FEDERAL HOUSING FINANCE AGENCY

FACT SHEET

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QUESTIONS AND ANSWERS ON CONSERVATORSHIP

Q: What is a conservatorship?

A: A conservatorship is the legal process in which a person or entity is appointed to establish control and oversight of a Company to put it in a sound and solvent condition. In a conservatorship, the powers of the Company's directors, officers, and shareholders are transferred to the designated Conservator.

Q: What is a Conservator?

A: A Conservator is the person or entity appointed to oversee the affairs of a Company for the purpose of bringing the Company back to financial health.

In this instance, the Federal Housing Finance Agency ("FHFA") has been appointed by its Director to be the Conservator of the Company in accordance with the Federal Housing Finance Regulatory Reform Act of 2008 (Public Law 110-289) and the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (12 U.S.C. 4501, et seq., as amended) to keep the Company in a safe and solvent financial condition.

Q: How is a Conservator appointed?

A: By statute, the FHFA is appointed Conservator by its Director after the Director determines, in his discretion, that the Company is in need of reorganization or rehabilitation of its affairs.

Q: What are the goals of this conservatorship?

A: The purpose of appointing the Conservator is to preserve and conserve the Company's assets and property and to put the Company in a sound and solvent condition. The goals of the conservatorship are to help restore confidence in the Company, enhance its capacity to fulfill its mission, and mitigate the systemic risk that has contributed directly to the instability in the current market.

There is no reason for concern regarding the ongoing operations of the Company. The Company's operation will not be impaired and business will continue without interruption.

Q: When will the conservatorship period end?

A: Upon the Director's determination that the Conservator's plan to restore the Company to a safe and solvent condition has been completed successfully, the Director will issue an order terminating the conservatorship. At present, there is no exact time frame that can be given as to when this conservatorship may end.

Q: What are the powers of the Conservator?

A: The FHFA, as Conservator, may take all actions necessary and appropriate to (1) put the Company in a sound and solvent condition and (2) carry on the Company's business and preserve and conserve the assets and property of the Company.

Q: What happens upon appointment of a Conservator?

A: Once an "Order Appointing a Conservator" is signed by the Director of FHFA, the Conservator immediately succeeds to the (1) rights, titles, powers, and privileges of the Company, and any stockholder, officer, or director of such the Company with respect to the Company and its assets, and (2) title to all books, records and assets of the Company held by any other custodian or third-party. The Conservator is then charged with the duty to operate the Company.

Q: What does the Conservator do during a conservatorship?

A: The Conservator controls and directs the operations of the Company. The Conservator may (1) take over the assets of and operate the Company with all the powers of the shareholders, the directors, and the officers of the Company and conduct all business of the Company; (2) collect all obligations and money due to the Company; (3) perform all functions of the Company which are consistent with the Conservator's appointment; (4) preserve and conserve the assets and property of the Company; and (5) contract for assistance in fulfilling any function, activity, action or duty of the Conservator.

Q: How will the Company run during the conservatorship?

A: The Company will continue to run as usual during the conservatorship. The Conservator will delegate authorities to the Company's management to move forward with the business operations. The Conservator encourages all Company employees to continue to perform their job functions without interruption.

Q: Will the Company continue to pays its obligations during the conservatorship?

A: Yes, the Company's obligations will be paid in the normal course of business during the Conservatorship. The Treasury Department, through a secured lending credit facility and a Senior Preferred Stock Purchase Agreement, has significantly enhanced the ability of the Company to meet its obligations. The Conservator does not anticipate that there will be any disruption in the Company's pattern of payments or ongoing business operations.

Q: What happens to the Company's stock during the conservatorship?

A: During the conservatorship, the Company's stock will continue to trade. However, by statute, the powers of the stockholders are suspended until the conservatorship is terminated. Stockholders will continue to retain all rights in the stock's financial worth; as such worth is determined by the market.

Q: Is the Company able to buy and sell investments and complete financial transactions during the conservatorship?

A: Yes, the Company's operations continue subject to the oversight of the Conservator.

Q: What happens if the Company is liquidated?

A: Under a conservatorship, the Company is not liquidated.

Q: Can the Conservator determine to liquidate the Company?

A: The Conservator cannot make a determination to liquidate the Company, although, short of that, the Conservator has the authority to run the company in whatever way will best achieve the Conservator's goals (discussed above). However, assuming a statutory ground exists and the Director of FHFA determines that the financial condition of the company requires it, the Director does have the discretion to place any regulated entity, including the Company, into receivership. Receivership is a statutory process for the liquidation of a regulated entity. There are no plans to liquidate the Company.

Q: Can the Company be dissolved?

A: Although the company can be liquidated as explained above, by statute the charter of the Company must be transferred to a new entity and can only be dissolved by an Act of Congress.

U.S. TREASURY DEPARTMENT OFFICE OF PUBLIC AFFAIRS

EMBARGOED UNTIL 11 a.m. (EDT), September 7, 2008
CONTACT Brookly McLaughlin, (202) 622-2920

FACT SHEET:
TREASURY SENIOR PREFERRED STOCK PURCHASE AGREEMENT

Fannie Mae and Freddie Mac debt and mortgage backed securities outstanding today amount to about $5 trillion, and are held by central banks and investors around the world. Investors have purchased securities of these government sponsored enterprises in part because the ambiguities in their Congressional charters created a perception of government backing. These ambiguities fostered enormous growth in GSE debt outstanding, and the breadth of these holdings pose a systemic risk to our financial system. Because the U.S. government created these ambiguities, we have a responsibility to both avert and ultimately address the systemic risk now posed by the scale and breadth of the holdings of GSE debt and mortgage backed securities.

To address our responsibility to support GSE debt and mortgage backed securities holders, Treasury entered into a Senior Preferred Stock Purchase Agreement with each GSE which ensures that each enterprise maintains a positive net worth. This measure adds to market stability by providing additional security to GSE debt holders – senior and subordinated-- and adds to mortgage affordability by providing additional confidence to investors in GSE mortgage-backed securities. This commitment also eliminates any mandatory triggering of receivership.

These agreements are the most effective means of averting systemic risk and contain terms and conditions to protect the taxpayer. They are more efficient than a one-time equity injection, in that Treasury will use them only as needed and on terms that the Treasury deems appropriate.

These agreements provide significant protections for the taxpayer, in the form of senior preferred stock with a liquidation preference, an upfront $1 billion issuance of senior preferred stock with a 10% coupon from each GSE, quarterly dividend payments, warrants representing an ownership stake of 79.9% in each GSE going forward, and a quarterly fee starting in 2010.

Terms of the Agreements:

- The agreements are contracts between the Department of the Treasury and each GSE. They are indefinite in duration and have a capacity of $100 billion each, an amount chosen to demonstrate a strong commitment to the GSEs' creditors and mortgage backed security holders. This number is unrelated to the Treasury's analysis of the current financial conditions of the GSEs.

- If the Federal Housing Finance Agency determines that a GSE's liabilities have exceeded its assets under generally accepted accounting principles, Treasury will contribute cash capital to the GSE in an amount equal to the difference between liabilities and assets. An amount equal to each such contribution will be added to the senior preferred stock held by Treasury, which will be senior to all other preferred stock, common stock or other capital stock to be issued by the GSE. These agreements will protect the senior and subordinated debt and the mortgage backed securities of the GSEs. The GSE's common stock and existing preferred shareholders will bear any losses ahead of the government.

- In exchange for entering into these agreements with the GSEs, Treasury will immediately receive the following compensation:
  - $1 billion of senior preferred stock in each GSE
  - Warrants for the purchase of common stock of each GSE representing 79.9% of the common stock of each GSE on a fully-diluted basis at a nominal price

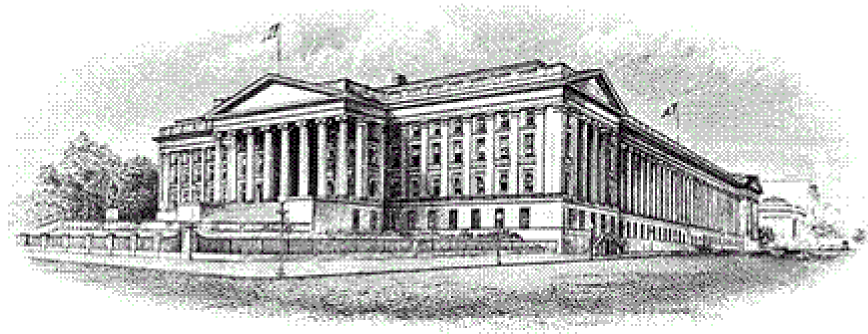
- The senior preferred stock shall accrue dividends at 10% per year. The rate shall increase to 12% if, in any quarter, the dividends are not paid in cash, until all accrued dividends have been paid in cash.

- The senior preferred stock shall not be entitled to voting rights. In a conservatorship, voting rights of all stockholders are vested in the Conservator.

- Beginning March 31, 2010, the GSEs shall pay the Treasury on a quarterly basis a periodic commitment fee that will compensate the Treasury for the explicit support provided by the agreement. The Secretary of the Treasury and the Conservator shall determine the periodic commitment fee in consultation with the Chairman of the Federal Reserve. This fee may be paid in cash or may be added to the senior preferred stock.

- The following covenants apply to the GSEs as part of the agreements.
  - Without the prior consent of the Treasury, the GSEs shall not:
    - Make any payment to purchase or redeem its capital stock, or pay any dividends, including preferred dividends (other than dividends on the senior preferred stock)
    - Issue capital stock of any kind
    - Enter into any new or adjust any existing compensation agreements with "named executive officers" without consulting with Treasury
    - Terminate conservatorship other than in connection with receivership
    - Sell, convey or transfer any of its assets outside the ordinary course of business except as necessary to meet their obligation under the agreements to reduce their portfolio of retained mortgages and mortgage backed securities
    - Increase its debt to more than 110% of its debt as of June 30, 2008
    - Acquire or consolidate with, or merge into, another entity.

- Each GSE's retained mortgage and mortgage backed securities portfolio shall not exceed $850 billion as of December 31, 2009, and shall decline by 10% per year until it reaches $250 billion.



U.S. TREASURY DEPARTMENT OFFICE OF PUBLIC AFFAIRS

EMBARGOED UNTIL, 11 a.m., (EDT), September 7, 2008
CONTACT Brookly McLaughlin, (202) 622-2920

FACT SHEET:
GSE MORTGAGE BACKED SECURITIES PURCHASE PROGRAM

Treasury announced a program today to help improve the availability of mortgage credit to American homebuyers and mitigate pressures on mortgage rates. To promote the stability of the mortgage market, Treasury will purchase Government Sponsored Enterprise (GSE) mortgage-backed securities (MBS) in the open market. By purchasing these guaranteed securities, Treasury seeks to broaden access to mortgage funding for current and prospective homeowners as well as to promote market stability.

Scope of Program. Treasury is committed to investing in agency MBS with the size and timing subject to the discretion of the Treasury Secretary. The scale of the program will be based on developments in the capital markets and housing markets.

- Congress granted Treasury authority to purchase MBS in the Housing and Economic Recovery Act of 2008. The authority expires on December 31, 2009.
- Treasury will begin later this month by investing in new GSE MBS, which are credit-guaranteed by the GSEs. Additional purchases will be made as deemed appropriate.
- Treasury can hold this portfolio of MBS to maturity and, based on mortgage market conditions, Treasury may make adjustments to the portfolio.

Management. Treasury will designate independent asset managers as financial agents to undertake the purchase and management of a portfolio of GSE MBS on behalf of Treasury.

- The portfolios will be managed with clear investment guidelines and investment objectives.
- The primary objectives of this portfolio will be to promote market stability, ensure mortgage availability, and protect the taxpayer.

Risk. Treasury is committed to protecting taxpayers and will ensure that measures are in place to reduce the potential for investment loss.

- Under most likely scenarios, taxpayers will benefit from this program - both indirectly through the increased availability and lower cost of mortgage financing, and directly through potential returns on Treasury's portfolio of MBS.

Budget Implications. Given that Treasury can hold these securities to maturity, the spreads between Treasury's cost of borrowing and GSE MBS indicate that there is no reason to expect taxpayer losses from this program.

- Treasury financing of purchases of GSE MBS will be deemed as outlays and are subject to the statutory debt limit.
- However, Treasury will be receiving an income producing asset (a portfolio of GSE MBS) in return for its invested funds.
- Treasury will make available information on purchases through this program in the Monthly Treasury Statement (http://fms.treas.gov/mts/index.html).

