

ANNUAL HOUSING ACTIVITIES REPORT FOR 2005

FEDERAL HOME LOAN MORTGAGE CORPORATION

MARCH 16, 2006

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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 2005 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 disclosed in the related discussion) is derived from, and qualified by reference to, certain tables included in Freddie Mac's 2005 Annual Mortgage Report (2005 AMR), which is being delivered to HUD concurrently with this report. Some of the tables in the 2005 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 of the 2005 annual housing goals² and home purchase subgoals established by HUD. Our success was due to favorable market conditions and our continued efforts to extend the benefits of the mortgage market to very low-, low- and moderate-income families and people living in underserved areas.

Freddie Mac's performance on the annual housing goals for 2005:

- Low- and Moderate-Income Goal

54.1 percent of the units financed by Freddie Mac's mortgage purchases in 2005 were affordable to low- and moderate-income families. These purchases totaled \$202 billion and financed housing for 1.8 million families. The low- and moderate-income housing goal for 2005 was 52 percent of the total number of units financed by our mortgage purchases.

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 share 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.

- Underserved Areas Goal

42.2 percent of the units financed by Freddie Mac's mortgage purchases in 2005 were located in underserved areas. These purchases totaled \$194 billion and financed housing for 1.5 million families. The underserved areas goal for 2005 was 37 percent of the total number of units financed by our mortgage purchases.

- Special Affordable Housing Goal

24.5 percent of the units financed by Freddie Mac's mortgage purchases in 2005 were affordable to low-income families in low-income areas or to very low-income families. These purchases totaled \$68 billion and financed housing for 836 thousand families. The special affordable housing goal for 2005 was 22 percent of the total number of units financed by our mortgage purchases.

In addition, \$11.4 billion of the mortgages purchased by Freddie Mac in 2005 were qualifying multifamily mortgage purchases for purposes of the multifamily special affordable subgoal. For 2005, the 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 2005:

- Low- and Moderate-Income Subgoal

46.9 percent of the single-family, owner-occupied home purchase mortgages financed by Freddie Mac during 2005 were affordable to low- and moderate-income families. The low- and moderate-income subgoal for 2005 was 45 percent of the total number of single-family, owner-occupied home purchase mortgages financed by Freddie Mac during 2005.

- Underserved Areas Subgoal

35.4 percent of the single-family, owner-occupied home purchase mortgages financed by Freddie Mac during 2005 were in underserved areas. The underserved areas subgoal for 2005 was 32 percent of the total number of single-family, owner-occupied home purchase mortgages financed by Freddie Mac during 2005.

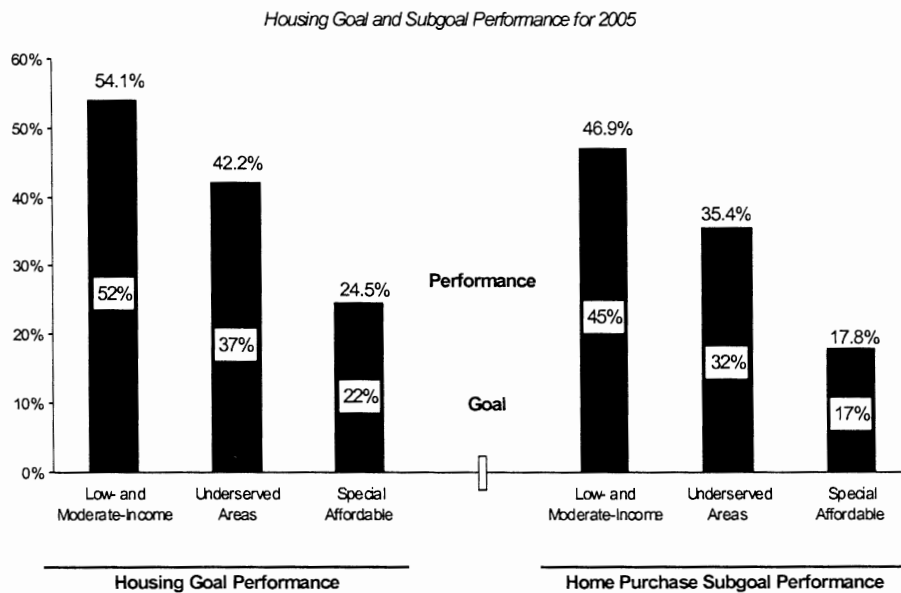
- Special Affordable Housing Subgoal

17.8 percent of the single-family, owner-occupied home purchase mortgages financed by Freddie Mac during 2005 were affordable to low-income families in low-income areas or to very-low-income families. The special affordable housing subgoal for 2005 was 17 percent of the total number of single-family, owner-occupied home purchase mortgages financed by Freddie Mac during 2005.

In 2005, Freddie Mac purchased a total of 3,418,289 mortgages on single-family properties, and a total of 2,781 mortgages on multifamily properties.³

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 28.8 percent of the total single-family units qualifying for the 2005 housing goals.⁴ Purchases of commercial mortgage-backed securities (CMBS) accounted for 55.1 percent of the total multifamily units qualifying for the 2005 housing goals.

Exhibit 1 Freddie Mac’s Performance on the 2005 Housing Goals and Subgoals



Freddie Mac’s 2005 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

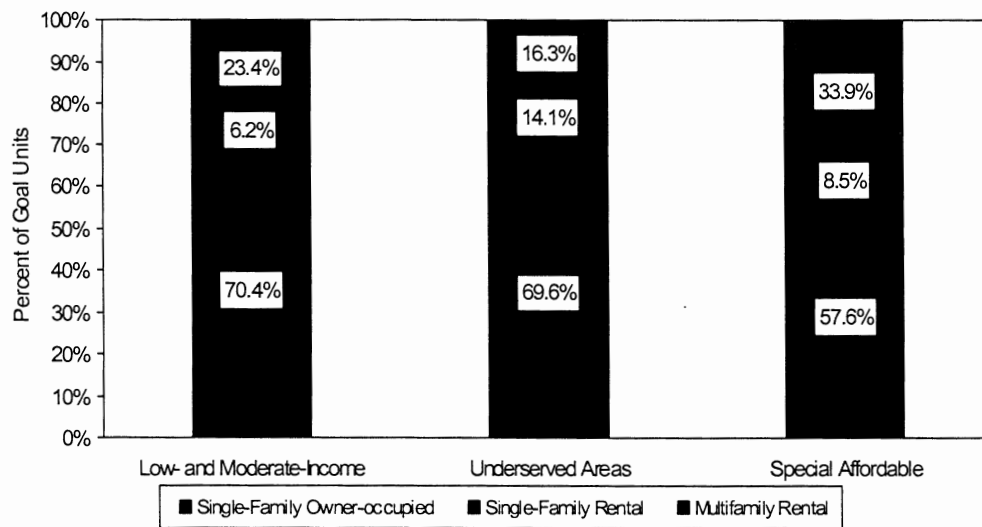
³ The vast majority of these mortgages were eligible to count towards the housing goals. See Tables 1 of the 2005 AMR for more information.

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, mortgage backed securities (MBS) and other securities to Freddie Mac’s 2005 affordable housing goals and other affordable housing activities.

rental units. Approximately 29.6 percent of the total units meeting the low- and moderate-income housing goal were rental units. Of those rental units, multifamily units (properties with five or more units) contributed 23.4 percent to that goal while rental units in single-family properties contributed 6.2 percent. Rental properties (both single-family rental and multifamily rental) contributed 30.4 percent to the accomplishment of the underserved areas housing goal and 42.4 percent to the accomplishment of the special affordable housing goal.

Exhibit 2 Freddie Mac's Housing Goal Purchases Support Rental Housing

Property Type Contribution to 2005 Goal Accomplishments



Source: Table 1 of the 2005 AMR

Exhibit 3 shows the dollar volume and number of units that we financed for owner-occupied and rental properties related to each of the annual housing goals.

Exhibit 3

Freddie Mac's 2005 Mortgage Purchases Meeting Affordable Housing Goals

	Low- and Moderate-Income Housing Goal		Underserved Areas Housing Goal		Special Affordable Housing Goal	
	Volume (\$ billions)	Units Financed	Volume (\$ billions)	Units Financed	Volume (\$ billions)	Units Financed
Single-Family	\$181.6	1,411,056	\$182.1	1,280,887	\$56.9	552,621
Owner-Occupied	\$170.8	1,296,197	\$161.2	1,065,416	\$51.2	481,420
Rental	\$10.8	114,859	\$20.9	215,471	\$5.6	71,201
Multifamily Rental	\$19.9	430,607	\$11.5	250,215	\$11.4	283,570
Total	\$201.6	1,841,663	\$193.6	1,531,102	\$68.3	836,191

Source: Table 1 of the 2005 AMR

Note: 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. Columns may not sum because of rounding.

