible by Freddie Mac.

Freddie Mac sponsored the production of *Nuestro Barrio* as part of its efforts to reach more Hispanic households and provide them with information about the homeownership and the homebuying process. With the growing demographic trend of the Hispanic community, Freddie Mac is committed to ensuring that homeownership is accessible to this segment of the population.

In 2006, *Nuestro Barrio* aired in North Carolina, South Carolina, four markets in Texas, and Miami Florida, with three lenders co-sponsoring the broadcast. Local grass roots efforts were also used to help promote the show.

## State and Local Initiatives

In concert with our lender customers, state and local governments, and other organizations, Freddie Mac undertakes numerous initiatives designed to increase homeownership opportunities in minority and underserved communities in states and localities across the country. The following section describes some of the initiatives we launched in 2006, as well as new developments concerning some of our ongoing activities.

Outreach and Education Initiatives

The Fort Drum Homeownership Initiative, an initiative involving Freddie Mac, Fort Drum's Housing Office, Neighbors of Watertown and HSBC Mortgage (USA), represents a formal collaboration between military, community and financial institutions to address a housing need. Growth at Fort Drum, as well as the return of thousands of soldiers from Iraq and Afghanistan in early 2007, is causing an unprecedented surge in the population of Fort Drum and the surrounding communities. The goal of the initiative is to expand homeownership opportunities for soldiers and their families, by combining a customized, on-site homeownership program with creative, affordable mortgage products.

Freddie Mac's *Credit Matters: Be Smart About It* financial literacy public service campaign targets minority families in the Nashville metropolitan area. The campaign informs and educates consumers about credit, money management and homeownership through a series of radio and television public service announcements, *Credit Smart* workshops and homeownership counseling. Key participants in the initiative include the Tennessee Department of Financial Institutions, AmSouth Bank, the Nashville Chapter of the Urban Financial Services Coalition (UFSC), 15th Avenue CDC, New Level CDC, Residential Resources and the Urban League of Middle Tennessee.

Initiatives with Faith-Based Organizations

We believe that faith-based organizations can be well positioned to help underserved and minority borrowers and communities realize the dream of homeownership, as those organizations can serve as trusted intermediaries. Freddie Mac and certain lenders have created initiatives with faith-based organizations that are designed to increase homeownership opportunities for their congregants. In these initiatives, Freddie Mac generally provides organizational assistance and consumer education training packages, but does not have any contact with potential borrowers (the actual workshops are typically conducted by lenders or members of the faith-based organization). One example of such an initiative is *Dallas Home Start!*, in which Freddie Mac collaborated with the Metroplex Economic Development Corporation and Bank of America to provide financial literacy education and homeownership counseling to members of the Potter's House, a nondenominational church located in Dallas. Under the initiative, participants can attend Freddie Mac's *Credit Smart* and *Get the Facts* workshops conducted by the Metroplex Economic Development Corporation. Bank of America provided special affordable mortgage products to the participants of this initiative. The initiative was launched with a financial empowerment event that brought 300 individuals to participate in the workshops from throughout the Dallas metropolitan area.

Neighborhood Revitalization Initiatives

Freddie Mac has created a number of neighborhood revitalization efforts that work in conjunction with rehabilitation and new construction initiatives.

Capitol Quarter will be a new mixed income community made up of 323 market-rate townhomes, workforce homes, and affordable rental units in a former public housing site in the southwest area of Washington, DC. Capitol Quarter workforce housing program will feature 91 workforce homes priced between $295,000 and $350,000. The workforce housing units will be reserved for households meeting set income guidelines. A select number of these workforce units have been identified to assist Washington, DC government employees earning between 80% and 115% of area median income, or approximately from $65,067 to $103,883. This comprehensive workforce housing initiative also provides potential homebuyers with special, flexible mortgage products (including Freddie Mac's Home Possible Neighborhood Solutions products) and assistance with down payment and closing costs. HomeFree USA will provide homebuyer education, financial literacy, and borrower preparation as needed for Washington, DC government employees seeking to purchase homes in Capitol Quarter. Freddie Mac's Workforce Home Benefit toolkit and "Get the Facts" workshops were integrated into HomeFree USA's outreach and educational programs.

Freddie Mac, in collaboration with the City of Gainesville, University of Florida, a mortgage lender and local community-based organizations, launched a neighborhood rehabilitation initiative to expand homeownership opportunities for low- and moderate-income minority families in Gainesville. The goal of the initiative is to revive the neighborhood by building new and rehabilitating existing empty homes within the City of Gainesville, which will be made available to qualified, mainly first-time, low-to moderate-income homebuyers. These potential homebuyers will be offered affordable low-down payment mortgages, homeownership workshops and counseling, and assistance with down payment and closing costs. The estimated completion date is 2009.

<u>Minority Homeownership Initiatives</u>

In an effort to increase homeownership opportunities for minority families, Freddie Mac works with various public and private organizations to implement homeownership initiatives in minority communities across the country. For example, the Nevada Latino Homeownership Initiative is a coordinated effort among Freddie Mac, the National Association of Hispanic Real Estate Professionals, Wells Fargo Home Mortgage Corporation and various local organizations that is designed to expand homeownership opportunities for Latino families throughout Nevada. The homeownership rate for Latinos in Nevada remains significantly below non-minority homeownership rates. Latino families face multiple barriers to homeownership, including language and cultural barriers, non-traditional credit references, and a lack of understanding about the home buying process. This initiative is designed to address these barriers and close this homeownership gap. As part of the initiative, real estate professionals will receive information about how to reach and serve Latino homebuyers more effectively. The initiative will also provide prospective Latino homebuyers with access to flexible mortgage products, homeownership counseling and information about homeownership programs and services throughout Nevada, including state and local subsidy programs for homebuyers. Freddie Mac's role in this initiative included (i) bringing the parties together to promote this initiative; (ii) assisting in the creation of the training curriculum; and (iii) providing funding to help finance this initiative.