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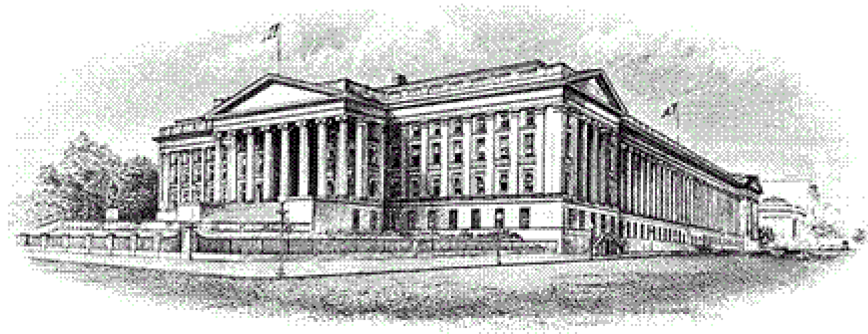

U.S. TREASURY DEPARTMENT OFFICE OF PUBLIC AFFAIRS

EMBARGOED UNTIL, 11 a.m., (EDT), September 7, 2008
CONTACT Brookly McLaughlin, (202) 622-2920

FACT SHEET:
GOVERNMENT SPONSORED ENTERPRISE CREDIT FACILITY

The Government Sponsored Enterprise Credit Facility (GSECF) announced today by Treasury to ensure credit availability to the housing GSEs is a lending facility that will provide secured funding on an as needed basis under terms and conditions established by the Treasury Secretary to protect taxpayers. Fannie Mae, Freddie Mac, and the Federal Home Loan Banks are eligible to borrow under this program if needed.

The facility will offer liquidity if needed until December 31, 2009. The Housing and Economic Recovery Act of 2008 provided Treasury with the authority to establish this facility.

Funding. Funding will be provided directly by Treasury from its general fund held at the Federal Reserve Bank of New York (FRBNY) in exchange for eligible collateral from the GSEs which will be limited to guaranteed mortgage backed securities issued by Freddie Mac and Fannie Mae as well as advances made by the Federal Home Loan Banks. All such assets pledged against loans will be accepted with appropriate collateral margins as determined by Treasury.

- The FRBNY will act as Treasury's fiscal agent to advance funds to the GSEs and to administer collateral arrangements.
- Any lending through the GSECF will be directly debited from Treasury's general account and credited to the borrowing GSE's account, both held at the FRBNY.
- Loan requests will require approval from Treasury and verification by the FRBNY that adequate collateral has been pledged.
- Similar to other borrowing done by Treasury, information on any borrowing will be publicly reported at the end of the following day in the Daily Treasury Statement. (http://www.fms.treas.gov/dts/)
- Any additional borrowing by Treasury necessitated by this program would be subject to the debt limit.

Loan Duration and Size. Loans will be for short-term durations and would in general be expected to be for less than one month but no shorter than one week.

- Specific maturities will be determined based on individual loan requests.
- The term of a loan may not be extended, but a maturing loan may be replaced with a new loan under the same borrowing procedures as the initial loan.

- Loans may be pre-paid with two days notice, and loans may be called before their scheduled maturity date.
- Loan amounts will be based on available collateral.
- Loans will not be made with a maturity date beyond December 31, 2009.

Rate. The rate on a loan request ordinarily will be based on the daily LIBOR fix for a similar term of the loan plus 50 basis points (LIBOR +50 bp). The rate is set at the discretion of the Treasury Secretary with the objective of protecting the taxpayer, and is subject to change.

Collateral. All loans will be collateralized and collateral is limited to mortgage backed securities issued by Freddie Mac and Fannie Mae and advances made by the Federal Home Loan Banks.

- The collateral will be valued and managed by Treasury's fiscal agent, the FRBNY, based on a range of pricing services.

PRESS ROOM
U.S. DEPARTMENT OF THE TREASURY

September 11, 2008
HP-1131

Frequently Asked Questions:
Treasury Senior Preferred Stock Purchase Agreement

Can the U.S. Congress or the Executive Branch change the terms of the preferred stock purchase agreement?
This preferred stock purchase agreement is a binding legal obligation between two parties. The agreement is designed to prohibit any amendment that would decrease the amount of Treasury's funding commitment or add funding conditions that would adversely affect debt or mortgage-backed securities holders.

Some may speculate that a future Congress could pass a law that would abrogate the agreement. But any such law would be inconsistent with the U.S. government's longstanding history of honoring its obligations. Such action would also give rise to government liability to parties suing to enforce their rights under the agreement.

The U.S. Government stands behind the preferred stock purchase agreements and will honor its commitments. Contracts are respected in this country as a fundamental part of rule of law.

Can the U.S. Congress or the Executive Branch change the covenants in the agreement, such as the covenant requiring the reduction of the companies' portfolios?
As with any contract, the parties to the agreement may modify the covenants by mutual agreement only.

Does the senior preferred stock purchase agreement protect debt and mortgage backed securities issued or maturing after 2009?
Yes. The holders of senior debt, subordinated debt, and mortgage backed securities issued or guaranteed by these GSEs are protected by the agreement without regard to when those securities were issued or guaranteed. Debt and mortgage backed securities issued or guaranteed both before and after December 31, 2009 are protected by the agreement.

If the preferred stock purchase agreement protects senior and subordinated debt securities issued at any time in the future, how can the agreement ever be terminated?
Treasury's funding commitment in the agreement would terminate under three events:

1. The funding commitment terminates if the commitment is fully funded by Treasury.
2. If a GSE liquidates its assets, its net worth deficiency is computed at that time and the GSE can call upon the Treasury to fund under its preferred stock purchase agreement. After that final funding, the funding commitment in the agreement would terminate.
3. When a GSE satisfies all of its liabilities, whether at maturity or by making some other provision for payment in full of its obligations, the funding commitment will also terminate.

Why is the preferred stock purchase agreement limited to $100 billion? Is that enough to protect against even the worst downside scenario? What happens if losses exceed $100 billion?
Treasury deliberately chose a large number to give confidence to the markets.

If Treasury has already received $1 billion in senior preferred stock, how can you say that no investment has been made yet?
The companies each issued $1 billion in senior preferred stock to Treasury in connection with Treasury's commitment to maintain a positive net worth in the GSE. No taxpayer money was spent to receive this stock.

How is it legal for this preferred stock purchase agreement to be valid beyond the December 31, 2009 expiration of Treasury's authority?
Treasury received the preferred stock and received warrants for common stock as of Sunday September 7, 2008 and will not need to purchase any additional shares relative to this agreement. No payments by the Treasury will be made under this agreement until and unless necessary to prevent a negative net worth position for either GSE.

If the Treasury makes payments under its funding commitment, the liquidation preference of the Treasury shares will increase accordingly

What happens to the declared dividends for investors of existing GSE preferred stock?
Dividends actually declared by a GSE before the date of the senior preferred stock purchase agreement will be paid on schedule.

Can the government exercise its warrants whenever it wants, even if it is disadvantageous to the companies?
Yes. Treasury can exercise its warrant for up to 79.9% of the common stock of each GSE on a fully diluted basis at any time during the 20-year life of the warrant.

What do the rating agencies think of this agreement?
All of the rating agencies have reaffirmed the United States' current rating status.

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SENIOR PREFERRED STOCK PURCHASE AGREEMENT

SENIOR PREFERRED STOCK PURCHASE AGREEMENT (this "Agreement") dated as of September 7, 2008, between the UNITED STATES DEPARTMENT OF THE TREASURY ("Purchaser") and FEDERAL NATIONAL MORTGAGE ASSOCIATION ("Seller"), acting through the Federal Housing Finance Agency (the "Agency") as its duly appointed conservator (the Agency in such capacity, "Conservator"). Reference is made to Article 1 below for the meaning of capitalized terms used herein without definition.

Background

A. The Agency has been duly appointed as Conservator for Seller pursuant to Section 1367(a) of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (as amended, the "FHE Act"). Conservator has determined that entry into this Agreement is (i) necessary to put Seller in a sound and solvent condition; (ii) appropriate to carry on the business of Seller and preserve and conserve the assets and property of Seller; and (iii) otherwise consistent with its powers, authorities and responsibilities.

B. Purchaser is authorized to purchase obligations and other securities issued by Seller pursuant to Section 304(g) of the Federal National Mortgage Association Charter Act, as amended (the "Charter Act"). The Secretary of the Treasury has determined, after taking into consideration the matters set forth in Section 304(g)(1)(C) of the Charter Act, that the purchases contemplated herein are necessary to (i) provide stability to the financial markets; (ii) prevent disruptions in the availability of mortgage finance; and (iii) protect the taxpayer.

THEREFORE, the parties hereto agree as follows:

Terms and Conditions

1. DEFINITIONS

As used in this Agreement, the following terms shall have the meanings set forth below:

"*Affiliate*" means, when used with respect to a specified Person (i) any direct or indirect holder or group (as defined in Sections 13(d) and 14(d) of the Exchange Act) of holders of 10.0% or more of any class of capital stock of such Person and (ii) any current or former director or officer of such Person, or any other current or former employee of such Person that currently exercises or formerly exercised a material degree of Control over such Person, including without limitation each current or former Named Executive Officer of such Person.

"*Available Amount*" means, as of any date of determination, the lesser of (a) the Deficiency Amount as of such date and (b) the Maximum Amount as of such date.

"*Business Day*" means any day other than a Saturday, Sunday or other day on which commercial banks are authorized to close under United States federal law and the law of the State of New York.

"*Capital Lease Obligations*" of any Person shall mean the obligations of such Person to pay rent or other amounts under any lease of (or other similar arrangement conveying the right to use) real or personal property, or a combination thereof, which obligations are required to be classified and accounted for as capital leases on a balance sheet of such Person under GAAP and, for purposes hereof, the amount of such obligations at any time shall be the capitalized amount thereof at such time determined in accordance with GAAP.

"*Control*" shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a Person, whether through the ownership of voting securities, by contract or otherwise.

"*Deficiency Amount*" means, as of any date of determination, the amount, if any, by which (a) the total liabilities of Seller exceed (b) the total assets of Seller (such assets excluding the Commitment and any unfunded amounts thereof), in each case as reflected on the balance sheet of Seller as of the applicable date set forth in this Agreement, prepared in accordance with GAAP; provided, however, that:

(i) for the avoidance of doubt, in measuring the Deficiency Amount liabilities shall exclude any obligation in respect of any capital stock of Seller, including the Senior Preferred Stock contemplated herein;

(ii) in the event that Seller becomes subject to receivership or other liquidation process or proceeding, "Deficiency Amount" shall mean, as of any date of determination, the amount, if any, by which (a) the total allowed claims against the receivership or other applicable estate (excluding any liabilities of or transferred to any LLRE (as defined in Section 5.4(a)) created by a receiver) exceed (b) the total assets of such receivership or other estate (excluding the Commitment, any unfunded amounts thereof and any assets of or transferred to any LLRE, but including the value of the receiver's interest in any LLRE);

(iii) to the extent Conservator or a receiver of Seller, or any statute, rule, regulation or court of competent jurisdiction, specifies or determines that a liability of Seller (including without limitation a claim against Seller arising from rescission of a purchase or sale of a security issued by Seller (or guaranteed by Seller or with respect to which Seller is otherwise liable) or for damages arising from the purchase, sale or retention of such a security) shall be subordinated (other than pursuant to a contract providing for such subordination) to all other liabilities of Seller or shall be treated on par with any class of equity of Seller, then such liability shall be excluded in the calculation of Deficiency Amount; and

(iv) the Deficiency Amount may be increased above the otherwise applicable amount by the mutual written agreement of Purchaser and Seller, each acting in its sole discretion.

"*Designated Representative*" means Conservator or (a) if Conservator has been superseded by a receiver pursuant to Section 1367(a) of the FHE Act, such receiver, or (b) if Seller is not in conservatorship or receivership pursuant to Section 1367(a) of the FHE Act, Seller's chief financial officer.

"*Director*" shall mean the Director of the Agency.

"*Effective Date*" means the date on which this Agreement shall have been executed and delivered by both of the parties hereto.

"*Equity Interests*" of any Person shall mean any and all shares, interests, rights to purchase or otherwise acquire, warrants, options, participations or other equivalents of or interests in (however designated) equity, ownership or profits of such Person, including any preferred stock, any limited or general partnership interest and any limited liability company membership interest, and any securities or other rights or interests convertible into or exchangeable for any of the foregoing.