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

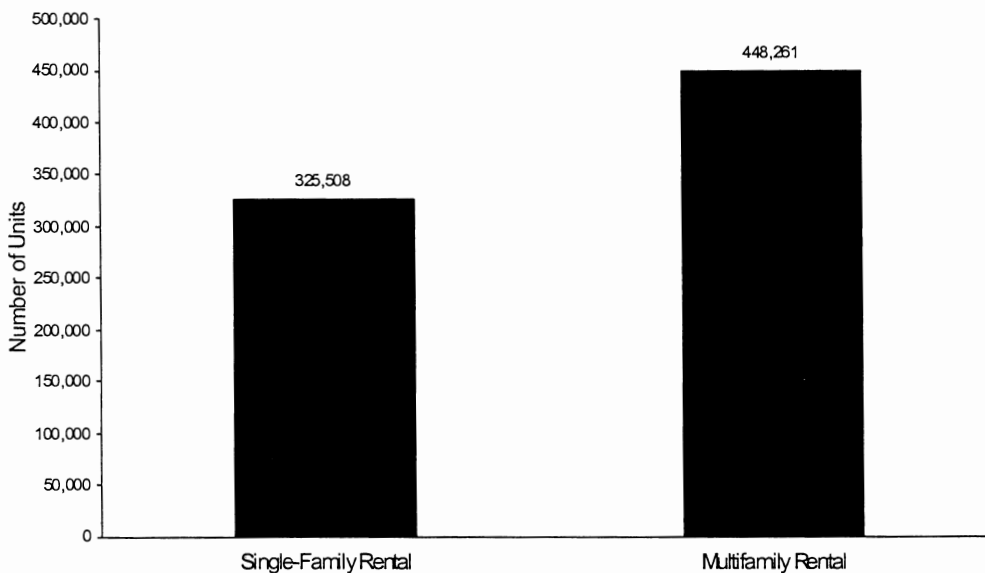
§ 307(f)(2)(B) requires that this report include, in aggregate form and by appropriate category, statements of the number of families served by the Corporation, the income class, race, and gender of homebuyers served, the income class of tenants of rental housing (to the extent such information is available),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

Number of Families Served

Freddie Mac's mortgage purchases during 2005 financed an aggregate of 3,766,554 units of housing, consisting of 2,992,784 units of owner-occupied housing and 773,769 units of rental housing. Exhibit 4 shows that Freddie Mac's purchases of mortgages funding rental housing support 325,508 rental units (42.1 percent) in single-family properties and 448,261 rental units (57.9 percent) in multifamily properties.

Exhibit 4
Freddie Mac Purchases Support Both Single-Family
and Multifamily Rental Opportunities

Number of Single-Family and Multifamily Rental Units Financed by Freddie Mac in 2005

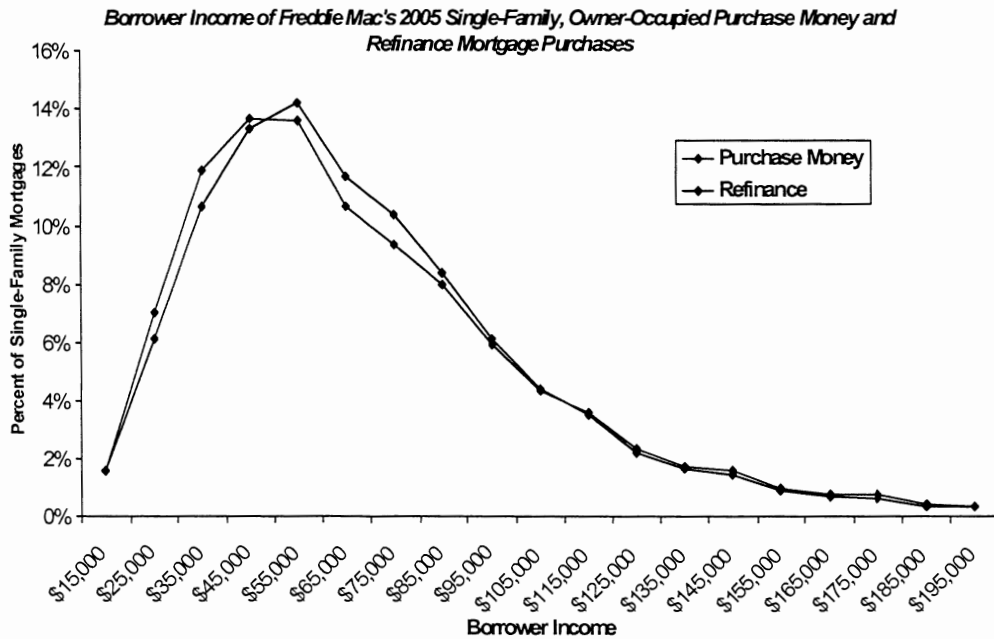


Source: Table 1 of the 2005 AMR

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 2005 generally ranged between \$10,000 and \$200,000. The mean income of families with home purchase mortgages purchased by Freddie Mac was \$72,237; the mean income of families with refinance mortgages purchased by Freddie Mac was \$72,242.

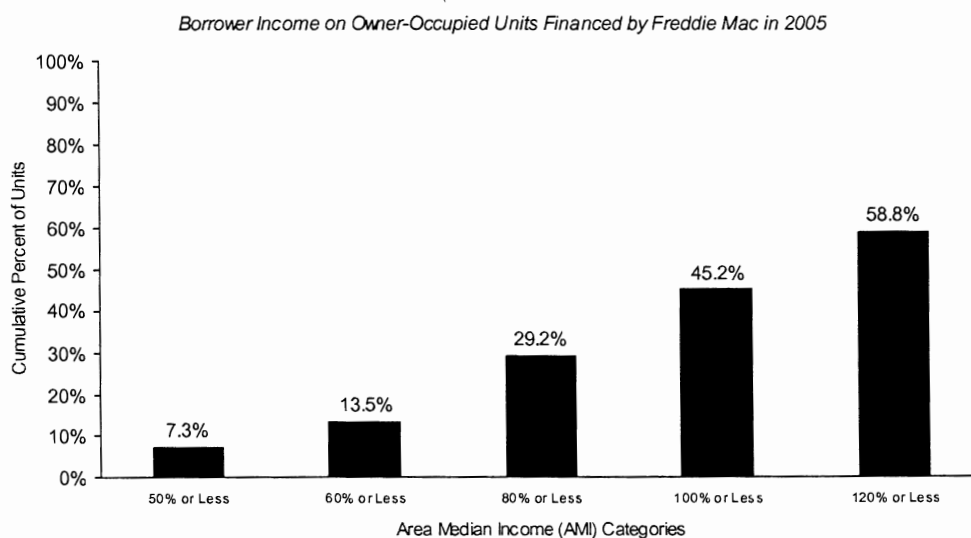
Exhibit 5 Freddie Mac Serves Borrowers of All Incomes



Source: Internal Freddie Mac data analysis of 2005 performance information

During 2005, Freddie Mac purchased single-family mortgages supporting almost three million owner-occupied units of housing. Of those units for which we have income information, 45.2 percent (1,311,950 units) were affordable to families with income at or below 100 percent of the area median income.⁵ As can be seen from Exhibit 6, 7.3 percent (210,624) were affordable to families whose incomes were 50 percent or less of the local area median income, and 29.2 percent (845,490 units) were affordable to families whose incomes were 80 percent or less of the local area median income.

Exhibit 6 Freddie Mac Supports Affordable Homeownership



Source: Table 2 of the 2005 AMR

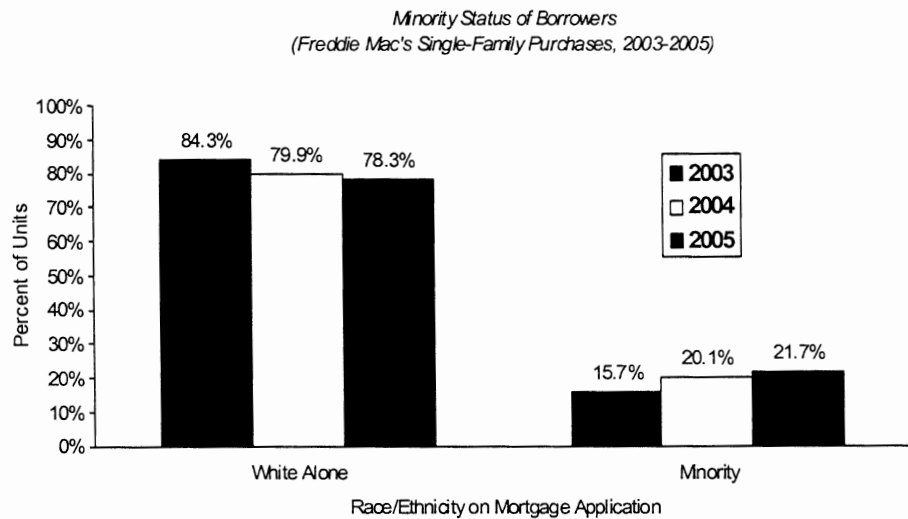
Serving Racially And Ethnically Diverse Families

In 2005, Freddie Mac's single-family mortgage purchases financed homes for 536,027 minority families. This includes 229,322 families with a Hispanic or Latino borrower or co-borrower, and 306,705 minority families without this ethnic background. Among this latter group are 140,647 families who classify their race as Black or African-American alone, 100,024 families who classify their race as Asian alone, and 66,034 families from other minority groups (American Indians or Alaskan Native alone, Native Hawaiian or other Pacific Islander alone, and families with borrowers or co-borrowers of two or more races). Freddie Mac's purchases of mortgages made to minority families during 2005 comprised 21.7 percent of our single-family mortgage purchases for which the race

⁵ We do not have borrower income information with respect to 3.1 percent (93,143) of the units in the single-family mortgages financed in 2005. Therefore, we excluded those units from the calculations underlying the information presented in this section and in Exhibit 6.

and/or ethnicity of the borrower was known.⁶ As illustrated in Exhibit 7, this was a 38.2 percent increase over the minority purchase rate in 2003 and an 8.0 percent increase over the 2004 rate.⁷ Exhibit 7a provides specific information on Freddie Mac's purchase rate for the larger of the minority groups. Hispanic or Latino borrowers and co-borrowers and families classified as Black or African-American alone are an increasing share of the families supported by Freddie Mac's mortgage financing.