In the Your Place in the Sun Initiative, Freddie Mac, Charter Mortgage and the United South Broadway Corporation joined forces to increase homeownership opportunities for underserved households in greater Albuquerque. The initiative included a dynamic direct mail campaign that was specifically crafted for each recipient. The direct mail invited minority households, specifically Hispanic, to attend Get the Facts of Homeownership Workshops created to dispel common misconceptions about buying and owning a home. Freddie Mac's Loan Prospector Outreach is used to determine an attendee's readiness to apply for a mortgage and the amount of homeownership counseling required in connection with the application process.

Asians represent the second fastest growing minority population in the U.S., and many of these immigrant households will become homeowners in the coming decades. Freddie Mac in collaboration with the Asian Real Estate Association of America (AREAA) launched at the end of 2005 a new demonstration minority lending initiative to increase homeownership opportunities for Asian American households in three locations – Chicago, Houston and Southern California. The AREAA demonstration initiative was inspired by findings from a series of focus groups that Freddie Mac sponsored to gain a better understanding of Asian American home buying behaviors and challenges. The report can be found on the Freddie Mac website at www.freddiemac.com/corporate/reports. At each of the three locations, the common features of this initiative will include the following: a nonprofit counseling agency, which will provide homeownership counseling and education; a lender, which will offer a comprehensive mix of affordable mortgage products and services; a mortgage insurance company, which will make private mortgage insurance available; and local AREAA members, who will assist homebuyers in locating affordable properties and direct them to participating lenders.

Public Housing to Homeownership Initiatives

Freddie Mac recognizes the importance of developing public/private efforts to raise awareness among families that may believe homeownership is not a possibility. For example, the ERDA Homes Homeownership Initiative is an innovative outreach campaign serving the 30,000 residents of Queensbridge, Ravenswood and Astoria public housing developments in Queens, NY. The initiative provides tools and support for public housing residents who may be financially ready to become homebuyers, or who may be interested in moving toward homeownership but face long-term obstacles. The initiative is designed to help participants develop relationships with mainstream financial institutions, establish short-term and long-term financial goals, repair credit and learn about what it takes to become a homeowner. Participants receive personalized financial planning, technical assistance, and the tools and support they need to attempt to repair credit, secure a mortgage and ultimately purchase a home. The ERDA Homes Homeownership Initiative is a collaboration among the East River Development

Alliance, the Neighborhood Housing Servicers of Northern Queens, Chase Home Finance, and Freddie Mac.

The Kiryas Joel Homeownership Initiative is designed to increase the rate of homeownership in Orange County, NY using Freddie Mac's Home Possible suite of affordable mortgage products and HUD's Section 8 Housing Choice Voucher Program. This initiative is a joint effort by Freddie Mac, Kiryas Joel Community Housing Development Organization (KJCHDO) and the Hemisphere National Bank. KJCHDO serves as the lead coordinator for the initiative and is providing pre- and post-purchase counseling as well as up to $8,000 in closing costs assistance. The Village of Kiryas Joel Housing Authority is administering the Section 8 Housing Choice Voucher Program. Hemisphere National Bank is offering the Home Possible mortgage products in conjunction with this initiative. The Village of Kiryas Joel was founded in the early 1970's by approximately 100 Hasidic Jewish families who migrated from New York City. Since that time, the population has increased dramatically, and Kiryas Joel is now home to more than 17,000 residents, most of whom are Orthodox Jews.

Homeownership Education and Counseling

Freddie Mac has been a leader in supporting homeownership education and counseling. We conducted the first empirical study convincingly demonstrating that pre-purchase homeownership education and counseling lowers borrower delinquency rates. As described below, during 2006 we continued to support the homeownership education and counseling industry by providing tools to help counselors service more potential homebuyers and provide more consistent homeownership counseling.

One of the tools Freddie Mac offers is *CounselorMax Supported by Freddie Mac*, which is designed to help housing counselors enhance their capacity and productivity. *CounselorMax* is a web-based case management tool for housing counselors that is owned and operated by EMT Applications. Freddie Mac provides enhanced support to select counseling agencies using *CounselorMax* in conjunction with Freddie Mac initiatives. Currently, over 280 housing counseling agencies use *CounselorMax Supported by Freddie Mac*.

To help ensure that homeownership counseling is consistent, Freddie Mac continued to offer *Loan Prospector Outreach* (*LPO*), an on-line client assessment tool. *LPO* helps counselors quickly and accurately assess the readiness of their clients to apply for a mortgage, offers information to shape pre-purchasing counseling, and helps ensure that consumers seek affordable mortgage products. The housing counselor first inputs the client's data in *LPO*, then reviews the client's credit history, and considers the various financing and mortgage options. *LPO* automatically conducts a client assessment in minutes, indicating whether an applicant is ready to apply for a mortgage or requires additional pre-purchase counseling. When the client is ready to apply for a mortgage, *LPO* allows the housing counselor to print out a certificate signifying that they are ready to apply for a mortgage. A lender is then able to access the client's data through LoanProspector.com in order to make a lending decision.

Cranston-Gonzalez National Affordable Housing Act

Initiatives like those described above in this Section K could support the objective of comprehensive housing affordability strategies under §105 of the Cranston-Gonzalez National Affordable Housing Act.