"*Exchange Act*" means the Securities Exchange Act of 1934, as amended, and the rules and regulations of the SEC promulgated thereunder.

"*GAAP*" means generally accepted accounting principles in effect in the United States as set forth in the opinions and pronouncements of the Accounting Principles Board and the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board from time to time.

"*Indebtedness*" of any Person means, for purposes of Section 5.5 only, without duplication, (a) all obligations of such Person for money borrowed by such Person, (b) all obligations of such Person evidenced by bonds, debentures, notes or similar instruments, (c) all obligations of such Person under conditional sale or other title retention agreements relating to property or assets purchased by such Person, (d) all obligations of such Person issued or assumed as the deferred purchase price of property or services, other than trade accounts payable, (e) all Capital Lease Obligations of such Person, (f) obligations, whether contingent or liquidated, in respect of letters of credit (including standby and commercial), bankers' acceptances and similar instruments and (g) any obligation of such Person, contingent or otherwise, guaranteeing or having the economic effect of guaranteeing any Indebtedness of the types set forth in clauses (a) through (f) payable by another Person other than Mortgage Guarantee Obligations.

"*Liquidation End Date*" means the date of completion of the liquidation of Seller's assets.

"*Maximum Amount*" means, as of any date of determination, $100,000,000,000 (one hundred billion dollars), less the aggregate amount of funding under the Commitment prior to such date.

"*Mortgage Assets*" of any Person means assets of such Person consisting of mortgages, mortgage loans, mortgage-related securities, participation certificates, mortgage-backed commercial paper, obligations of real estate mortgage investment conduits and similar assets, in each case to the extent such assets would appear on the balance sheet of such Person in accordance with GAAP as in effect as of the date hereof (and, for the avoidance of doubt, without giving effect to any change that may be made hereafter in respect of Statement of Financial Accounting Standards No. 140 or any similar accounting standard).

"*Mortgage Guarantee Obligations*" means guarantees, standby commitments, credit enhancements and other similar obligations of Seller, in each case in respect of Mortgage Assets.

"*Named Executive Officer*" has the meaning given to such term in Item 402(a)(3) of Regulation S-K under the Exchange Act, as in effect on the date hereof.

"*Person*" shall mean any individual, corporation, limited liability company, partnership, joint venture, association, joint-stock company, trust, estate, unincorporated organization or government or any agency or political subdivision thereof, or any other entity whatsoever.

"*SEC*" means the Securities and Exchange Commission.

"*Senior Preferred Stock*" means the Variable Liquidation Preference Senior Preferred Stock of Seller, substantially in the form of Exhibit A hereto.

"*Warrant*" means a warrant for the purchase of common stock of Seller representing 79.9% of the common stock of Seller on a fully-diluted basis, substantially in the form of Exhibit B hereto.

2. COMMITMENT

2.1. *Commitment.* Purchaser hereby commits to provide to Seller, on the terms and conditions set forth herein, immediately available funds in an amount up to but not in excess of the Available Amount, as determined from time to time (the "Commitment"); provided, that in no event shall the aggregate amount funded under the Commitment exceed $100,000,000,000 (one hundred billion dollars). The liquidation preference of the Senior Preferred Stock shall increase in connection with draws on the Commitment, as set forth in Section 3.3 below.

2.2. *Quarterly Draws on Commitment.* Within fifteen (15) Business Days following the determination of the Deficiency Amount, if any, as of the end of each fiscal quarter of Seller which ends on or before the Liquidation End Date, the Designated Representative may, on behalf of Seller, request that Purchaser provide immediately available funds to Seller in an amount up to but not in excess of the Available Amount as of the end of such quarter. Any such request shall be valid only if it is in writing, is timely made, specifies the account of Seller to which such funds are to be transferred, and contains a certification of the Designated Representative that the requested amount does not exceed the Available Amount as of the end of the applicable quarter. Purchaser shall provide such funds within sixty (60) days of its receipt of such request or, following any determination by the Director that the Director will be mandated by law to appoint a receiver for Seller if such funds are not received sooner, such shorter period as may be necessary to avoid such mandatory appointment of a receiver if reasonably practicable taking into consideration Purchaser's access to funds.

2.3. *Accelerated Draws on Commitment.* Immediately following any determination by the Director that the Director will be mandated by law to appoint a receiver for Seller prior to the Liquidation End Date unless Seller's capital is increased by an amount (the "Special Amount") up to but not in excess of the then current Available Amount (computed based on a balance sheet of Seller prepared in accordance with GAAP that differs from the most recent balance sheet of Seller delivered in accordance with Section 5.9(a) or (b)) on a date that is prior to the date that funds will be available to Seller pursuant to Section 2.2, Conservator may, on behalf of Seller, request that Purchaser provide to Seller the Special Amount in immediately available funds. Any such request shall be valid only if it is in writing, is timely made, specifies the account of Seller to which such funds are to be transferred, and contains certifications of Conservator that (i) the requested amount does not exceed the Available Amount (including computations in reasonable detail and satisfactory to Purchaser of the then existing Deficiency Amount) and (ii) the requested amount is required to avoid the imminent mandatory appointment of a receiver for Seller. Purchaser shall provide such funds within thirty (30) days of its receipt of such request or, if reasonably practicable taking into consideration Purchaser's access to funds, any shorter period as may be necessary to avoid mandatory appointment of a receiver.

2.4. *Final Draw on Commitment.* Within fifteen (15) Business Days following the determination of the Deficiency Amount, if any, as of the Liquidation End Date (computed based on a balance sheet of Seller as of the Liquidation End Date prepared in accordance with GAAP), the Designated Representative may, on behalf of Seller, request that Purchaser provide immediately available funds to Seller in an amount up to but not in excess of the Available Amount as of the Liquidation End Date. Any such request shall be valid only if it is in writing, is timely made, specifies the account of Seller to which such funds are to be transferred, and contains a certification of the Designated Representative that the requested amount does not exceed the Available Amount (including computations in reasonable detail and satisfactory to Purchaser of the Deficiency Amount as of the Liquidation End Date). Purchaser shall provide such funds within sixty (60) days of its receipt of such request.

2.5. *Termination of Purchaser's Obligations.* Subject to earlier termination pursuant to Section 6.7, all of Purchaser's obligations under and in respect of the Commitment shall terminate upon the earliest of: (a) if the Liquidation End Date shall have occurred, (i) the payment in full of Purchaser's obligations with respect to any valid request for funds pursuant to Section 2.4 or (ii) if there is no Deficiency Amount on the Liquidation End Date or if no such request pursuant to Section 2.4 has been made, the close of business on the 15th Business Day following the determination of the Deficiency Amount, if any, as of the Liquidation End Date; (b) the payment in full of, defeasance of or other reasonable provision for all liabilities of Seller, whether or not contingent, including payment of any amounts that may become payable on, or expiry of or other provision for, all Mortgage Guarantee Obligations and provision for unmatured debts; and (c) the funding by Purchaser under the Commitment of an aggregate of $100,000,000,000 (one hundred billion dollars). For the avoidance of doubt, the Commitment shall *not* be terminable by Purchaser solely by reason of (i) the conservatorship, receivership or other insolvency proceeding of Seller or (ii) the Seller's financial condition or any adverse change in Seller's financial condition.

3. PURCHASE OF SENIOR PREFERRED STOCK AND WARRANT; FEES

3.1. *Initial Commitment Fee.* In consideration of the Commitment, and for no additional consideration, on the Effective Date (or as soon thereafter as is practicable) Seller shall sell and issue to Purchaser, and Purchaser shall purchase from Seller, (a) one million (1,000,000) shares of Senior Preferred Stock, with an initial liquidation preference equal to $1,000 per share

($1,000,000,000 (one billion dollars) liquidation preference in the aggregate), and (b) the Warrant.

3.2. *Periodic Commitment Fee.* (a) Commencing March 31, 2010, Seller shall pay to Purchaser quarterly, on the last day of March, June, September and December of each calendar year (each a "Periodic Fee Date"), a periodic commitment fee (the "Periodic Commitment Fee"). The Periodic Commitment Fee shall accrue from January 1, 2010.

(b) The Periodic Commitment Fee is intended to fully compensate Purchaser for the support provided by the ongoing Commitment following December 31, 2009. The amount of the Periodic Commitment Fee shall be set not later than December 31, 2009 with respect to the ensuing five-year period, shall be reset every five years thereafter and shall be determined with reference to the market value of the Commitment as then in effect. The amount of the Periodic Commitment Fee shall be mutually agreed by Purchaser and Seller, subject to their reasonable discretion and in consultation with the Chairman of the Federal Reserve; provided, that Purchaser may waive the Periodic Commitment Fee for up to one year at a time, in its sole discretion, based on adverse conditions in the United States mortgage market.

(c) At the election of Seller, the Periodic Commitment Fee may be paid in cash or by adding the amount thereof ratably to the liquidation preference of each outstanding share of Senior Preferred Stock so that the aggregate liquidation preference of all such outstanding shares of Senior Preferred Stock is increased by an amount equal to the Periodic Commitment Fee. Seller shall deliver notice of such election not later than three (3) Business Days prior to each Periodic Fee Date. If the Periodic Commitment Fee is not paid in cash by 12:00 pm (New York time) on the applicable Periodic Fee Date (irrespective of Seller's election pursuant to this subsection), Seller shall be deemed to have elected to pay the Periodic Commitment Fee by adding the amount thereof to the liquidation preference of the Senior Preferred Stock, and the aggregate liquidation preference of the outstanding shares of Senior Preferred Stock shall thereupon be automatically increased, in the manner contemplated by the first sentence of this section, by an aggregate amount equal to the Periodic Commitment Fee then due.

3.3. *Increases of Senior Preferred Stock Liquidation Preference as a Result of Funding under the Commitment.* The aggregate liquidation preference of the outstanding shares of Senior Preferred Stock shall be automatically increased by an amount equal to the amount of each draw on the Commitment pursuant to Article 2 that is funded by Purchaser to Seller, such increase to occur simultaneously with such funding and ratably with respect to each share of Senior Preferred Stock.

3.4. *Notation of Increase in Liquidation Preference.* Seller shall duly mark its records to reflect each increase in the liquidation preference of the Senior Preferred Stock contemplated herein (but, for the avoidance of doubt, such increase shall be effective regardless of whether Seller has properly marked its records).

4. REPRESENTATIONS

Seller represents and warrants as of the Effective Date, and shall be deemed to have represented and warranted as of the date of each request for and funding of an advance under the Commitment pursuant to Article 2, as follows:

4.1. *Organization and Good Standing.* Seller is a corporation, chartered by the Congress of the United States, duly organized, validly existing and in good standing under the laws of the United States and has all corporate power and authority to carry on its business as now conducted and as proposed to be conducted.

4.2. *Organizational Documents.* Seller has made available to Purchaser a complete and correct copy of its charter and bylaws, each as amended to date (the "Organizational Documents"). The Organizational Documents are in full force and effect. Seller is not in violation of any provision of its Organizational Documents.

4.3. *Authorization and Enforceability.* All corporate or other action on the part of Seller or Conservator necessary for the authorization, execution, delivery and performance of this Agreement by Seller and for the authorization, issuance and delivery of the Senior Preferred Stock and the Warrant being purchased under this Agreement, has been taken. This Agreement has been duly and validly executed and delivered by Seller and (assuming due authorization, execution and delivery by the Purchaser) shall constitute the valid and legally binding obligation of Seller, enforceable against Seller in accordance with its terms, except to the extent the enforceability thereof may be limited by bankruptcy laws, insolvency laws, reorganization laws, moratorium laws or other laws of general applicability affecting creditors' rights generally or by general equitable principles (regardless of whether enforcement is sought in a proceeding in equity or at law). The Agency is acting as conservator for Seller under Section 1367 of the FHE Act. The Board of Directors of Seller, by valid action at a duly called meeting of the Board of Directors on September 6, 2008, consented to the appointment of the Agency as conservator for purposes of Section 1367(a)(3)(I) of the FHE Act, and the Director of the Agency has appointed the Agency as Conservator for Seller pursuant to Section 1367(a)(1) of the FHE Act, and each such action has not been rescinded, revoked or modified in any respect.

4.4. *Valid Issuance.* When issued in accordance with the terms of this Agreement, the Senior Preferred Stock and the Warrant will be duly authorized, validly issued, fully paid and nonassessable, free and clear of all liens and preemptive rights. The shares of common stock to which the holder of the Warrant is entitled have been duly and validly reserved for issuance. When issued and delivered in accordance with the terms of this Agreement and the Warrant, such shares will be duly authorized, validly issued, fully paid and nonassessable, free and clear of all liens and preemptive rights.