Exhibit 7 Freddie Mac Increases Purchase Rate Of Minority Mortgages



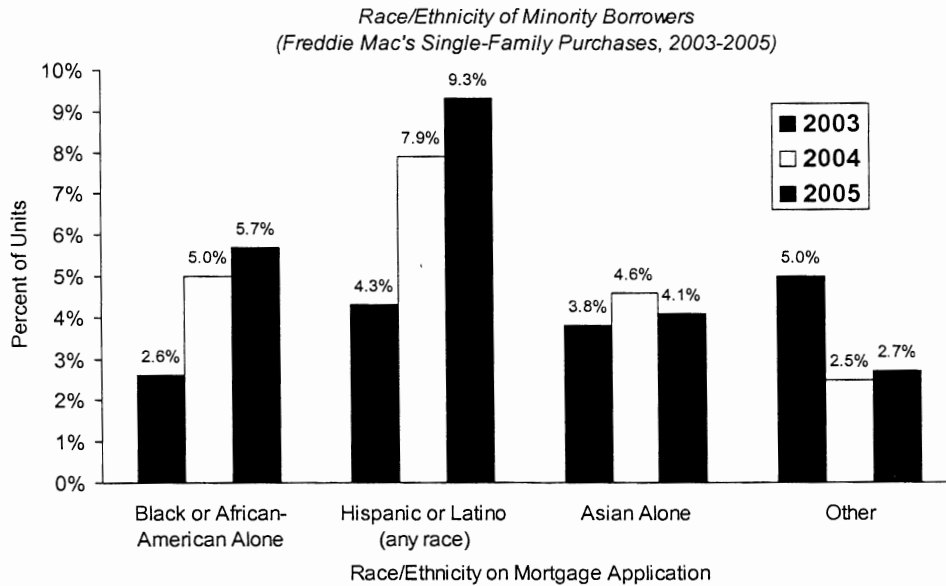
Source: Table 7 of the 2003, 2004 and 2005 AMR

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

⁶ We do not have information on the borrower's race and/or ethnicity with respect to 25.6 percent (849,513) of the single-family mortgages we purchased in 2005. Therefore, we excluded those mortgages from the calculations underlying the information presented in this section and in Exhibits 7 and 7a.

⁷ These figures are based on the tables accompanying the 2003 and 2004 Annual Housing Activities Reports and the tables in the 2005 AMR.

Exhibit 7a Freddie Mac Increases Purchase Rate Of Minority Mortgages



Source: Table 7 of the 2003, 2004, and 2005 AMR

Note: The "Other" category includes non-Hispanic borrowers and co-borrowers classified as American Indian or Alaskan Native alone, Native Hawaiians or other Pacific Islander alone and two or more races. "Black or African-American Alone" and "Asian Alone" are non-Hispanic.

Serving Households Headed by Both Genders

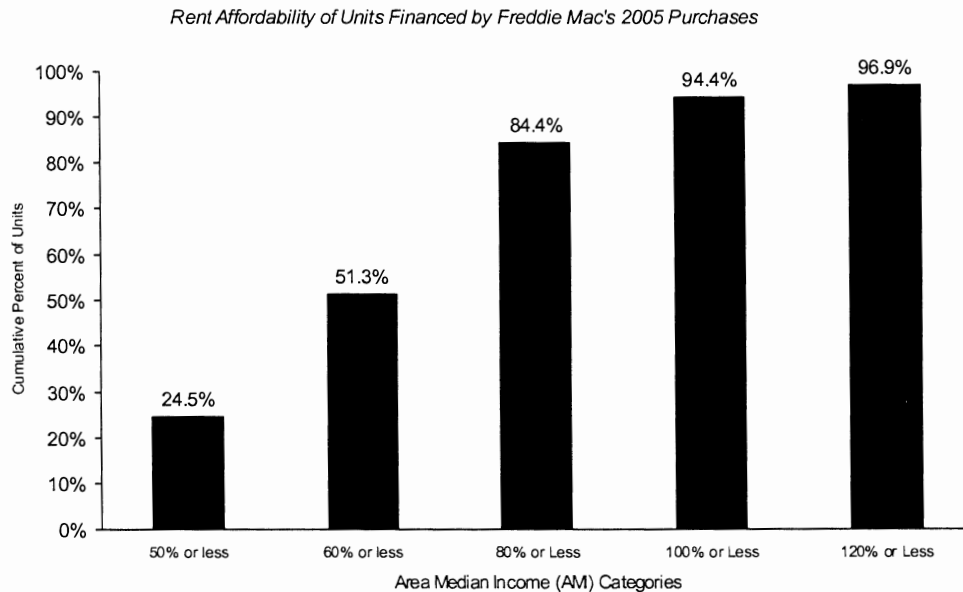
In 2005, 47.4 percent of Freddie Mac's single-family mortgage purchases financed homes for male/female co-borrowers, 29.2 percent financed homes for male borrowers (any co-borrowers on these mortgages are male as well), and 23.3 percent financed homes for female borrowers (any co-borrowers on these mortgages are female as well).⁸

⁸ We do not have information on the borrower's gender with respect to 19.1 percent (633,085) of the single-family mortgages we purchased. Therefore, we excluded those mortgages from the calculations underlying the information presented in this section.

Providing Affordable Rental Opportunities

As demonstrated in Exhibit 8, 94.4 percent or 540,282 of the rental units in our single-family and multifamily purchases for which we have rental information had rent levels affordable to families making 100 percent or less of the local area median income. In particular, 24.5 percent (140,097 units) had rent levels affordable to families making 50 percent or less of the local area median income, and 84.4 percent (483,379 units) had rent levels affordable to families making 80 percent or less of the local area median income.⁹

Exhibit 8 Freddie Mac Supports Affordable Rental Housing



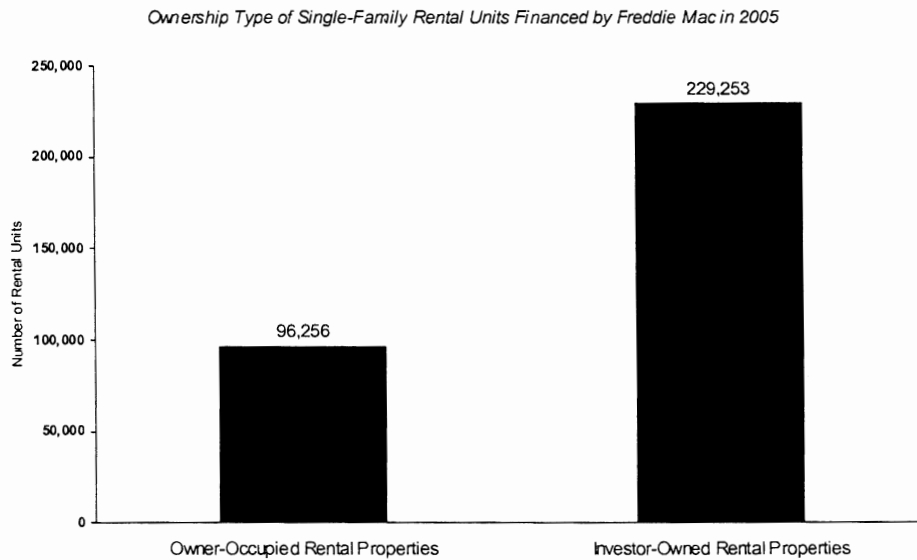
Source: Tables 3 and 4 of the 2005 AMR

⁹ Rent information is missing or we used estimated rents for 26.0 percent (201,198) of the rental units related to single-family and multifamily mortgages we purchased in 2005. Therefore, we excluded those units from the calculations underlying the information presented in this section and in Exhibit 8.

Freddie Mac purchased \$34.2 billion of mortgages for single-family rental properties (involving properties with at least one rental unit and a total of no more than four rental units) of which \$9.0 billion were for owner-occupied properties and \$25.2 billion were for investor-owned properties. As indicated in Exhibit 9, these single-family rental types provided 96,256 and 229,253 units, respectively.

Exhibit 9

Freddie Mac Supports Single-Family Rental Properties



Source: Table 1 of the 2005 AMR

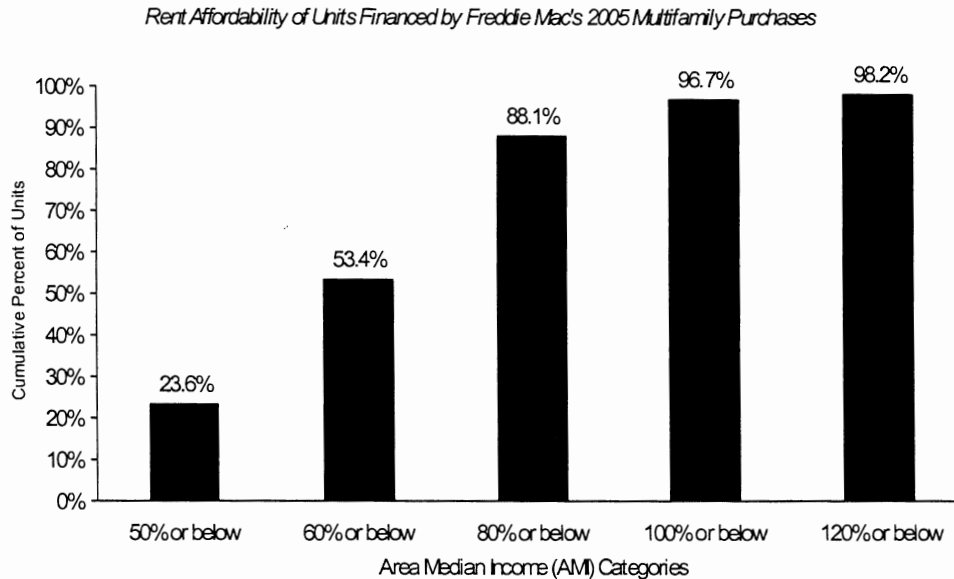
In 2005, Freddie Mac’s multifamily mortgage purchases and related activities (involving properties with five or more rental units) totaled \$21.7 billion (\$8.9 billion of mortgage purchases and \$12.8 billion in credit enhancements, risk sharing, and securities purchases). Through multifamily mortgage 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 rental housing for 448,261 families in 2005. Of the multifamily rental units for which we have rental information, 96.7 percent were affordable to renters with incomes at or below the median income for their residential area.¹⁰

¹⁰ Rent information is missing or we used estimated rents for 1.9 percent (8,609) of the rental units in the multifamily mortgages we purchased in 2005. Therefore, we excluded those units from the calculations underlying the information presented in this section and in Exhibit 10.

Freddie Mac's multifamily products play a vital role in our service to very low-, low- and moderate-income families. As illustrated in Exhibit 10 below, of the multifamily units we financed in 2005 for which we have rental information, 23.6 percent were affordable to families with incomes at or below 50 percent of the area median income. Cumulatively, 88.1 percent of our multifamily units were affordable to families with incomes at or below 80 percent of median income. Only 3.3 percent of the multifamily units we financed in 2005 had rents affordable only to families with incomes above the local area median. Our multifamily financing activities in 2005 included \$11.4 billion in mortgages meeting the criteria for the special affordable housing goal (mortgages serving very low-income families or low-income families living in low-income neighborhoods).

Exhibit 10 Freddie Mac Supports Affordable Multifamily Rental Units



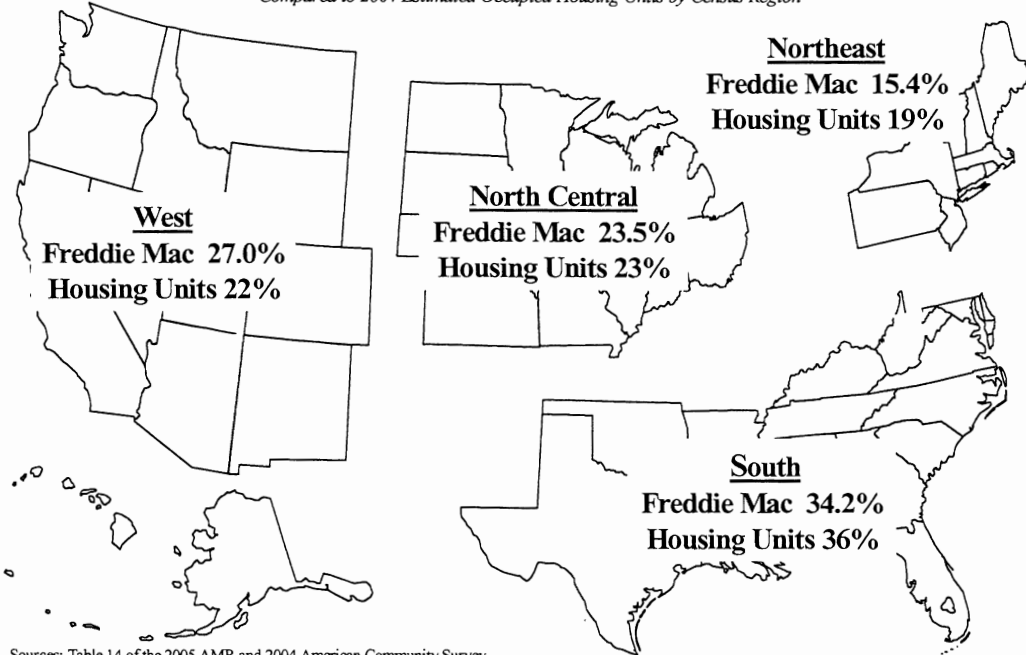
Source: Table 4 of the 2005 AMR

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 2005 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 2004 American Community Survey of the U.S. Census. We believe the differences between the distribution of housing units financed by Freddie Mac's mortgage purchases in 2005 and the overall housing stock distribution in 2004 are largely the result of differences in mortgage market activities between regions.¹¹

Exhibit 11 **Freddie Mac Serves Homeowners Across the Nation**

*Freddie Mac's 2005 Single-Family and Multifamily Mortgage Units
Compared to 2004 Estimated Occupied Housing Units by Census Region*

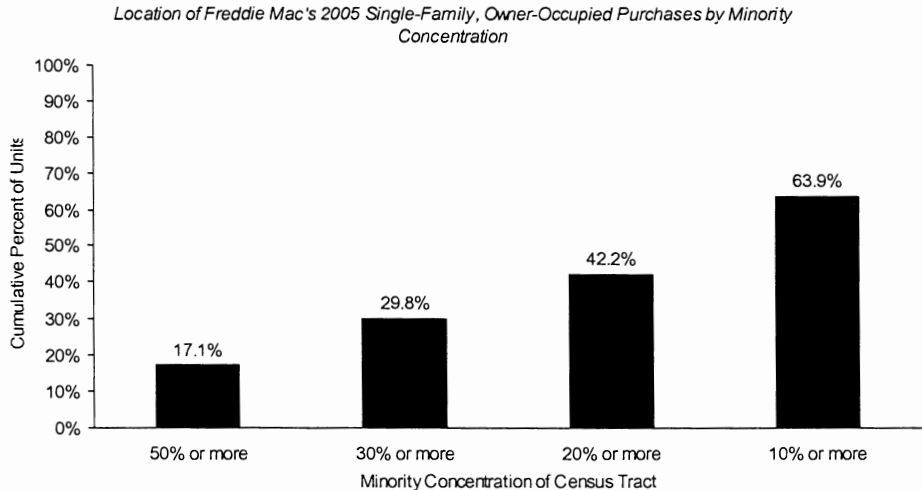


Sources: Table 14 of the 2005 AMR and 2004 American Community Survey
Note: Does not include Puerto Rico, Guam, or Virgin Islands

¹¹ The best known measure of total mortgage market activities is the Home Mortgage Disclosure Act (HMDA) data, which are only available for the preceding year. In addition, HMDA data do not capture all multifamily housing activities. In the absence of a direct measure of the overall mortgage market for 2005, the distribution of the housing stock is a good proxy.

In 2005, Freddie Mac purchased mortgages supporting owner-occupied and rental housing in a variety of neighborhoods. For owner-occupied housing, as illustrated in Exhibit 12, 17.1 percent of the owner-occupied units we financed in 2005 were located in census tracts with a minority population of over 50 percent. A total of 63.9 percent of units 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

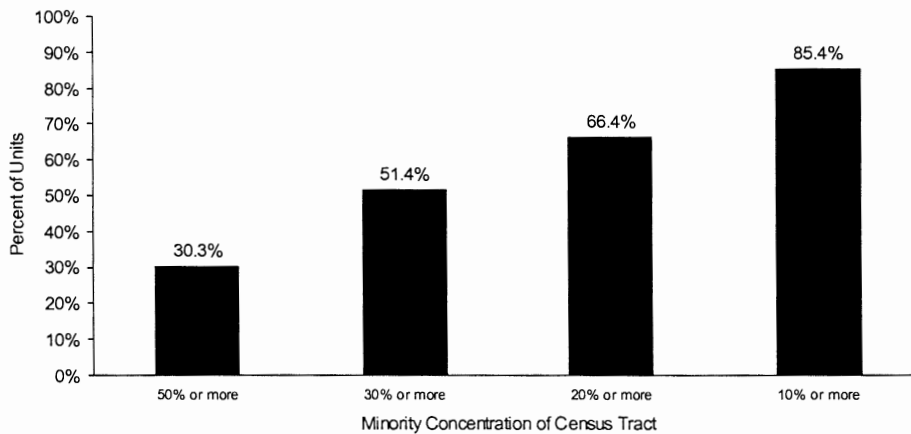


Source: Table 11 of the 2005 AMR

For rental housing, as illustrated in Exhibit 13, about 30.3 percent of the single-family and multifamily rental units we financed during 2005 were located in census tracts with 50 percent or more minority families. Approximately 85.4 percent of the rental units we financed were located in census tracts with a minority population of at least 10 percent.

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

Location of Freddie Mac's 2005 Rental Properties by Minority Concentration



Source: Table 12 of the 2005 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 subsidy programs that support housing in a number of ways, including:

- purchasing single-family mortgages that utilize federal subsidies to assist borrowers in paying for down payments and closing costs or to reduce 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; and
- purchasing, on the open market, tax-exempt mortgage revenue bonds backed by mortgages that utilize a tax exempt structure to reduce the mortgage's interest rate or subsidize the down payment.

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

In 2005 Freddie Mac continued to work 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 2005, Freddie Mac continued to be a leader in the Low-Income Housing Tax Credit (LIHTC) market. We invest as a limited partner in LIHTC partnerships formed for the purpose of providing funding for affordable multifamily rental properties. We matched our 2004 investment level, investing \$1.3 billion in LIHTCs in 2005. As a result, our total investment now exceeds \$6.3 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 328,000 rental units for very low- and low-income families in 4,300 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.

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 2005, Freddie Mac purchased 282,587 mortgages of first-time homebuyers, representing 29.3 percent of the owner-occupied, purchase money mortgages for which we have information on the borrower's ownership history.¹² We acquired almost 94.4 percent of the first-time homebuyer purchase money mortgages under our standard processes, while slightly more than 5.6 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 low- and moderate-income families, these initiatives and products help more borrowers buy their first home.

Home PossibleSM

In March 2005, Freddie Mac introduced the new Home Possible suite of affordable mortgage products. Home Possible was 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);

¹² We do not have information on the borrower's ownership history for 21.4 percent (262,165) of the single-family, owner-occupied, purchase money mortgages we purchased in 2005. Therefore, we excluded those mortgages from the calculations underlying the information presented in this section. During 2005, we determined that our data substantially undercount our purchases of mortgages to first-time homebuyers. We are in the process of instituting measures to ensure more accurate reporting of this category of mortgage. As a consequence, although our reporting improved during the later portions of the year, it is likely that Freddie Mac's 2005 first-time homebuyer rate is still underreported.

- 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;
- 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 borrower contributions as low as \$500 on a single-family home;
- 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.

One of the most significant benefits of Home Possible is Neighborhood SolutionSM. 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. These underwriting features include expanded debt-to-income ratios and temporary subsidy buydowns, 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.

In August 2005, we enhanced Home Possible to make these mortgages even more affordable for borrowers. We reduced the mortgage insurance coverage required on Home Possible mortgages, which lowers a borrower’s monthly payments and allows more borrowers to qualify for mortgages. We also added secondary financing options to expand the funding sources available to borrowers for down payment and closing costs.