4.5. *Non-Contravention.*

(a) The execution, delivery or performance by Seller of this Agreement and the consummation by Seller of the transactions contemplated hereby do not and will not (i) conflict with or violate any provision of the Organizational Documents of Seller; (ii) conflict with or violate any law, decree or regulation applicable to Seller or by which any property or asset of Seller is bound or affected, or (iii) result in any breach of, or constitute a default (with or without notice or lapse of time, or both) under, or give to others any right of termination, amendment, acceleration or cancellation of, or result in the creation of a lien upon any of the properties or assets of Seller, pursuant to any note, bond, mortgage, indenture or credit agreement, or any other contract, agreement, lease, license, permit, franchise or other instrument or obligation to which Seller is a party or by which Seller is bound or affected, other than, in the case of clause (iii), any such breach, default, termination, amendment, acceleration, cancellation or lien that would not have and would not reasonably be expected to have, individually or in the aggregate, a material adverse effect on the business, property, operations or condition of the Seller, the authority of the Conservator or the validity or enforceability of this Agreement (a "Material Adverse Effect").

(b) The execution and delivery of this Agreement by Seller does not, and the consummation by Seller of the transactions contemplated by this Agreement will not, require any consent, approval, authorization, waiver or permit of, or filing with or notification to, any governmental authority or any other person, except for such as have already been obtained.

5. COVENANTS

From the Effective Date until such time as the Senior Preferred Stock shall have been repaid or redeemed in full in accordance with its terms:

5.1. *Restricted Payments*. Seller shall not, and shall not permit any of its subsidiaries to, in each case without the prior written consent of Purchaser, declare or pay any dividend (preferred or otherwise) or make any other distribution (by reduction of capital or otherwise), whether in cash, property, securities or a combination thereof, with respect to any of Seller's Equity Interests (other than with respect to the Senior Preferred Stock or the Warrant) or directly or indirectly redeem, purchase, retire or otherwise acquire for value any of Seller's Equity Interests (other than the Senior Preferred Stock or the Warrant), or set aside any amount for any such purpose.

5.2. *Issuance of Capital Stock*. Seller shall not, and shall not permit any of its subsidiaries to, in each case without the prior written consent of Purchaser, sell or issue Equity Interests of Seller or any of its subsidiaries of any kind or nature, in any amount, other than the sale and issuance of the Senior Preferred Stock and Warrant on the Effective Date and the common stock subject to the Warrant upon exercise thereof, and other than as required by (and pursuant to) the terms of any binding agreement as in effect on the date hereof.

5.3. *Conservatorship*. Seller shall not (and Conservator, by its signature below, agrees that it shall not), without the prior written consent of Purchaser, terminate, seek termination of or permit to be terminated the conservatorship of Seller pursuant to Section 1367 of the FHE Act, other than in connection with a receivership pursuant to Section 1367 of the FHE Act.

5.4. *Transfer of Assets*. Seller shall not, and shall not permit any of its subsidiaries to, in each case without the prior written consent of Purchaser, sell, transfer, lease or otherwise dispose of (in one transaction or a series of related transactions) all or any portion of its assets (including

Equity Interests in other persons, including subsidiaries), whether now owned or hereafter acquired (any such sale, transfer, lease or disposition, a "Disposition"), other than Dispositions for fair market value:

(a) to a limited life regulated entity ("LLRE") pursuant to Section 1367(i) of the FHE Act;

(b) of assets and properties in the ordinary course of business, consistent with past practice;

(c) in connection with a liquidation of Seller by a receiver appointed pursuant to Section 1367(a) of the FHE Act;

(d) of cash or cash equivalents for cash or cash equivalents; or

(e) to the extent necessary to comply with the covenant set forth in Section 5.7 below.

5.5. *Indebtedness*. Seller shall not, and shall not permit any of its subsidiaries to, in each case without the prior written consent of Purchaser, incur, assume or otherwise become liable for (a) any Indebtedness if, after giving effect to the incurrence thereof, the aggregate Indebtedness of Seller and its subsidiaries on a consolidated basis would exceed 110.0% of the aggregate Indebtedness of Seller and its subsidiaries on a consolidated basis as of June 30, 2008 or (b) any Indebtedness if such Indebtedness is subordinated by its terms to any other Indebtedness of Seller or the applicable subsidiary. For purposes of this covenant the acquisition of a subsidiary with Indebtedness will be deemed to be the incurrence of such Indebtedness at the time of such acquisition.

5.6. *Fundamental Changes*. Seller shall not, and shall not permit any of its subsidiaries to, in each case without the prior written consent of Purchaser, (i) merge into or consolidate or amalgamate with any other Person, or permit any other Person to merge into or consolidate or amalgamate with it, (ii) effect a reorganization or recapitalization involving the common stock of Seller, a reclassification of the common stock of Seller or similar corporate transaction or event or (iii) purchase, lease or otherwise acquire (in one transaction or a series of transactions) all or substantially all of the assets of any other Person or any division, unit or business of any Person.

5.7. *Mortgage Assets*. Seller shall not own, as of any applicable date, Mortgage Assets in excess of (i) on December 31, 2009, $850 billion, or (ii) on December 31 of each year thereafter, 90.0% of the aggregate amount of Mortgage Assets of Seller as of December 31 of the immediately preceding calendar year; provided, that in no event shall Seller be required under this Section 5.7 to own less than $250 billion in Mortgage Assets.

5.8. *Transactions with Affiliates.* Seller shall not, and shall not permit any of its subsidiaries to, without the prior written consent of Purchaser, engage in any transaction of any kind or nature with an Affiliate of Seller unless such transaction is (i) pursuant to this Agreement, the Senior Preferred Stock or the Warrant, (ii) upon terms no less favorable to Seller than would be obtained in a comparable arm's-length transaction with a Person that is not an Affiliate of Seller or

(iii) a transaction undertaken in the ordinary course or pursuant to a contractual obligation or customary employment arrangement in existence as of the date hereof.

5.9. *Reporting*. Seller shall provide to Purchaser:

(a) not later than the time period specified in the SEC's rules and regulations with respect to issuers as to which Section 13 and 15(d) of the Exchange Act apply, annual reports on Form 10-K (or any successor or comparable form) containing the information required to be contained therein (or required in such successor or comparable form);

(b) not later than the time period specified in the SEC's rules and regulations with respect to issuers as to which Section 13 and 15(d) of the Exchange Act apply, reports on Form 10-Q (or any successor or comparable form) containing the information required to be contained therein (or required in such successor or comparable form);

(c) promptly from time to time after the occurrence of an event required to be therein reported (and in any event within the time period specified in the SEC's rules and regulations), such other reports on Form 8-K (or any successor or comparable form);

(d) concurrently with any delivery of financial statements under paragraphs (a) or (b) above, a certificate of the Designated Representative, (i) certifying that Seller is (and since the last such certificate has at all times been) in compliance with each of the covenants contained herein and that no representation made by Seller herein or in any document delivered pursuant hereto or in connection herewith was false or misleading in any material respect when made, or, if the foregoing is not true, specifying the nature and extent of the breach of covenant and/or representation and any corrective action taken or proposed to be taken with respect thereto, and (ii) setting forth computations in reasonable detail and satisfactory to the Purchaser of the Deficiency Amount, if any;

(e) promptly, from time to time, such other information regarding the operations, business affairs, plans, projections and financial condition of Seller, or compliance with the terms of this Agreement, as Purchaser may reasonably request; and

(f) as promptly as reasonably practicable, written notice of the following:

(i) the occurrence of the Liquidation End Date;

(ii) the filing or commencement of, or any written threat or notice of intention of any Person to file or commence, any action, suit or proceeding, whether at law or in equity or by or before any governmental authority or in arbitration, against Conservator, Seller or any other Person which, if adversely determined, would reasonably be expected to have a Material Adverse Effect;

(iii) any other development that is not a matter of general public knowledge and that has had, or would reasonably be expected to have, a Material Adverse Effect.

5.10. *Executive Compensation*. Seller shall not, without the consent of the Director, in consultation with the Secretary of the Treasury, enter into any new compensation arrangements with, or increase amounts or benefits payable under existing compensation arrangements of, any Named Executive Officer of Seller.

6. MISCELLANEOUS

6.1. *No Third-Party Beneficiaries*. Until the termination of the Commitment, at any time during the existence and continuance of a payment default with respect to debt securities issued by Seller and/or a default by Seller with respect to any Mortgage Guarantee Obligations, any holder of such defaulted debt securities or beneficiary of such Mortgage Guarantee Obligations (collectively, the "Holders") may (a) deliver notice to the Seller and the Designated Representative requesting exercise of all rights available to them under this Agreement to draw on the Commitment up to the lesser of the amount necessary to cure the outstanding payment defaults and the Available Amount as of the last day of the immediately preceding fiscal quarter, and (b) if Seller and the Designated Representative fail to act as requested within thirty (30) days of such notice, or if Purchaser shall fail to perform its obligations in respect of any draw on the Commitment and Seller and/or the Designated Representative shall not be diligently pursuing remedies in respect of such failure, seek judicial relief requiring Seller to draw on the Commitment or Purchaser to fund the Commitment, as applicable. The Holders shall have no other rights under or in respect of this Agreement, and the Commitment shall not otherwise be enforceable by any creditor of Seller or by any other Person other than the parties hereto, and no such creditor or other Person is intended to be, or shall be, a third party beneficiary of any provision of this Agreement.

6.2. *Non-Transferable; Successors*. The Commitment is solely for the benefit of Seller and shall not inure to the benefit of any other Person (other than the Holders to the extent set forth in Section 6.1), including any entity to which the charter of Seller may be transferred, to any LLRE or to any other successor to the assets, liabilities or operations of Seller. The Commitment may not be assigned or otherwise transferred, in whole or in part, to any Person (including, for the avoidance of doubt, any LLRE to which a receiver has assigned all or a portion of Seller's assets) without the prior written consent of Purchaser (which may be withheld in its sole discretion). In no event shall any successor to Seller (including such an LLRE) be entitled to the benefit of the Commitment without the prior written consent of Purchaser. Seller and Conservator, for themselves and on behalf of their permitted successors, covenant and agree not to transfer or purport to transfer the Commitment in contravention of the terms hereof, and any such attempted transfer shall be null and void *ab initio*. It is the expectation of the parties that, in the event Seller were placed into receivership and an LLRE formed to purchase certain of its assets and assume certain of its liabilities, the Commitment would remain with Seller for the benefit of the holders of the debt of Seller not assumed by the LLRE.

6.3. *Amendments; Waivers*. This Agreement may be waived or amended solely by a writing executed by both of the parties hereto, and, with respect to amendments to or waivers of the provisions of Sections 5.3, 6.2 and 6.11, the Conservator; provided, however, that no such waiver or amendment shall decrease the aggregate Commitment or add conditions to funding the amounts required to be funded by Purchaser under the Commitment if such waiver or amendment would, in the reasonable opinion of Seller, adversely affect in any material respect the holders of debt securities of Seller and/or the beneficiaries of Mortgage Guarantee Obligations, in each case in their capacities as such, after taking into account any alternative arrangements that may be implemented concurrently with such waiver or amendment. In no event shall any rights granted hereunder prevent the parties hereto from waiving or amending in any manner whatsoever the covenants of Seller hereunder.

6.4. *Governing Law; Jurisdiction; Venue.* This Agreement and the Warrant shall be governed by, and construed in accordance with, the federal law of the United States of America if and to the extent such federal law is applicable, and otherwise in accordance with the laws of the State of New York. The Senior Preferred Stock shall be governed as set forth in the terms thereof. The United States District Court for the District of Columbia shall have exclusive jurisdiction over all civil actions arising out of this Agreement, the Commitment, the Senior Preferred Stock and the Warrant, and venue for any such civil action shall lie exclusively in the United States District Court for the District of Columbia.

6.5. *Notices.* Any notices delivered pursuant to or in connection with this Agreement shall be delivered to the applicable parties at the addresses set forth below:

If to Seller:

Federal National Mortgage Association
c/o Federal Housing Finance Authority
1700 G Street, NW
4th Floor
Washington, DC 20552
Attention: General Counsel

If to Purchaser:

United States Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington DC 20220
Attention: Under Secretary for Domestic Finance

with a copy to:

United States Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington DC 20220
Attention: General Counsel

If to Conservator:

Federal Housing Finance Authority
1700 G Street, NW

4th Floor
Washington, DC 20552
Attention: General Counsel

All notices and other communications provided for herein shall be in writing and shall be delivered by hand or overnight courier service, mailed by certified or registered mail. All notices hereunder shall be effective upon receipt.

6.6. *Disclaimer of Guarantee*. This Agreement and the Commitment are not intended to and shall not be deemed to constitute a guarantee by Purchaser or any other agency or instrumentality of the United States of the payment or performance of any debt security or any other obligation, indebtedness or liability of Seller of any kind or character whatsoever.

6.7. *Effect of Order; Injunction; Decree*. If any order, injunction or decree is issued by any court of competent jurisdiction that vacates, modifies, amends, conditions, enjoins, stays or otherwise affects the appointment of Conservator as conservator of Seller or otherwise curtails Conservator's powers as such conservator (except in each case any order converting the conservatorship to a receivership under Section 1367(a) of the FHE Act), Purchaser may by written notice to Conservator and Seller declare this Agreement null and void, whereupon all transfers hereunder (including the issuance of the Senior Preferred Stock and the Warrant and any funding of the Commitment) shall be rescinded and unwound and all obligations of the parties (other than to effectuate such rescission and unwind) shall immediately and automatically terminate.

6.8. *Business Day*. To the extent that any deadline or date of performance of any right or obligation set forth herein shall fall on a day other than a Business Day, then such deadline or date of performance shall automatically be extended to the next succeeding Business Day.

6.9. *Entire Agreement*. This Agreement, together with the Senior Preferred Stock and Warrant, contains the entire agreement between the parties hereto with respect to the transactions contemplated hereby and supersedes and cancels all prior agreements, including, but not limited to, all proposals, term sheets, statements, letters of intent or representations, written or oral, with respect thereto.

6.10. *Remedies*. In the event of a breach by Seller of any covenant or representation of Seller set forth herein, Purchaser shall be entitled to specific performance (in the case of a breach of covenant), damages and such other remedies as may be available at law or in equity; provided, that Purchaser shall not have the right to terminate the Commitment solely as a result of any such breach, and compliance with the covenants and the accuracy of the representations set forth in this Agreement shall not be conditions to funding the Commitment.

6.11. *Tax Reporting*. Neither Seller nor Conservator shall take, or shall permit any of their respective successors or assigns to take, a position for any tax, accounting or other purpose that is inconsistent with Internal Revenue Service Notice 2008-76 (or the regulations to be issued pursuant to such Notice) regarding the application of Section 382 of the Internal Revenue Code of 1986, as amended, a copy of which Notice has been provided to Seller in connection with the execution of this Agreement.

6.12. *Non-Severability*. Each of the provisions of this Agreement is integrated with and integral to the whole and shall not be severable from the remainder of the Agreement. In the event that any provision of this Agreement, the Senior Preferred Stock or the Warrant is determined to be illegal or unenforceable, then Purchaser may, in its sole discretion, by written notice to Conservator and Seller, declare this Agreement null and void, whereupon all transfers hereunder (including the issuance of the Senior Preferred Stock and the Warrant and any funding of the Commitment) shall be rescinded and unwound and all obligations of the parties (other than to effectuate such rescission and unwind) shall immediately and automatically terminate.

[Signature Page Follows]

FEDERAL NATIONAL MORTGAGE ASSOCIATION, by

Federal Housing Finance Agency, its Conservator

James B. Lockhart III
Director

UNITED STATES DEPARTMENT OF THE TREASURY

Henry M. Paulson, Jr.
Secretary of the Treasury

Acknowledged and, solely as to Sections 5.3, 6.2 and 6.11, agreed:

FEDERAL HOUSING FINANCE AGENCY, as Conservator

James B. Lockhart III
Director

CERTIFICATE OF DESIGNATION OF TERMS OF VARIABLE LIQUIDATION PREFERENCE SENIOR PREFERRED STOCK, SERIES 2008-2

1. Designation, Par Value, Number of Shares and Priority

The designation of the series of preferred stock of the Federal National Mortgage Association (the "Company") created by this resolution shall be "Variable Liquidation Preference Senior Preferred Stock, Series 2008-2" (the "Senior Preferred Stock"), and the number of shares initially constituting the Senior Preferred Stock is 1,000,000. Shares of Senior Preferred Stock will have no par value and a stated value and initial liquidation preference per share equal to $1,000 per share, subject to adjustment as set forth herein. The Board of Directors of the Company, or a duly authorized committee thereof, in its sole discretion, may reduce the number of shares of Senior Preferred Stock, provided such reduction is not below the number of shares of Senior Preferred Stock then outstanding.

The Senior Preferred Stock shall rank prior to the common stock of the Company as provided in this Certificate and shall rank, as to both dividends and distributions upon dissolution, liquidation or winding up of the Company, prior to (a) the shares of preferred stock of the Company designated "5.25% Non-Cumulative Preferred Stock, Series D", "5.10% Non-Cumulative Preferred Stock, Series E", "Variable Rate Non-Cumulative Preferred Stock, Series F", "Variable Rate Non-Cumulative Preferred Stock, Series G", "5.81% Non-Cumulative Preferred Stock, Series H", "5.375% Non-Cumulative Preferred Stock, Series I", "5.125% Non-Cumulative Preferred Stock, Series L", "4.75% Non-Cumulative Preferred Stock, Series M", "5.50% Non-Cumulative Preferred Stock, Series N", "Non-Cumulative Preferred Stock, Series O", "Non-Cumulative Convertible Series 2004-1 Preferred Stock", "Variable Rate Non-Cumulative Preferred Stock, Series P", "6.75% Non-Cumulative Preferred Stock, Series Q", "7.625% Non-Cumulative Preferred Stock, Series R", "Fixed-to-Floating Rate Non-Cumulative Preferred Stock, Series S", and "8.75% Non-Cumulative Mandatory Convertible Preferred Stock", Series 2008-1", (b) any other capital stock of the Company outstanding on the date of the initial issuance of the Senior Preferred Stock and (c) any capital stock of the Company that may be issued after the date of initial issuance of the Senior Preferred Stock.

2. Dividends

(a) For each Dividend Period from the date of the initial issuance of the Senior Preferred Stock, holders of outstanding shares of Senior Preferred Stock shall be entitled to receive, ratably, when, as and if declared by the Board of Directors, in its sole discretion, out of funds legally available therefor, cumulative cash dividends at the annual rate per share equal to the then-current Dividend Rate on the then-current Liquidation Preference. Dividends on the Senior Preferred Stock shall accrue from but not including the date of the initial issuance of the Senior Preferred Stock and will be payable in arrears when, as and if declared by the Board of Directors quarterly on March 31, June 30, September 30 and December 31 of each year (each, a "Dividend Payment Date"), commencing on December 31, 2008. If a Dividend Payment Date is not a "Business Day," the related dividend will be paid not later than the next Business Day with the same force and effect as though paid on the Dividend Payment Date, without any increase to account for the period from such Dividend Payment Date through the date of actual payment. "Business Day" means a day other than (i) a Saturday or Sunday, (ii) a day on which New York City banks are closed, or (iii) a day on which the offices of the Company are closed.

If declared, the initial dividend will be for the period from but not including the date of the initial issuance of the Senior Preferred Stock through and including December 31, 2008. Except for the initial Dividend Payment Date, the "Dividend Period" relating to a Dividend Payment Date will be the period from but not including the preceding Dividend Payment Date through and including the related Dividend Payment Date. The amount of dividends payable on the initial Dividend Payment Date or for any Dividend Period that is not a full calendar quarter shall be computed on the basis of 30-day months, a 360-day year and the actual number of days elapsed in any period of less than one month. For the avoidance of doubt, in the event that the Liquidation Preference changes in the middle of a Dividend Period, the amount of dividends payable on the Dividend Payment Date at the end of such Dividend Period shall take into account such change in Liquidation Preference and shall be computed at the Dividend Rate on each Liquidation Preference based on the portion of the Dividend Period that each Liquidation Preference was in effect.

(b) To the extent not paid pursuant to Section 2(a) above, dividends on the Senior Preferred Stock shall accrue and shall be added to the Liquidation Preference pursuant to Section 8, whether or not there are funds legally available for the payment of such dividends and whether or not dividends are declared.

(c) "Dividend Rate" means 10.0%; provided, however, that if at any time the Company shall have for any reason failed to pay dividends in cash in a timely manner as required by this Certificate, then immediately following such failure and for all Dividend Periods thereafter until the Dividend Period following the date on which the Company shall have paid in cash full cumulative dividends (including any unpaid dividends added to the Liquidation Preference pursuant to Section 8), the "Dividend Rate" shall mean 12.0%.

(d) Each such dividend shall be paid to the holders of record of outstanding shares of the Senior Preferred Stock as they appear in the books and records of the Company on such record date as shall be fixed in advance by the Board of Directors, not to be earlier than 45 days nor later than 10 days preceding the applicable Dividend Payment Date. The Company may not, at any time, declare or pay dividends on, make distributions with respect to, or redeem, purchase or acquire, or make a liquidation payment with respect to, any common stock or other securities ranking junior to the Senior Preferred Stock unless (i) full cumulative dividends on the outstanding Senior Preferred Stock in respect of the then-current Dividend Period and all past Dividend Periods (including any unpaid dividends added to the Liquidation Preference pursuant to Section 8) have been declared and paid in cash (including through any pay down of Liquidation Preference pursuant to Section 3) and (ii) all amounts required to be paid pursuant to Section 4 (without giving effect to any prohibition on such payment under any applicable law) have been paid in cash.

(e) Notwithstanding any other provision of this Certificate, the Board of Directors, in its discretion, may choose to pay dividends on the Senior Preferred Stock without the payment of any dividends on the common stock, preferred stock or any other class or series of stock from time to time outstanding ranking junior to the Senior Preferred Stock with respect to the payment of dividends.

(f) If and whenever dividends, having been declared, shall not have been paid in full, as aforesaid, on shares of the Senior Preferred Stock, all such dividends that have been declared on shares of the Senior Preferred Stock shall be paid to the holders pro rata based on the aggregate Liquidation Preference of the shares of Senior Preferred Stock held by each holder, and any amounts due but not paid in cash shall be added to the Liquidation Preference pursuant to Section 8.

3. Optional Pay Down of Liquidation Preference

(a) Following termination of the Commitment (as defined in the Preferred Stock Purchase Agreement referred to in Section 8 below), and subject to any limitations which may be imposed by law and the provisions below, the Company may pay down the Liquidation Preference of all outstanding shares of the Senior Preferred Stock pro rata, at any time, in whole or in part, out of funds legally available therefor, with such payment first being used to reduce any accrued and unpaid dividends previously added to the Liquidation Preference pursuant to Section 8 below and, to the extent all such accrued and unpaid dividends have been paid, next being used to reduce any Periodic Commitment Fees (as defined in the Preferred Stock Purchase Agreement referred to in Section 8 below) previously added to the Liquidation Preference pursuant to Section 8 below. Prior to termination of the Commitment, and subject to any limitations which may be imposed by law and the provisions below, the Company may pay down the Liquidation Preference of all outstanding shares of the Senior Preferred Stock pro rata, at any time, out of funds legally available therefor, but only to the extent of (i) accrued and unpaid dividends previously added to the Liquidation Preference pursuant to Section 8 below and not repaid by any prior pay down of Liquidation Preference and (ii) Periodic Commitment Fees previously added to the Liquidation Preference pursuant to Section 8 below and not repaid by any prior pay down of Liquidation Preference. Any pay down of Liquidation Preference permitted by this Section 3 shall be paid by making a payment in cash to the holders of record of outstanding shares of the Senior Preferred Stock as they appear in the books and records of the Company on such record date as shall be fixed in advance by the Board of Directors, not to be earlier than 45 days nor later than 10 days preceding the date fixed for the payment.

(b) In the event the Company shall pay down of the Liquidation Preference of the Senior Preferred Stock as aforesaid, notice of such pay down shall be given by the Company by first class mail, postage prepaid, mailed neither less than 10 nor more than 45 days preceding the date fixed for the payment, to each holder of record of the shares of the Senior Preferred Stock, at such holder's address as the same appears in the books and records of the Company. Each such notice shall state the amount by which the Liquidation Preference of each share shall be reduced and the pay down date.