Freddie Mac 100

For many families, the largest barrier to homeownership is lack of funds for a down payment. To help alleviate this problem, Freddie Mac introduced the Freddie Mac 100 mortgage product in 2000. 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 three percent of the loan amount 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 Gold[®] 97

Freddie Mac’s Affordable Gold 97 product has been available since 1996 and permits borrowers to make a three percent down payment using personal savings and to use other sources to cover their closing costs. This product also offers flexible debt-to-income ratio and reserve guidelines. Affordable Gold, along with our other low down payment

offerings, provides opportunities for homeownership for first-time homebuyers or others who have limited savings to use toward the purchase of a home. This product may be used when refinancing a mortgage, which allows more borrowers to take advantage of decreases in mortgages rates.

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 offers an Affordable Seconds product that 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 Affordable Gold[®], and Home Possible mortgages as well as most other affordable lending mortgage products.

Alt 97SM

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 of Affordable Gold, 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.

Increased Access to Mortgages for Borrowers Without Credit

In 2005, we also enhanced Loan Prospector to enable it to evaluate co-borrowers who did not have a credit history when combined with a co-borrower with an acceptable credit history. Previously these borrowers were subject to manual underwriting which tends to be a slower, more document intensive process.

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.

Guaranteed Rural Housing

In December 2005, Freddie Mac, working with the USDA, enhanced the USDA's Guaranteed Rural Housing program to allow for LTV ratios up to 102 percent that included 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. During 2005, we added additional flexibility to our credit and portfolio purchase policies so we could purchase more of the types of mortgages provided by lenders to CRA qualifying borrowers.

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)

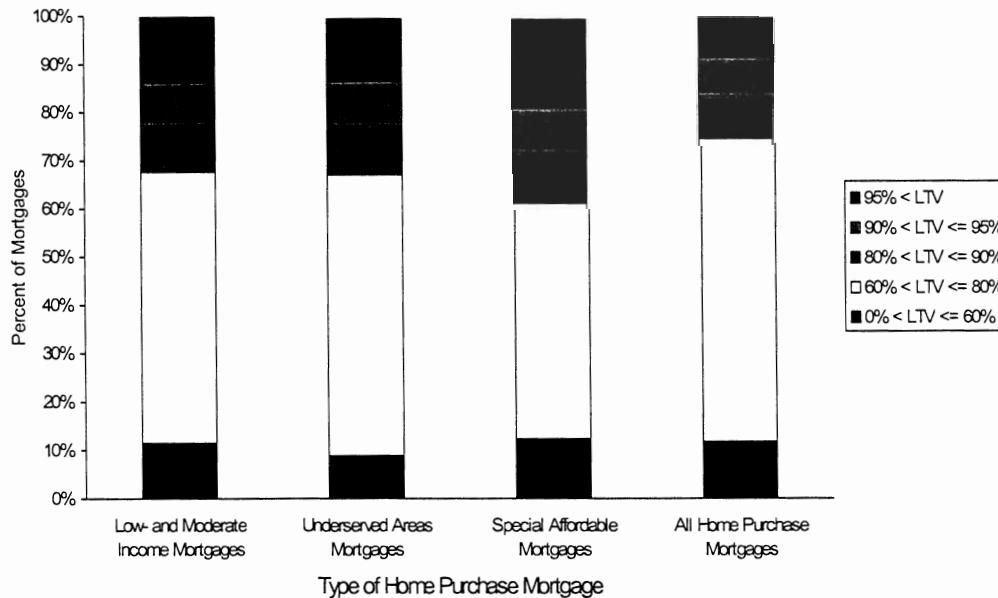
§ 307(f)(2)(E) requires that this report include, in aggregate form and by appropriate category, the data provided to the Secretary under subsection (e)(1)(B) [loan-to-value ratios of purchased mortgages at the time of origination].

Over 79.6 percent of the total single-family, owner-occupied mortgages acquired by Freddie Mac in 2005 had an LTV of 80 percent or less. Mortgages with an LTV of between 80 percent and 95 percent constituted 16.1 percent of the mortgages acquired in 2005. Mortgages with an LTV of over 95 percent were 4.0 percent of the mortgages acquired in 2005.

Exhibit 14 compares the LTV distribution on the goal qualifying, single-family home purchase mortgages with the LTV distribution of all single-family home purchase mortgages. Mortgages contributing to each of the affordable housing goals had higher LTV ratios than for all mortgages acquired during 2005. Freddie Mac believes the differences between the goal qualifying LTV distributions and the overall LTV distribution is the result of variations in income and credit scores of the respective pools of borrowers.

Exhibit 14 Goal Qualifying Mortgages Have Higher LTVs

Loan-To-Value Ratios of Freddie Mac's Owner-Occupied 2005 Mortgage Acquisitions



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, 2005, Freddie Mac purchased \$582 billion of mortgages and mortgage-related securities and issued \$398 billion of guaranteed Participation Certificates (PCs) and Structured Securities.

As of December 31, 2005, more than \$1.3 trillion of Freddie Mac guaranteed PCs and Structured Securities were issued and outstanding in the global capital markets. Of this amount, Freddie Mac held \$361 billion in its Retained Portfolio, or 27 percent of the total guaranteed PCs and Structured Securities issued. At year-end 2005, Freddie Mac's Retained Portfolio was approximately \$710 billion, an increase of less than nine percent compared to year-end 2004.

The information presented above is derived from our December 2005 Monthly Volume Summary (MVS), and is subject to the qualifications set forth therein. The December 2005 MVS is unaudited and subject to change. For more information, please see the December 2005 MVS and our Information Statement dated June 14, 2005. The December 2005 MVS can be found at the following location: <http://www.freddiemac.com/investors/volsum/pdf/1205mvs.pdf>. A glossary of selected terms used in the December 2005 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.¹³

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 of 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. 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 2005, 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 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 2005, Freddie Mac also introduced the Home Possible suite of affordable mortgage

¹³ As implemented by § 81.43(a) of the HUD’s regulations, 24 C.F.R. § 81.43(a) (2005).

products. These products, described in Section D above, are broadly available and use LP.

Freddie Mac assesses the likely impact of proposed changes to our underwriting standards on low-income and protected-class borrowers. We frequently solicit feedback from lenders, community and advocacy groups, and others in the housing finance system. We have introduced a number of affordable housing initiatives designed to expand the availability of mortgage credit to underserved families. We describe some of these initiatives in Sections C, D, and K of this report.

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. We seek to ensure that our guidelines and policies are not misinterpreted or misunderstood to create unnecessary barriers for borrowers through marketing and customer support materials and training.

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 repurchase of mortgages sold to us if those mortgages do not comply with those agreements. As a result, we sometimes request Sellers to repurchase mortgages sold to us, or to indemnify us against losses on those mortgages. We make repurchase requests on a case-by-case basis. In 2005, repurchase requests on performing mortgages (without regard to year of purchase) were 0.03 percent of 2005 single-family purchase volume.

Hurricane Relief

As a result of the unprecedented effects of Hurricanes Katrina and Rita on the Gulf Coast, Freddie Mac provided temporary relief and flexibility to lenders with respect to underwriting requirements for new purchase and refinance mortgages to hurricane victims. Freddie Mac also required Servicers to provide temporary relief to borrowers who suffered property damage from these disasters. This temporary relief was provided to all borrowers; some of the borrowers who received this relief were borrowers with very low-, low- and moderate-incomes, or borrowers living in underserved areas. Through our efforts, Freddie Mac was able to ease the housing burdens for thousands of displaced homeowners and renters.

The temporary servicing and underwriting requirements included the following:

- expedited release of insurance loss proceeds by giving Servicers more discretion on releasing these funds;

- suspended monthly mortgage payments and all collection and foreclosure activities through February 2006 (this suspension was extended through May 2006 for those properties in the most heavily impacted areas);
- permitted forbearance of monthly payments for homeowners for up to 12 months;
- offered special relief for borrowers who were members of the National Guard and were deployed for hurricane relief efforts;
- streamlined underwriting requirements for loan modifications on delinquent mortgages in affected areas;
- revised requirements for short payoff approvals;
- required Servicers to not report any delinquencies to credit repositories on or before February 28, 2006; and
- granted forbearances to multifamily borrowers on 26 multifamily properties housing thousands of tenants.

Home Help Express

Freddie Mac is working with the Community College Foundation, NeighborWorks America and 23 local nonprofit partners to provide two *Home Help Express* eBuses, which are traveling to hurricane-devastated neighborhoods and offering information technology and online resources to homeowners for free. In 2005, the *Home Help Express* eBuses visited over 30 locations in Mississippi and Louisiana.

Mortgage Servicing

At the end of 2005, more than 10 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 2005, the overall delinquency rate for Freddie Mac's single-family mortgages was 69 basis points (based on the number of mortgages that were 90 days or more delinquent or in foreclosure). Continued house price appreciation combined with lower interest rates has significantly contributed to this decline. 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.

Active management of delinquent mortgages enables Freddie Mac and its Servicers to help keep borrowers in their homes through measures such as loan modifications, repayment plans and forbearance. Approximately 200,000 families have benefited from these measures since 2000, including approximately 54,000 families in 2005.

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 2005, 57 mortgage Servicers, including 17 sub-prime Servicers (collectively servicing more than eight million of Freddie Mac’s mortgages) were licensed to use EI.

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

Affordable High Touch Servicing

We launched 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.

The lenders that are participating in the pilot include Wells Fargo, Bank of America, National City and Washington Mutual. The participating non-profit agencies include Consumer Credit Counseling Services (CCCS) of San Francisco, CCCS of Atlanta, Graceworks Lutheran Services of Dayton, CCCS of the Midwest, and National Consumer Law Center.

During 2005, over 5,000 delinquent borrowers were contacted by housing counseling agencies through the pilot. The resulting contact rate was approximately 19 percent (representing borrowers whom the Servicers had not been able to contact) and the contact

to foreclosure avoidance rate was approximately 47 percent (representing the percentage of contacted borrowers who were able to avoid foreclosure).