(c) If after termination of the Commitment the Company pays down the Liquidation Preference of each outstanding share of Senior Preferred Stock in full, such shares shall be deemed to have been redeemed as of the date of such payment, and the dividend that would otherwise be payable for the Dividend Period ending on the pay down date will be paid on such date. Following such deemed redemption, the shares of the Senior Preferred Stock shall no longer be deemed to be outstanding, and all rights of the holders thereof as holders of the Senior Preferred Stock shall cease, with respect to shares so redeemed, other than the right to receive the pay down amount (which shall include the final dividend for such shares). Any shares of the Senior Preferred Stock which shall have been so redeemed, after such redemption, shall no longer have the status of authorized, issued or outstanding shares.

4. Mandatory Pay Down of Liquidation Preference Upon Issuance of Capital Stock

(a) If the Company shall issue any shares of capital stock (including without limitation common stock or any series of preferred stock) in exchange for cash at any time while the Senior Preferred Stock is outstanding, then the Company shall, within 10 Business Days, use the proceeds of such issuance net of the direct costs relating to the issuance of such securities (including, without limitation, legal, accounting and investment banking fees) to pay down the Liquidation Preference of all outstanding shares of Senior Preferred Stock pro rata, out of funds legally available therefor, by making a payment in cash to the holders of record of outstanding shares of the Senior Preferred Stock as they appear in the books and records of the Company on such record date as shall be fixed in advance by the Board of Directors, not to be earlier than 45 days nor later than 10 days preceding the date fixed for the payment, with such payment first being used to reduce any accrued and unpaid dividends previously added to the Liquidation Preference pursuant to Section 8 below and, to the extent all such accrued and unpaid dividends have been paid, next being used to reduce any Periodic Commitment Fees (as defined in the Preferred Stock Purchase Agreement referred to in Section 8 below) previously added to the Liquidation Preference pursuant to Section 8 below; provided that, prior to the termination of the Commitment (as defined in the Preferred Stock Purchase Agreement referred to in Section 8 below), the Liquidation Preference of each share of Senior Preferred Stock shall not be paid down below $1,000 per share.

(b) If the Company shall not have sufficient assets legally available for the pay down of the Liquidation Preference of the shares of Senior Preferred Stock required under Section 4(a), the Company shall pay down the Liquidation Preference per share to the extent permitted by law, and shall pay down any Liquidation Preference not so paid down because of the unavailability of legally available assets or other prohibition as soon as practicable to the extent it is thereafter able to make such pay down legally. The inability of the Company to make such payment for any reason shall not relieve the Company from its obligation to effect any required pay down of the Liquidation Preference when, as and if permitted by law.

(c) If after the termination of the Commitment the Company pays down the Liquidation Preference of each outstanding share of Senior Preferred Stock in full, such shares shall be deemed to have been redeemed as of the date of such payment, and the dividend that would otherwise be payable for the Dividend Period ending on the pay down date will be paid on such date. Following such deemed redemption, the shares of the Senior Preferred Stock shall no longer be deemed to be outstanding, and all rights of the holders thereof as holders of the Senior Preferred Stock shall cease, with respect to shares so redeemed, other than the right to receive the pay down amount (which shall include the final dividend for such redeemed shares). Any shares of the Senior Preferred Stock which shall have been so redeemed, after such redemption, shall no longer have the status of authorized, issued or outstanding shares.

5. No Voting Rights

Except as set forth in this Certificate or otherwise required by law, the shares of the Senior Preferred Stock shall not have any voting powers, either general or special.

6. No Conversion or Exchange Rights

The holders of shares of the Senior Preferred Stock shall not have any right to convert such shares into or exchange such shares for any other class or series of stock or obligations of the Company.

7. No Preemptive Rights

No holder of the Senior Preferred Stock shall as such holder have any preemptive right to purchase or subscribe for any other shares, rights, options or other securities of any class of the Company which at any time may be sold or offered for sale by the Company.

8. Liquidation Rights and Preference

(a) Except as otherwise set forth herein, upon the voluntary or involuntary dissolution, liquidation or winding up of the Company, the holders of the outstanding shares of the Senior Preferred Stock shall be entitled to receive out of the assets of the Company available for distribution to stockholders, before any payment or distribution shall be made on the common stock or any other class or series of stock of the Company ranking junior to the Senior Preferred Stock upon liquidation, the amount per share equal to the Liquidation Preference plus an amount, determined in accordance with Section 2(a) above, equal to the dividend otherwise payable for the then-current Dividend Period accrued through and including the date of payment in respect of such dissolution, liquidation or winding up; provided, however, that if the assets of the Company available for distribution to stockholders shall be insufficient for the payment of the amount which the holders of the outstanding shares of the Senior Preferred Stock shall be entitled to receive upon such dissolution, liquidation or winding up of the Company as aforesaid, then, all of the assets of the Company available for distribution to stockholders shall be distributed to the holders of outstanding shares of the Senior Preferred Stock pro rata based on the aggregate Liquidation Preference of the shares of Senior Preferred Stock held by each holder.

(b) "Liquidation Preference" shall initially mean $1,000 per share and shall be:

(i) increased each time a Deficiency Amount (as defined in the Preferred Stock Purchase Agreement) is paid to the Company by an amount per share equal to the aggregate amount so paid to the Company divided by the number of shares of Senior Preferred Stock outstanding at the time of such payment;

(ii) increased each time the Company does not pay the full Periodic Commitment Fee (as defined in the Preferred Stock Purchase Agreement) in cash by an amount per share equal to the amount of the Periodic Commitment Fee that is not paid in cash divided by the number of shares of Senior Preferred Stock outstanding at the time such payment is due;

(iii) increased on the Dividend Payment Date if the Company fails to pay in full the dividend payable for the Dividend Period ending on such date by an amount per share equal to the aggregate amount of unpaid dividends divided by the number of shares of Senior Preferred Stock outstanding on such date; and

(iv) decreased each time the Company pays down the Liquidation Preference pursuant to Section 3 or Section 4 of this Certificate by an amount per share equal to the aggregate amount of the pay down divided by the number of shares of Senior Preferred Stock outstanding at the time of such pay down.

(c) "Preferred Stock Purchase Agreement" means the Preferred Stock Purchase Agreement, dated September 7, 2008, between the Company and the United States Department of the Treasury.

(d) Neither the sale of all or substantially all of the property or business of the Company, nor the merger, consolidation or combination of the Company into or with any other corporation or entity, shall be deemed to be a dissolution, liquidation or winding up for the purpose of this Section 8.

9. Additional Classes or Series of Stock

The Board of Directors shall have the right at any time in the future to authorize, create and issue, by resolution or resolutions, one or more additional classes or series of stock of the Company, and to determine and fix the distinguishing characteristics and the relative rights, preferences, privileges and other terms of the shares thereof; provided that, any such class or series of stock may not rank prior to or on parity with the Senior Preferred Stock without the prior written consent of the holders of at least two-thirds of all the shares of Senior Preferred Stock at the time outstanding.

10. Miscellaneous

(a) The Company and any agent of the Company may deem and treat the holder of a share or shares of Senior Preferred Stock, as shown in the Company's books and records, as the absolute owner of such share or shares of Senior Preferred Stock for the purpose of receiving payment of dividends in respect of such share or shares of Senior Preferred Stock and for all other purposes whatsoever, and neither the Company nor any agent of the Company shall be affected by any notice to the contrary. All payments made to or upon the order of any such person shall be valid and, to the extent of the sum or sums so paid, effectual to satisfy and discharge liabilities for moneys payable by the Company on or with respect to any such share or shares of Senior Preferred Stock.

(b) The shares of the Senior Preferred Stock, when duly issued, shall be fully paid and non-assessable.

(c) The Senior Preferred Stock may be issued, and shall be transferable on the books of the Company, only in whole shares.

(d) For purposes of this Certificate, the term "the Company" means the Federal National Mortgage Association and any successor thereto by operation of law or by reason of a merger, consolidation, combination or similar transaction.

(e) This Certificate and the respective rights and obligations of the Company and the holders of the Senior Preferred Stock with respect to such Senior Preferred Stock shall be construed in accordance with and governed by the laws of the United States, provided that the law of the State of Delaware shall serve as the federal rule of decision in all instances except where such law is inconsistent with the Company's enabling legislation, its public purposes or any provision of this Certificate.

(f) Any notice, demand or other communication which by any provision of this Certificate is required or permitted to be given or served to or upon the Company shall be given or served in writing addressed (unless and until another address shall be published by the Company) to Fannie Mae, 3900 Wisconsin Avenue NW, Washington, DC 20016, Attn: Executive Vice President and General Counsel. Such notice, demand or other communication to or upon the Company shall be deemed to have been sufficiently given or made only upon actual receipt of a writing by the Company. Any notice, demand or other communication which by any provision of this Certificate is required or permitted to be given or served by the Company hereunder may be given or served by being deposited first class, postage prepaid, in the United States mail addressed (i) to the holder as such holder's name and address may appear at such time in the books and records of the Company or (ii) if to a person or entity other than a holder of record of the Senior Preferred Stock, to such person or entity at such address as reasonably appears to the Company to be appropriate at such time. Such notice, demand or other communication shall be deemed to have been sufficiently given or made, for all purposes, upon mailing.

(g) The Company, by or under the authority of the Board of Directors, may amend, alter, supplement or repeal any provision of this Certificate pursuant to the following terms and conditions:

(i) Without the consent of the holders of the Senior Preferred Stock, the Company may amend, alter, supplement or repeal any provision of this Certificate to cure any ambiguity, to correct or supplement any provision herein which may be defective or inconsistent with any other provision herein, or to make any other provisions with respect to matters or questions arising under this Certificate, provided that such action shall not adversely affect the interests of the holders of the Senior Preferred Stock.

(ii) The consent of the holders of at least two-thirds of all of the shares of the Senior Preferred Stock at the time outstanding, given in person or by proxy, either in writing or by a vote at a meeting called for the purpose at which the holders of shares of the Senior Preferred Stock shall vote together as a class, shall be necessary for authorizing, effecting or validating the amendment, alteration, supplementation or repeal (whether by merger, consolidation or otherwise) of the provisions of this Certificate other than as set forth in subparagraph (i) of this paragraph (g). The creation and issuance of any other class or series of stock, or the issuance of additional shares of any existing class or series of stock, of the Company ranking junior to the Senior Preferred Stock shall not be deemed to constitute such an amendment, alteration, supplementation or repeal.

(iii) Holders of the Senior Preferred Stock shall be entitled to one vote per share on matters on which their consent is required pursuant to subparagraph (ii) of this paragraph (g). In connection with any meeting of such holders, the Board of Directors shall fix a record date, neither earlier than 60 days nor later than 10 days prior to the date of such meeting, and holders of record of shares of the Senior Preferred Stock on such record date shall be entitled to notice of and to vote at any such meeting and any adjournment. The Board of Directors, or such person or persons as it may designate, may establish reasonable rules and procedures as to the solicitation of the consent of holders of the Senior Preferred Stock at any such meeting or otherwise, which rules and procedures shall conform to the requirements of any national securities exchange on which the Senior Preferred Stock may be listed at such time.

(h) **RECEIPT AND ACCEPTANCE OF A SHARE OR SHARES OF THE SENIOR PREFERRED STOCK BY OR ON BEHALF OF A HOLDER SHALL CONSTITUTE THE UNCONDITIONAL ACCEPTANCE BY THE HOLDER (AND ALL OTHERS HAVING BENEFICIAL OWNERSHIP OF SUCH SHARE OR SHARES) OF ALL OF THE TERMS AND PROVISIONS OF THIS CERTIFICATE. NO SIGNATURE OR OTHER FURTHER MANIFESTATION OF ASSENT TO THE TERMS AND PROVISIONS OF THIS CERTIFICATE SHALL BE NECESSARY FOR ITS OPERATION OR EFFECT AS BETWEEN THE COMPANY AND THE HOLDER (AND ALL SUCH OTHERS).**

IN WITNESS WHEREOF, I have hereunto set my hand and the seal of the Company this 7th day of September, 2008.

[Seal]

FEDERAL NATIONAL MORTGAGE ASSOCIATION,
by

The Federal Housing Finance Agency, its Conservator

____
James B. Lockhart III
Director

FEDERAL NATIONAL MORTGAGE ASSOCIATION
WARRANT TO PURCHASE COMMON STOCK

NO. _____ September 7, 2008

VOID AFTER SEPTEMBER 7, 2028

THIS CERTIFIES THAT, for value received, the United States Department of the Treasury, with its principal office at 1500 Pennsylvania Avenue, NW, Washington, DC 20220 (the "Holder"), is entitled to purchase at the Exercise Price (defined below) from Federal National Mortgage Association, a government-sponsored enterprise of the United States of America, with its principal office at 3900 Wisconsin Avenue, NW, Washington, DC 20016 (the "Company"), shares of common stock, no par value, of the Company, as provided herein.

1. Definitions. As used herein, the following terms shall have the following respective meanings:

"Affiliate" shall mean, as to any specified Person, any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For the purposes of this definition, "control," when used with respect to any Person, means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise and the terms "affiliated," "controlling" and "controlled" have meanings correlative to the foregoing.

"Business Day" shall mean each Monday, Tuesday, Wednesday, Thursday and Friday that is not a day on which banking institutions in New York, New York are authorized or obligated by law or executive order to close.

"Common Stock" shall mean the common stock, no par value, of the Company, and all other stock of any class or classes (however designated) of the Company from time to time outstanding, the holders of which have the right, without limitation as to amount, either to all or to a share of the balance of current dividends or liquidating distributions after the payment of dividends and distributions on any shares entitled to preference.

"Exercise Period" shall mean the time period commencing with the date hereof and ending at 5:00 p.m. New York time on the 20th anniversary of the date hereof.

"Exercise Price" shall mean one one-thousandth of a cent ($0.00001) per share.

"Exercise Shares" shall mean the shares of the Common Stock issuable upon exercise of this Warrant, subject to adjustment pursuant to the terms herein, and shall also mean any other shares, securities, assets or property otherwise issuable upon exercise of this Warrant.

"Fair Market Value" shall mean, with respect to a share of Common Stock, or any other security of the Company or any other issuer:

(a) the volume weighted average daily Market Price during the period of the most recent twenty (20) Trading Days, ending on the last Trading Day before the date of determination of Fair Market Value, if such class of Common Stock or other security is (i) traded on the New York Stock Exchange or any other U.S. national or regional securities exchange, or admitted to unlisted trading privileges on such an exchange, or (ii) is quoted or reported on the Over-the-Counter Bulletin Board ("OTCBB") or by Pink OTC Markets Inc. or a similar organization or agency succeeding to its functions of reporting prices; or

(b) if such class of Common Stock or other security is not then so listed, admitted to trading or quoted, the Fair Market Value shall be the Market Price on the last Business Day before the date of determination of Fair Market Value.

"Fully Diluted" shall mean, as of immediately prior to the exercise of this Warrant (or a portion of this Warrant), the sum of, without duplication, (i) the total number of shares of Common Stock outstanding and (ii) all shares of Common Stock issuable in respect of securities convertible into or exercisable or exchangeable for Common Stock, stock appreciation rights or options, warrants (including this Warrant) and other rights to purchase or subscribe for Common Stock or securities convertible into or exercisable or exchangeable for Common Stock (in each case, assuming that no restrictions apply with respect to conversion, exercise, exchange, subscription or purchase).

"Market Price" shall be, as of any specified date with respect to any share of any class of Common Stock or any other security of the Company or any other issuer:

(i) the closing price on that date or, if no closing price is reported, the last reported sale price, of shares of the Common Stock or such other security on the New York Stock Exchange on that date; or

(ii) if the Common Stock or such other security is not traded on the New York Stock Exchange, the closing price on that date as reported in composite transactions for the principal U.S. national or regional securities exchange on which the Common Stock or such other security is so traded or, if no closing price is reported, the last reported sale price of shares of the Common Stock or such other security on the principal U.S. national or regional securities exchange on which the Common Stock or such other security is so traded on that date; or

(iii) if the Common Stock or such other security is not traded on a U.S. national or regional securities exchange, the last quoted bid price on that date for the Common Stock or such other security in the over-the-counter market as reported (x) by the OTCBB or (y) if reports are unavailable under clause (x) above by Pink OTC Markets Inc. or a similar organization or agency succeeding to its functions of reporting prices;

(iv) if the Common Stock or such other security is not so quoted by OTCBB or Pink OTC Markets Inc. or a similar organization, the Market Price shall be determined in accordance with the Valuation Procedure.

"Participating Securities" shall mean, (i) any equity security (other than Common Stock) that entitles the holders thereof to participate in liquidations or other distributions with the holders of Common Stock or otherwise participate in the capital of the Company other than through a fixed or floating rate of return on capital loaned or invested, and (ii) any stock appreciation rights, phantom stock rights, or any other profit participation rights with respect to any of the Company's capital stock or other equity ownership interest, or any rights or options to acquire any such rights.

"Person" shall mean any individual, corporation, limited liability company, partnership, joint venture, association, joint-stock company, trust, estate, unincorporated organization or government or any agency or political subdivision thereof, or any other entity whatsoever.

"Trading Day" shall mean, with respect to any class of Common Stock or any other security of the Company or any other issuer a day (i) on which the securities exchange or other trading platform applicable for purposes of determining the Market Price of a share or unit of such class of Common Stock or other security shall be open for business or (ii) for which quotations from such securities exchange or other trading platform of the character specified for purposes of determining such Market Price shall be reported.

"Valuation Procedure" shall mean a determination made in good faith by the Board of Directors of the Company (the "Board") that is set forth in resolutions of the Board that are certified by the Secretary of the Company, which certified resolutions (i) set forth the basis of the Board's determination, which, in the case of a valuation in excess of $100 million, shall include the Board's reliance on the valuation of a nationally recognized investment banking or appraisal firm, and (ii) are delivered to the Holder within ten (10) Business Days following such determination. A Valuation Procedure with respect to the value of any capital stock shall be based on the price that would be paid for all of the capital stock of the issuer in an arm's-length transaction between a willing buyer and a willing seller (neither acting under compulsion).

2. Exercise of Warrant; Number of Shares.

2.1 Exercise. This Warrant may be exercised in whole or in part at any time during the Exercise Period, by delivery of the following to the Company at its address set forth above (or at such other address as it may designate by notice in writing to the Holder):

(a) an executed Notice of Exercise in the form attached hereto;

(b) payment of the Exercise Price (i) in cash or by check, (ii) by cancellation of indebtedness or (iii) pursuant to Section 2.2 hereof; and

(c) this Warrant.

This Warrant will be exercisable for a number of shares of Common Stock that, together with the shares of Common Stock previously issued pursuant to this Warrant, is equal to 79.9% of the total number of shares of Common Stock outstanding on a Fully Diluted basis on the date of exercise. Whenever the Holder exercises this Warrant in whole or in part, it may assign its right to receive the Exercise Shares issuable upon such exercise to any other Person.

As soon as practicable (and in any event within five Business Days) after this Warrant shall have been exercised, a certificate or certificates for the Exercise Shares so purchased, registered in the name of the Holder or such other Person as may be designated by the Holder (to the extent such transfer is not validly restricted and upon payment of any transfer taxes that are required to be paid by the Holder in connection with any such transfer), shall be issued and delivered by the Company to the Holder or such other Person .

The Person in whose name any certificate or certificates for the Exercise Shares are to be issued upon exercise of this Warrant shall be deemed to have become the holder of record of such shares on the date on which this Warrant was surrendered and payment of the Exercise Price was made, irrespective of the date of delivery of such certificate or certificates, except that, if the date of such surrender and payment is a date when the stock transfer books of the Company are closed, such Person shall be deemed to have become the holder of such shares at the close of business on the next succeeding date on which the stock transfer books are open (whether before or after the end of the Exercise Period).

2.2 Net Exercise. Notwithstanding any provision herein to the contrary, if the Market Price of one share of the Common Stock is greater than the Exercise Price (at the date of calculation as set forth below), in lieu of exercising this Warrant by payment of cash, check or cancellation of indebtedness, the Holder may elect (the "Conversion Right") to receive shares equal to the value (as determined below) of this Warrant (or the portion thereof being canceled) by surrender of this Warrant at the principal office of the Company together with the properly endorsed Notice of Exercise in which event the Company shall issue to the Holder a number of shares of Common Stock computed using the following formula:

$$X = \frac{Y (A-B)}{A}$$

Where X = the number of shares of Common Stock to be issued

Y = the number of shares of Common Stock purchasable under this Warrant or, if only a portion of this Warrant is being exercised, the portion of this Warrant being exercised (at the date of such calculation)

A = the Market Price of one share of the Common Stock (at the date of such calculation)

B = Exercise Price (as adjusted pursuant to the terms herein to the date of such calculation)

The Company shall pay all reasonable administrative costs incurred by the Holder in connection with the exercise of the Conversion Right by the Holder pursuant to this Section 2.2.

3. Covenants and Representations of the Company

3.1 Covenants as to Exercise Shares.

(a) The Company covenants and agrees that all Exercise Shares that may be issued upon the exercise of this Warrant will, upon issuance, be validly authorized, issued and outstanding, fully paid and nonassessable, free of preemptive rights and free from all taxes, liens and charges with respect to the issuance thereof. If the Common Stock or the class of securities of any other Exercise Shares is then listed or quoted on a national securities exchange or a regional securities exchange, all such Exercise Shares shall, upon issuance, also be so listed or quoted. The Company further covenants and agrees that the Company will at all times during the Exercise Period, have authorized and reserved solely for purposes of the exercise of this Warrant, free from preemptive rights, a sufficient number of shares of its Common Stock or the class of securities of any other Exercise Shares to provide for the exercise in full of this Warrant (without taking into account any possible exercise pursuant to Section 2.2 hereof). If at any time during the Exercise Period the number of authorized but unissued shares of Common Stock or the class of securities of any other Exercise Shares shall not be sufficient to permit exercise in full of this Warrant (without taking into account any possible exercise pursuant to Section 2.2 hereof), the Company will take such corporate action as shall be necessary to increase its authorized but unissued shares of Common Stock or the class of securities of any other Exercise Shares to such number of shares as shall be sufficient for such purposes.

(b) If at any time the Exercise Shares shall include any shares or other securities other than shares of Common Stock, or any other property or assets, the terms of this Warrant shall be modified or supplemented (and in the absence of express written documentation thereof, shall be deemed to be so modified or supplemented), and the Company shall take all actions as may be necessary to preserve, in a manner and on terms as nearly equivalent as practicable to the provisions of this Warrant as they apply to the Common Stock, the rights of the Holder hereunder, including any equitable replacements of the term "Common Stock" with the term "Exercise Shares" and adjustments of any formula included herein.

(c) The Company's filings under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), will comply in all material respects as to form with the Exchange Act and the rules and regulations thereunder.

(d) Without prior written consent of the Holder, the Company shall not permit any Significant Subsidiary (as defined by Rule 1-02(w) of Regulation S-X under the Securities Act or any successor rule) to (i) issue or grant any capital stock or equity ownership interest, including any Participating Security; (ii) any rights, options, warrants or convertible security that is exercisable for or convertible into any capital stock or other equity ownership interest, including any Participating Security; or (iii) any stock appreciation rights, phantom stock rights, or any other profit participation rights, or any rights or options to acquire any such rights, in each case of clauses (i), (ii) and (iii) above, to any Person other than the Company or its wholly owned subsidiaries.

(e) The Company shall not take any action that will result in an increase in the par value of the Common Stock.

3.2 No Impairment. Except and to the extent as waived or consented to in writing by the Holder, the Company will not, by amendment of its charter, bylaws or other governing documents or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed hereunder by the Company, but will at all times in good faith assist in the carrying out of all the provisions of this Warrant and in the taking of all such action as may be necessary or appropriate in order to protect the exercise rights of the Holder against impairment or dilution consistent with the intent and principles expressed herein. If any event or occurrence shall occur (including without limitation, stock dividends and stock splits) as to which the failure to make any adjustment to the Exercise Price and/or the number of shares or other assets or property subject to this Warrant would adversely affect the purchase rights or value represented by this Warrant, including any issuance of Common Stock or Participating Securities, then, in each such case, the Company shall determine the adjustment, if any, on a basis consistent with the essential intent and principles herein, necessary to preserve, without dilution, the purchase rights represented by this Warrant. If such determination involves or is based on a determination of the Fair Market Value of any securities or other assets or property, such determination shall be made in accordance with the Valuation Procedure. Without limiting the foregoing, in the event of any dividend or distribution by the Company of assets or property (including shares of any other Person) on or with respect to the Common Stock, or any exchange of the shares of Common Stock into any other assets, property or securities, this Warrant will be equitably adjusted to permit the Holder to receive upon exercise the assets, property or securities that would have been received if the Warrant had been exercised immediately prior to such dividend, distribution or exchange.