Freddie Mac conducted a Foreclosure Avoidance Research Survey in 2005, which showed that the majority of delinquent borrowers in the survey were not only unaware of the assistance options that are available when in default but were very interested in talking to a housing counseling agency when faced with a mortgage delinquency.

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 advance affordable housing. The Council is comprised of leaders in the affordable housing field, including lenders, real estate professionals, builders, community-based and other non-profit and for-profit organizations, and state and local government agencies actively engaged in the field. During our spring 2005 meeting we discussed our new affordable mortgage product – Home Possible Mortgage Suite – and solicited input on how best to make these products available through our lenders to underserved markets. During our fall meeting, we discussed the role Freddie Mac could play in the relief and rebuilding efforts following Hurricanes Katrina and Rita. The feedback we received from the Council helped frame our responses to the impact of these hurricanes.

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 comprehensive measures designed to protect consumers from predatory lending practices. These measures include corporate policies, educational campaigns in communities across the country, and targeted mortgage products.

HOEPA 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 market institution to adopt this policy. In addition, Freddie Mac does not purchase high-cost home mortgages as defined by statute in the following 12 states: Arkansas, Georgia, Illinois, Indiana, Kentucky, Maine, Massachusetts, Nevada, New Jersey, New Mexico, New York, and Oklahoma.

Mandatory arbitration clauses: Freddie Mac announced in 2003 that, effective August 1, 2004, we would no longer invest in mortgages originated on or after that date 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 mortgages that impose a prepayment penalty for a term of more than five years. In March 2002, we announced that we would no longer purchase 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 its Seller-Servicer Guide to include the following representations and warranties from our Seller/Servicers in order to more fully implement 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, except when this limitation will result in an unprofitable origination for the lender. 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; and the terms of the prepayment penalty must be adequately disclosed.
- Borrowers who qualified for a lower-cost mortgage product cannot be steered to a higher-cost product.

In addition, although HOEPA by its terms applies only to refinance mortgages, Freddie Mac will also 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 43 participating Don't Borrow Trouble campaigns across the country, including four statewide and four local campaigns that were launched in 2005. For more information, please see the subsection titled Don't Borrow Trouble and the National Community Reinvestment Coalition's Consumer Rescue Fund 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

Nationally, multifamily lending volumes for 2005 were estimated to be nearly 25 percent higher than last year's near record volume. This was due to a combination of factors including improved market fundamentals (vacancy and rent levels), continued low interest rates, and capitalization rates that continued to drift slowly downward throughout the year. These conditions resulted in relatively high levels of refinancing activity, acquisition, and rehabilitation/construction lending throughout the country. Property values continued to increase, as already low capitalization rates decreased an additional 77 basis points to an annual weighted average of 5.7 percent for all 2005 rental apartment property sales, as compared to 2004.

Lending volumes were strong throughout the year and were supported by improving fundamentals (occupancy levels and rent growth) in nearly all major markets. Nationally, mortgage debt on multifamily properties grew to more than \$641.4 billion in the third quarter of 2005,¹⁴ from \$609 billion in the fourth quarter of 2004 (representing an annualized increase of 7.14 percent). Nationally, mortgage rates remained low, actually decreasing from 5.62 percent in the third quarter of 2004 to 5.33 percent in the third quarter of 2005.¹⁵

The national vacancy rate continued to improve, decreasing from 6.7 percent in the fourth quarter of 2004 to 5.7 percent by the end of the fourth quarter of 2005. There is also evidence in some recent surveys that more improvement is on the horizon. At the same time, rent concessions for new and renewed leases were decreasing and this supported effective rent growth of almost 3 percent from the fourth quarter of 2004 to the fourth quarter of 2005. Both of these trends are broadly based, and indicate improving fundamentals in most major markets in the country.

Based on U.S. Census Bureau data for 2005, about 309,500 new multifamily units started in 2005, a 2.1 percent increase from 2004. 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 2005 year-end multifamily housing supply may actually be lower than last year. In fact, according to Reis, a commercial real estate research firm, the total population of rental units in their survey decreased from 8.93 million units in the fourth quarter of 2004 to 8.89 million units in the fourth quarter of 2005, for a decrease in percentage terms of 0.5 percent.

¹⁴ Data for the fourth quarter of 2005 is not yet available.

¹⁵ Data for full year 2005 is not yet available.

The credit quality of Freddie Mac's multifamily portfolio continued to improve. As of 2005 year-end, five multifamily mortgages with an unpaid principal balance of \$2,468,000 were 60 days or more delinquent or in foreclosure; this represents a delinquency rate of 0.44 basis points for Freddie Mac's multifamily portfolio as a whole, down from six basis points at 2004 year-end. Overall credit quality in the multifamily market continued to improve in 2005 as well. The industry-wide delinquency rate remains very low by historical standards. The American Council of Life Insurers *Mortgage Portfolio Profile – Third Quarter 2005* shows that its members' multifamily portfolios' 60-day delinquency rates have dropped from 19 basis points in the third quarter of 2004, to 1 basis point in the third quarter of 2005.¹⁶ This trend is further supported by CMBS apartment performance data showing that the populations of 60 days or more delinquent, foreclosure, and REO inventory in outstanding conduit multifamily portfolios dropped from 1.52 percent to 1.22 percent during the year, according to Trepp, a provider of CMBS and commercial mortgage information.

The secondary multifamily mortgage market continues to increase in size and liquidity. The secondary multifamily mortgage market also continues to become more competitive, as GSEs, commercial banks, insurance companies and other financial entities compete to purchase and securitize multifamily mortgages.

In 2005, an aggregate of \$139 billion of fixed-rate domestic CMBS were issued, compared to \$79 billion in 2004, an increase of 76 percent. The multifamily portion of that marketplace was \$22 billion, compared to \$12 billion in 2004, an increase of 83 percent. Freddie Mac purchased \$13.7 billion of the \$22 billion multifamily fixed-rate domestic securities issued in 2005. This represented the largest amount of CMBS purchased by Freddie Mac in a single year.

Freddie Mac Multifamily Initiatives

Freddie Mac helps meet the nation's need for affordable rental housing by credit enhancing or purchasing (directly or through our CMBS investments) the multifamily mortgages made by numerous financial institutions. However, most of the mortgages that do not come to us through CMBS are originated by primary lenders in our Program Plus[®] network and our Targeted Affordable lender network. Freddie Mac's Program Plus network consists of locally based and experienced multifamily lenders in more than 150 branches across the nation. Targeted Affordable Seller/Service providers have significant expertise in the area of targeted affordable housing, among other criteria.

Working through our networks, Freddie Mac supports the acquisition, refinance, rehabilitation and construction of apartment communities across America through a variety of products and services, including the following recent initiatives:

Conventional Mortgages: Freddie Mac continued to offer innovative product enhancements in 2005 to respond to the needs of our customers and their multifamily

¹⁶ Data for full year 2005 is not yet available.

borrowers. In the conventional market, these innovations included a High-Leverage Loan execution, which provides Seller/Servicers with the ability to provide borrowers with up to 85 percent LTV financing. This execution was designed to streamline the process and reduce the cost of obtaining higher leverage financing by eliminating the need to pursue additional proceeds or mezzanine financing separately. Freddie Mac has partnered with CWC Capital LLC, a national lender to the multifamily and commercial real estate industries, to provide this execution.

Another new product we introduced in 2005 was our Premier Lease-Up execution for qualifying mortgages on conventional newly constructed or substantially renovated properties in the lease-up phase. Premier Lease-Up utilizes our extended early rate-lock execution and offers a number of benefits, including allowing Seller/Servicers to lock in interest rates for qualified borrowers prior to completion of construction and with occupancy levels as low as 40 percent (in the past, borrowers typically needed an occupancy level of at least 80 to 85 percent for the Seller/Servicer to lock in the interest rate with Freddie Mac). Under this execution, the Seller/Servicer may lock in the interest rate for up to 18-months.

We also introduced a new refinancing option, which allows Seller/Servicers to lock in the interest rate on a refinance mortgage at the same time they lock in the interest rate on a supplemental mortgage. Borrowers will benefit by receiving additional proceeds up front via the supplemental mortgage and interest rate certainty on the refinance mortgage for up to two years. The refinance mortgage will pay off both the first mortgage and the supplemental mortgage. This is one of three refinance options now available to borrowers.

In addition, we enhanced our ARM products by adding a 120-Day Early Spread-Lock option, under which Seller/Servicers can lock in the loan amount, spread and maximum note rate 120 days in advance. The new 120-day option is a particularly good solution for borrowers concerned about managing the volatility of interest-rate caps.

Structured and Affordable Sourcing: In 2005, we provided several new targeted affordable executions to better meet the need of lenders (and their borrowers) for customized Low-Income Housing Tax Credit debt. These included expanding our Delegated Underwriting initiative to approved lenders. This initiative gives certain qualified correspondent lenders more expedited processing and more flexibility when underwriting mortgages secured by properties benefiting from four or nine percent Low-Income Housing Tax Credits. During 2005, four lenders were approved to participate in this initiative: GMAC Commercial Mortgage Corporation, CharterMac, American Property Financing, and MMA Financial.

We also updated and enhanced our Affordable Forward Commitment execution for Low-Income Housing Tax Credit transactions for both tax-exempt bond credit enhancements and cash mortgages. This execution is designed for sponsors who are receiving tax credit awards or bond allocations, need financing, and want to lock in the interest rate as soon as possible. Its benefits include competitive pricing, access to maximum proceeds, and the flexibility to choose a funded or unfunded forward commitment.

Preservation of Affordable Housing with Government Subsidies: Freddie Mac encourages the preservation of affordable housing by making the full array of its conventional and affordable products available for properties with federal, state and local government subsidies. For example, in 2005 shortly after Hurricane Katrina, we teamed with one lender in the Delegated Underwriting initiative to share the underwriting and loan risk for the substantial rehabilitation of an existing vacant housing complex in an underserved area in Mississippi. This transaction involved a nine percent Low-Income Housing Tax Credit property with affordable Forward Commitment financing.

In New York, we assisted in preserving affordable units in a large property that utilized a variety of federal, state, and local preservation tools to maintain affordability, including decoupling its Section 236 Interest Reduction Payments from its former financing. This successful conversion of a Forward Commitment utilized our popular credit enhancement of variable rate tax-exempt bonds issued by the state housing finance agency, obtained swaps for each bond component, obtained four percent Low-Income Housing Tax credits, benefited from a reduction in real estate taxes through a Payment in Lieu of Taxes (PILOT), and maintained affordability with Section 8 vouchers. This much-needed renovation included improvements to the building's major building components, security, and exterior, along with significant upgrades to tenants' apartments.

Seniors Housing: Freddie Mac finances a wide variety of multifamily properties for seniors including independent living and assisted living properties. In 2005, Freddie Mac financed \$800 million in the seniors housing market, which provide much needed support to this growing portion of our population. The majority of the units in these properties are affordable to low- and moderate-income residents.

Standardization and Securitization: Freddie Mac has been a consistent and 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 bond 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 has (i) helped to lower the spreads on multifamily mortgages originated for CMBS and (ii) lead to a greater level of comfort among multifamily lenders who originate multifamily mortgages for CMBS with Class B multifamily properties. 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 a greater standardization of the due diligence requirements relating to engineering reports issued for multifamily properties backing the CMBS.

With respect to specific securitization executions, Freddie Mac's 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. 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), owners of bonds are able to limit their capital exposure by investing capital in a loss-share arrangement.

Some of the factors that are impeding progress toward standardization and securitization of mortgage products for multifamily housing include interest rate risk and customization. Multifamily borrowers are requesting different types of products to help them manage interest rate risk. Borrowers are also demanding greater customization of mortgage products.

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.

Single-Family Mortgages

Freddie Mac's greater than 90 day delinquency rate for single-family mortgages remained low during 2005 and ended the year at 69 basis points, down from 73 basis points at year-end 2004.

Our analysis of the performance of mortgages serving low- and moderate-income housing families shows increasingly higher rates of delinquency and default relative to mortgages on units serving households with incomes above the median level.¹⁷ 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 1996-2004. 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 2004, the delinquency rate on mortgages to low- to moderate-income borrowers was 2.3 times higher than the rate on mortgages to higher income borrowers.¹⁸ The relative default rate is also consistently worse on mortgages for low- to moderate-income borrowers than on mortgages for higher income borrowers with performance becoming significantly worse since 2000.¹⁹ Freddie Mac

¹⁷ 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 GEMs/GPMs. 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.

¹⁸ For mortgages acquired by Freddie Mac in 2004, the delinquency rate on mortgages to low- to moderate-income borrowers was 0.38 percent, the rate on mortgages to higher income borrowers was 0.16 percent and the overall rate on single-family owner-occupied mortgages was 0.25 percent.

¹⁹ As of December 31, 2005 (and with respect to mortgages acquired since 1996), the default rate on mortgages to low- to moderate-income borrowers was 0.69 percent, the rate on mortgages to higher income borrowers was 0.30 percent and the overall rate on single-family owner-occupied mortgages was 0.45 percent.

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 Higher Income Borrowers (above median income)

Year of Acquisition	Delinquency Rate	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	2.4
2002	2.8	3.6
2003	2.7	4.1
2004	2.3	3.6
Average	2.1	2.3

Source: Internal Freddie Mac delinquency study.

Note: See footnote 17 for an explanation of definitions and methodology.

Multifamily Mortgages

Our multifamily mortgage portfolio has continued to reflect some of the same characteristics and geographic trends as the broader industry, and our default rate continues to compare very favorably to other institutional portfolios. Freddie Mac's more than 60 day delinquency rate for mortgages in this portfolio remained low during 2005 and ended the year at 0.44 basis points, down from six basis points in December 2004.

There is no clear and measurable trend in our multifamily portfolio to suggest that delinquency and default risk is characteristic of a particular product or renter income level. Rather, defaults and any evidence of changing financial risk in our portfolio correlate more directly to geographical location and property age than any other factor.²⁰

²⁰ Our statement concerning the linkage of geography and property age to mortgage performance is based on our observation that we frequently have clusters of "watchlist" mortgages in certain cities and in certain neighborhoods, and nearly all of the mortgages that go through foreclosure are older buildings (25 years old or older), suggesting that there is no equity or recoverable value above our mortgage in some older properties that have not been properly maintained.

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 nationwide network of lenders, benefiting borrowers throughout the nation. Spanning the U.S. and its territories, this network includes approximately 2,400 Sellers and 1,500 Servicers. Freddie Mac purchases mortgages from all major lender types. Some of these firms sell mortgages to us regularly, while others sell to us only occasionally. Of the total Seller network, about 1,200 lenders sold mortgages to us in 2005. Minority- or women-owned lenders comprised approximately 4 percent of the lenders in Freddie Mac's network at the end of 2005, and community-oriented lenders comprised approximately 33 percent of the lenders in Freddie Mac's network at the end of 2005.

We purchased approximately \$12.5 billion of mortgages from community-oriented lenders in 2005, which includes mortgages we purchased from minority- and women-owned lenders. Freddie Mac does not specifically track the number of mortgages that we purchase from minority-owned and women-owned lenders.

In 2005, 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 provide access to a comprehensive package of product offerings, tools and services that help improve the institutions' mortgage origination capabilities. Over 450 lenders are currently taking advantage of the alliance offerings provided by Freddie Mac. In 2005, over 50 percent of mortgages originated by the community-oriented lenders participating in the Alliance met at least one or more of the affordable housing goals. Alliance participants also originated 62 percent of the Home Possible mortgages purchased by Freddie Mac in 2005.

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 in support of affordable housing, with state and local governments, housing finance agencies, and a wide variety of non-profit and for-profit organizations, including the following:

Mortgage Revenue Bonds and Housing Finance Agencies

In 2005, Freddie Mac made a series of targeted investments in approximately \$2.4 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 low-interest mortgages to very low-, low- and moderate-income first-time homebuyers.

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

We also purchased approximately \$403 million in newly issued multifamily MRBs from approximately 40 different state 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.

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. In order to gain a better understanding of the challenges faced by HFAs, Freddie Mac formed a task force with the National Association of Local Housing Finance Agencies (NALHFA), a nonprofit association of city and county governments that finance affordable housing using a variety of sources, including federal tax code incentives, HOME and CDBG funds, and state and local bonds.

The Freddie Mac/NALHFA Task Force met three times in 2005. Freddie Mac staff and NALHFA board members and staff participated in the Task Force in order to explore ways to enhance Freddie Mac's business relationships with HFAs.

Financial Literacy Outreach

Research conducted by Freddie Mac in recent years has indicated that the top barriers to homeownership faced by African American and Hispanic households include a lack of information about how the homebuying process works and how to establish a good credit history; language barriers; lack of funds to enter into the transaction; and cultural barriers. As described below, Freddie Mac is working to help these communities overcome these challenges.

Freddie Mac makes available to local and national groups two comprehensive financial literacy curricula – *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 achieve homeownership.

CreditSmart and its Spanish language equivalent *CreditSmart Español* are consumer education and community-based outreach and education curricula focused on helping consumers get and keep good credit. *CreditSmart* and *CreditSmart Español* educate consumers about credit and money management, provides insight into how lenders assess credit histories and explains the role of credit in achieving financial goals.

We provide *CreditSmart* and *CreditSmart Español* to consumers and potential homebuyers in conjunction with homebuyer education providers, lenders, real estate professionals, churches, African American organizations, Hispanic organizations, colleges and universities. Freddie Mac also provides an abridged version of the curricula on freddiemac.com.

Freddie Mac joined forces with Wells Fargo Home Mortgage; Tavis Smiley, talk show host and author; Kelvin Boston, author and host of PBS' financial affairs series *MoneyWise*; and several financial affairs experts to provide free wealth building strategies seminars in 20 cities across the country. The free day-long events featured interactive sessions and one-on-one meetings with financial experts, real estate professionals and Wells Fargo home mortgage consultants who shared information on building generational wealth and/or family financial security through home purchase and other options such as entrepreneurship and personal investments. The tour visited such cities as Los Angeles, Richmond, Dallas, San Francisco, Washington, D.C., Philadelphia, Chicago, and Baltimore.

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. This initiative demonstrates Freddie Mac's commitment to be an industry leader in improving all aspects of mortgage financing service for Hispanic borrowers.

By December 2005, over 200 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. A comprehensive marketing plan, including outreach on military bases and coverage through Hispanic media outlets, was 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. *Workforce Home Benefit* is designed to expand mortgage credit and 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 more than 20 employer-assisted homeownership initiatives.

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 employees. Freddie Mac may also provide the names of two or more lenders to the employer for consideration as lead lenders to work with employees (leaving the choice of lender to the employer and employee). Freddie Mac offers a full range of affordable mortgage 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 and advised that we may proceed with our *Workforce Home Benefit* initiatives taking account of its guidance as we go forward. We have resumed working with organizations toward establishing *Workforce Home Benefit* initiatives, taking into account HUD's guidance.

Don't Borrow Trouble® and the National Community Reinvestment Coalition's Consumer Rescue Fund

The *Don't Borrow Trouble* Anti-Predatory Lending Campaign combines public education with counseling services designed to help homeowners avoid scams and

resolve any financial difficulties they may be experiencing in an informed and prudent manner. 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 locality that launches a *Don't Borrow Trouble* campaign, Freddie Mac provides seed funding, the assistance of a marketing consultant 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 implementation of the campaigns.

Eight new *Don't Borrow Trouble* campaigns were launched in 2005, of which four were statewide campaigns. Since we began expanding *Don't Borrow Trouble* in 2000, 43 local and statewide campaigns have been launched and more than 100,000 consumers across the U.S. have contacted local *Don't Borrow Trouble* campaigns and received assistance with predatory lending issues.

In 2004, Freddie Mac arranged for local *Don't Borrow Trouble* campaigns to have access to the National Community Reinvestment Coalition's Consumer Rescue Fund, which provides refinance mortgages to borrowers that have been victims of predatory lending. More than 25 *Don't Borrow Trouble* campaigns in 13 states have access to the Consumer Rescue Fund.

Mobile Homeownership and Outreach Center (e-Bus)

Freddie Mac is working with US Bank, Chase Home Finance, 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. Using online education services provided by Freddie Mac and the lenders, the e-Buses deliver homeownership information and financial literacy education to minority and low-to-moderate income consumers where they "work, live, pray and play." In 2005, over 31,000 consumers received information from the e-Buses and over 450 submitted mortgage applications while on an e-Bus. The e-Bus initiative is intended to improve awareness of homeownership opportunities, and create more trust between minority consumers and mortgage providers. Through the e-Bus initiative, lenders are able to present additional financial services and mortgage opportunities to underserved communities.

Dispel the Myths

Dispel the Myths is a bilingual grassroots outreach and education campaign designed to increase the homeownership rate of African-American and Hispanic families by dispelling common misconceptions regarding buying and owning a home. A Freddie Mac survey disclosed that minority households have extensive misunderstandings regarding the home buying process. *Dispel the Myths* campaigns have been launched in 17 locations in 2005 across the U.S.; these campaigns use a combination of radio spots, brochures, poster advertising and door hangers to reach minority households.

Dispel the Myths is a collaborative effort with many leading industry groups, national counseling and advocacy organizations, local education and counseling agencies, and mortgage lenders to develop and disseminate home buying information to minority households. Partners include: Chase Home Finance, the National Association of Realtors, the National Association of Hispanic Real Estate Professionals, the National Association of Real Estate Brokers, the National Urban League, and over 25 counseling agencies.

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. In 2005, we sponsored over 90 initiatives ranging from consumer outreach and education (including initiatives with faith-based and minority organizations) to neighborhood revitalization and Section 8 homeownership initiatives.

Outreach and Education Initiatives

Finding new, effective ways to reach low- and moderate-income and minority consumers is one of the top priorities for our lender customers. In response, Freddie Mac, along with our lenders, continues to develop outreach and education initiatives aimed at reaching these consumers. For instance, the *First Down* initiative is a unique effort with Associated Mortgage, some Green Bay Packers players and Operation Game Plan (a nonprofit organization established by one of their players). The initiative is designed to help families in Milwaukee overcome one of the greatest barriers to homeownership — lack of funds for down payment and closing costs — through the use of Individual Development Accounts (IDAs), which are matched savings accounts designed to encourage savings efforts of participating families. Green Bay Packers players provide the funds to match participants' savings. Freddie Mac and Associated Mortgage support the initiative by providing grant support to Operation Game Plan, funding a community-wide marketing campaign to advertise the initiative, and providing flexible mortgage products that can help the families overcome credit challenges.

Another example of a consumer outreach and education initiative is the *SHOP* initiative (Special Home Ownership Program). *SHOP* is a collaborative effort among HSBC

Mortgage Corporation, HSBC Bank, and various non-profit counseling agencies. The program is designed to revitalize neighborhoods impacted by depressed housing conditions through retention and expansion of affordable homeownership opportunities. Launched in 2002, *SHOP* currently operates in four NY markets: Syracuse, Buffalo, Rochester and the Capital Region (Albany, Schenectady and Troy); and in Miami, Florida. *SHOP* has provided homeownership opportunities for over 400 first-time homeowners.

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. Two examples of such initiatives are the *Call Bridgeport H.O.M.E.* and *Home Ownership Transformation (HOT)* initiatives.

Call Bridgeport H.O.M.E. (Home Ownership Made Easy) is a comprehensive faith-based effort with Chase Home Finance, Faith Community Development Corporation, Prince of Peace, the cities of Bridgeport and Stratford Connecticut, and numerous African-American and Hispanic churches. *Call Bridgeport H.O.M.E.* prepares and educates families for homeownership through counseling and provides the families with access to low-down payment mortgages.

Freddie Mac developed the *HOT* initiative in collaboration with the Greater Metropolitan Denver Ministerial Alliance (GMDMA), the Colorado Housing Assistance Corporation and Wells Fargo. The GMDMA is one of the oldest organized ministerial groups in the city of Denver and consists of over 40 faith-based institutions. The *HOT* initiative is designed to raise the financial literacy level and increase the homeownership rate for GMDMA's predominantly African American congregants. *HOT* provides comprehensive financial literacy education through Freddie Mac's *CreditSmart* curriculum, pre- and post-purchase homebuyer counseling, and a wide range of low-down payment mortgages.

Neighborhood Revitalization Initiatives

We realize that consumer outreach and education alone will not increase the supply of affordable housing. To that end, Freddie Mac has created a number of neighborhood revitalization efforts that work in conjunction with rehabilitation and new construction initiatives.

For example, the City of Spartanburg, South Carolina has a program to renovate existing housing and build new housing for low- and moderate-income families in five designated neighborhoods. In conjunction with this program, Freddie Mac, the Spartanburg Housing Authority, the City of Spartanburg, Spartanburg County, BB&T, and the Spartanburg Collaborative (a group of local affordable housing nonprofit providers) have launched the

Spartanburg Housing Initiative. The initiative will be managed from the Homeownership Resource Center (HRC), a new facility created to provide residents with the information they need to become homeowners. The HRC will help prepare low- and moderate-income families to become owners of these new or renovated homes. The goal of this initiative is to increase lending activity, rehabilitate neighborhoods, and increase homeownership rates by providing housing counseling to 400 families and increasing the homeownership rate in the City of Spartanburg, South Carolina by five percent by 2010 in the five designated neighborhood development areas.

The City of Shreveport, Louisiana has a program to renovate existing housing and build new housing for low- and moderate-income families in four designated neighborhoods. In conjunction with this program, Freddie Mac, the Queensborough Neighborhood Association, the City of Shreveport, M.C. Vision Ministries, and Chase Home Finance launched the *Shreveport Homeownership Initiative*. This initiative is designed to expand homeownership opportunities in Shreveport by providing new mortgage financing tools and resources to existing local organizations and strengthening existing relationships among these organizations. The initiative will also help prepare low- and moderate-income families to become owners of these new or renovated homes.

Minority Homeownership Initiatives

In an effort to increase homeownership among minority families, Freddie Mac develops homeownership initiatives in minority communities across the country. For example, Freddie Mac worked with Neighborhood Housing Services of New York City to develop the *Latino Campaign*, which is designed to educate the Hispanic community about homeownership. The campaign is directed at families in South Bronx, Northern Queens, Bushwick, and Bedford-Stuyvesant in Brooklyn. The *Latino Campaign* offers innovative homeownership counseling, education and financial resources to a wide cross section of the Latino community, including residents of Dominican, Puerto Rican, and Mexican descent. The Campaign has assisted single and married heads of households, students, welfare-to-work participants, disabled workers and retirees living on fixed incomes. Since it began in 2003, the Campaign has helped participants decrease debt, improve credit, increase savings, and become wiser consumers through Financial Fitness classes, Homebuyers' Clubs, Latino Homebuyers' Fairs, ads in Spanish-language newspapers, a seasonal bilingual newsletter, and periodic informational sessions.

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. In 2005, Freddie Mac conducted focus groups involving nearly 300 Asian-American consumers and real estate professionals (including Chinese, Korean, Vietnamese, Asian Indian and Filipino immigrants) to gain a better understanding of the cultural norms and expectations of Asian first-time homebuyers. The results of this study were included in a report entitled *Homeward Bound: An In-depth Look at Asian Homebuyers in the United States*, which Freddie Mac published to provide housing industry professionals with a greater understanding of the needs and expectations of Asian consumers. The report is available online at www.freddie.com/corporate/reports/. Concurrently, Freddie Mac, in

collaboration with the National Coalition of Asian Pacific American Community Development and the Congressional Asian Pacific American Caucus, sponsored a series of community forums to examine housing and homeownership trends in the Asian American community. The forums were held in cities across the country including Washington, D.C., San Jose, Boston, Chicago, and Los Angeles.

Section 8 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. An example of a public/private venture is a new first-time homeowner initiative that enables families to take advantage of the HUD Section 8 Housing Choice Voucher Program. This initiative was established through the collective efforts of the Wilmington Savings Fund Society, NCALL Research, Inc., Chase Home Finance, Dover Housing Authority, Delaware State Housing Authority, and the City of Dover. This public/private partnership helps low-income borrowers take advantage of the Section 8 Housing Choice Voucher Program by offering homeownership education and counseling, down payment assistance, and a variety of mortgage products and services.

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 2005 we continued our efforts to increase the capacity, consistency and comprehensiveness of the homeownership education and counseling industry.

In 2005, Freddie Mac introduced *CounselorMax Supported by Freddie Mac*, a new offering 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. In this new offering, Freddie Mac provides enhanced support to select counseling agencies using CounselorMax in conjunction with Freddie Mac initiatives.

To help ensure that homeownership counseling is consistent, Freddie Mac developed a web-based tool, *Loan Prospector Outreach* (LPO), which was introduced in 2005. LPO provides the counseling industry with automated technology, which the rest of the mortgage industry has used for nearly a decade. LPO promotes homeownership for traditionally underserved groups, fosters collaboration between lenders and housing counselors in order to reach more first-time homebuyers and families in underserved communities, helps housing counselors improve long-term borrower homeownership success through pre-purchase counseling, and promotes responsible lending practices through objective assessments of homebuyer readiness. LPO allows housing counselors to assess the readiness of their clients to apply for a mortgage: the housing counselor submits the client's information on LPO, and LPO automatically assesses the information

and provides the counselor with an indication of the client's readiness to apply for a mortgage.

Freddie Mac was also one of the first supporters of the NeighborWorks Center for Homeownership Education and Counseling, which was launched in 2004 to provide expanded training and certification opportunities for homeownership counselors.

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.