3.3 Notice of Record Date. In the event (i) the Company takes a record of the holders of any class of securities for the purpose of determining the holders thereof who are entitled to receive any dividend or other distribution, (ii) the Company authorizes the granting to the holders of Common Stock (or holders of the class of securities of any other Exercise Shares) of rights to subscribe to or purchase any shares of capital stock of any class or securities convertible into any shares of capital stock or of any other right, (iii) the Company authorizes any reclassification of, or any recapitalization involving, any class of Common Stock or any consolidation or merger to which the Company is a party and for which approval of the stockholders of the Company is required, or of the sale or transfer of all or substantially all of the assets of the Company, (iv) the Company authorizes or consents to or otherwise commences the voluntary or involuntary dissolution, liquidation or winding up of the Company or (v) the Company authorizes or takes any other action that would trigger an adjustment in the Exercise Price or the number or amount of shares of Common Stock or other Exercise Shares subject to this Warrant, the Company shall mail to the Holder, at least ten (10) days prior to the earlier of the record date for any such action or stockholder vote and the date of such action, a notice specifying (a) which action is to be taken and the date on which any such record is to be taken for the purpose of any such action, (b) the date that any such action is to take place and (c) the amount and character of any stock, other securities or property and amounts, or rights or options with respect thereto, proposed to be issued, granted or delivered to each holder of Common Stock (or holders of the class of securities of any other Exercise Shares).

4. Fractional Shares. No fractional shares shall be issued upon the exercise of this Warrant. All Exercise Shares (including fractions) issuable upon exercise of this Warrant may be aggregated for purposes of determining whether the exercise would result in the issuance of any fractional share. If, after aggregation, the exercise would result in the issuance of a fractional share, the Company shall, in lieu of issuance of any fractional share, pay the Holder otherwise entitled to such fraction a sum in cash equal to the product resulting from multiplying such fractional amount by the Fair Market Value of one share of Common Stock.

5. Listing Rights. The Company shall use its best efforts, upon the request of the Holder, to cause the Exercise Shares to be listed or quoted on a national securities exchange or a regional securities exchange.

6. No Stockholder Rights or Liabilities. Without limiting the consent rights of the Holder contained in Section 3, this Warrant in and of itself shall not entitle the Holder to any voting rights or other rights as a stockholder of the Company. No provision of this Warrant, in the absence of affirmative action by the Holder to exercise this Warrant in exchange for shares of Common Stock, and no mere enumeration herein of the rights or privileges of the Holder, shall give rise to any liability of the Holder for the Exercise Price or as a stockholder of the Company, whether such liability is asserted by the Company or by creditors of the Company.

7. Transfer of Warrant. This Warrant is not transferable; provided, however, that the Holder may assign its rights to receive shares upon exercise of this Warrant pursuant to Section 2.1.

8. Payment of Taxes on Stock Certificate Issues Upon Exercise. The initial issuance of certificates of Common Stock upon any exercise of this Warrant shall be made without charge to the exercising Holder for any transfer, stamp or similar tax or for any other governmental charges that may be imposed in respect of the issuance of such stock certificates, and such stock certificates shall be issued in the respective names of, or in such names as may be directed by, the Holder; provided, however, that the Company shall not be required to pay any tax or such other charges that may be payable in respect of any transfer involved in the issuance and delivery of any such stock certificate, any new warrants or other securities in a name other than that of the Holder upon exercise of this Warrant (other than to an Affiliate), and the Company shall not be required to issue or deliver such certificates or other securities unless and until the Person or Persons requesting the issuance thereof shall have paid to the Company the amount of such tax or shall have established to the satisfaction of the Company that such tax has been paid or is not payable.

9. Lost, Stolen, Mutilated or Destroyed Warrant. If this Warrant is lost, stolen, mutilated or destroyed, the Company may, on such terms as to indemnity or otherwise as it may reasonably impose (which shall, in the case of a mutilated Warrant, include the surrender thereof), issue a new Warrant of like denomination and tenor as this Warrant so lost, stolen, mutilated or destroyed. Any such new Warrant shall constitute an original contractual obligation of the Company, whether or not the allegedly lost, stolen, mutilated or destroyed Warrant shall be at any time enforceable by anyone.

10. Closing of Books. The Company will at no time close its transfer books against the transfer of any shares of Common Stock issued or issuable upon the exercise or conversion of any Warrant in any manner which interferes with the timely exercise or conversion of this Warrant.

11. Notices, Etc. All notices required or permitted hereunder shall be in writing and shall be deemed effectively given: (a) upon personal delivery to the party to be notified, (b) when sent by confirmed telex or facsimile if sent during normal business hours of the recipient or if not, then on the next Business Day, (c) five (5) days after having been sent by registered or certified mail, return receipt requested, postage prepaid, or (d) one (1) Business Day after deposit with a nationally recognized overnight courier, specifying next Business Day delivery, with written verification of receipt. All notices and other communications shall be sent to the Company at the address listed on the signature page and to Holder at the address set forth below or at such other address as the Company or Holder may designate by ten (10) days advance written notice to the other parties hereto:

United States Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220
Attn: Under Secretary for Domestic Finance

with a copy to:

United States Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220
Attn: General Counsel

12. Acceptance. Receipt of this Warrant by the Holder shall constitute acceptance of and agreement to all of the terms and conditions contained herein.

13. Binding Effect on Successors. This Warrant shall be binding upon any Person succeeding the Company by merger, consolidation or acquisition of all or substantially all of the Company's assets, and all of the obligations of the Company relating to the Common Stock issuable upon the exercise or conversion of this Warrant shall survive the exercise, conversion and termination of this Warrant and all of the covenants and agreements of the Company shall inure to the benefit of the successors and assigns of the Holder.

14. Governing Law. This Warrant and all rights, obligations and liabilities hereunder shall be governed and construed in accordance with Federal law, if and to the extent such Federal law is applicable, and otherwise in accordance with the law of the State of New York.

IN WITNESS WHEREOF, the Company has caused this Warrant to be executed by its duly authorized officer as of September 7, 2008.

FEDERAL NATIONAL MORTGAGE ASSOCIATION,
by

The Federal Housing Finance Agency, its Conservator

____

James B. Lockhart III
Director

Address: 3900 Wisconsin Avenue, NW
Washington, DC 20016

NOTICE OF EXERCISE

TO: FEDERAL NATIONAL MORTGAGE ASSOCIATION

(1) ☐ The undersigned hereby elects to purchase _______________ shares of the Common Stock of Federal National Mortgage Association (the "Company") pursuant to the terms of the attached Warrant, and tenders herewith or is delivering by wire transfer to account number ____________ at _____________________ (bank) payment of the exercise price in full.

☐ The undersigned hereby elects to purchase ________ shares of the Common Stock of the Company pursuant to the terms of the net exercise provisions set forth in Section 2.2 of the attached Warrant.

(2) Please issue a certificate or certificates representing said shares of Common Stock in the name of the undersigned or in such other name as is specified below:

____
(Name)

____

____
(Address)

____
(Date)

____
(Signature)

____
(Print name)

SENIOR PREFERRED STOCK PURCHASE AGREEMENT

SENIOR PREFERRED STOCK PURCHASE AGREEMENT (this "Agreement") dated as of September 7, 2008, between the UNITED STATES DEPARTMENT OF THE TREASURY ("Purchaser") and FEDERAL HOME LOAN MORTGAGE CORPORATION ("Seller"), acting through the Federal Housing Finance Agency (the "Agency") as its duly appointed conservator (the Agency in such capacity, "Conservator"). Reference is made to Article 1 below for the meaning of capitalized terms used herein without definition.

Background

A. The Agency has been duly appointed as Conservator for Seller pursuant to Section 1367(a) of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (as amended, the "FHE Act"). Conservator has determined that entry into this Agreement is (i) necessary to put Seller in a sound and solvent condition; (ii) appropriate to carry on the business of Seller and preserve and conserve the assets and property of Seller; and (iii) otherwise consistent with its powers, authorities and responsibilities.

B. Purchaser is authorized to purchase obligations and other securities issued by Seller pursuant to Section 306(l) of the Federal Home Loan Mortgage Corporation Act, as amended (the "Charter Act"). The Secretary of the Treasury has determined, after taking into consideration the matters set forth in Section 306(l)(1)(C) of the Charter Act, that the purchases contemplated herein are necessary to (i) provide stability to the financial markets; (ii) prevent disruptions in the availability of mortgage finance; and (iii) protect the taxpayer.

THEREFORE, the parties hereto agree as follows:

Terms and Conditions

1. DEFINITIONS

As used in this Agreement, the following terms shall have the meanings set forth below:

"*Affiliate*" means, when used with respect to a specified Person (i) any direct or indirect holder or group (as defined in Sections 13(d) and 14(d) of the Exchange Act) of holders of 10.0% or more of any class of capital stock of such Person and (ii) any current or former director or officer of such Person, or any other current or former employee of such Person that currently exercises or formerly exercised a material degree of Control over such Person, including without limitation each current or former Named Executive Officer of such Person.

"*Available Amount*" means, as of any date of determination, the lesser of (a) the Deficiency Amount as of such date and (b) the Maximum Amount as of such date.

"*Business Day*" means any day other than a Saturday, Sunday or other day on which commercial banks are authorized to close under United States federal law and the law of the State of New York.

"*Capital Lease Obligations*" of any Person shall mean the obligations of such Person to pay rent or other amounts under any lease of (or other similar arrangement conveying the right to use) real or personal property, or a combination thereof, which obligations are required to be classified and accounted for as capital leases on a balance sheet of such Person under GAAP and, for purposes hereof, the amount of such obligations at any time shall be the capitalized amount thereof at such time determined in accordance with GAAP.

"*Control*" shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a Person, whether through the ownership of voting securities, by contract or otherwise.

"*Deficiency Amount*" means, as of any date of determination, the amount, if any, by which (a) the total liabilities of Seller exceed (b) the total assets of Seller (such assets excluding the Commitment and any unfunded amounts thereof), in each case as reflected on the balance sheet of Seller as of the applicable date set forth in this Agreement, prepared in accordance with GAAP; provided, however, that:

(i) for the avoidance of doubt, in measuring the Deficiency Amount liabilities shall exclude any obligation in respect of any capital stock of Seller, including the Senior Preferred Stock contemplated herein;

(ii) in the event that Seller becomes subject to receivership or other liquidation process or proceeding, "Deficiency Amount" shall mean, as of any date of determination, the amount, if any, by which (a) the total allowed claims against the receivership or other applicable estate (excluding any liabilities of or transferred to any LLRE (as defined in Section 5.4(a)) created by a receiver) exceed (b) the total assets of such receivership or other estate (excluding the Commitment, any unfunded amounts thereof and any assets of or transferred to any LLRE, but including the value of the receiver's interest in any LLRE);

(iii) to the extent Conservator or a receiver of Seller, or any statute, rule, regulation or court of competent jurisdiction, specifies or determines that a liability of Seller (including without limitation a claim against Seller arising from rescission of a purchase or sale of a security issued by Seller (or guaranteed by Seller or with respect to which Seller is otherwise liable) or for damages arising from the purchase, sale or retention of such a security) shall be subordinated (other than pursuant to a contract providing for such subordination) to all other liabilities of Seller or shall be treated on par with any class of equity of Seller, then such liability shall be excluded in the calculation of Deficiency Amount; and

(iv) the Deficiency Amount may be increased above the otherwise applicable amount by the mutual written agreement of Purchaser and Seller, each acting in its sole discretion.

"*Designated Representative*" means Conservator or (a) if Conservator has been superseded by a receiver pursuant to Section 1367(a) of the FHE Act, such receiver, or (b) if Seller is not in conservatorship or receivership pursuant to Section 1367(a) of the FHE Act, Seller's chief financial officer.

"*Director*" shall mean the Director of the Agency.

"*Effective Date*" means the date on which this Agreement shall have been executed and delivered by both of the parties hereto.

"*Equity Interests*" of any Person shall mean any and all shares, interests, rights to purchase or otherwise acquire, warrants, options, participations or other equivalents of or interests in (however designated) equity, ownership or profits of such Person, including any preferred stock, any limited or general partnership interest and any limited liability company membership interest, and any securities or other rights or interests convertible into or exchangeable for any of the foregoing.

"*Exchange Act*" means the Securities Exchange Act of 1934, as amended, and the rules and regulations of the SEC promulgated thereunder.

"*GAAP*" means generally accepted accounting principles in effect in the United States as set forth in the opinions and pronouncements of the Accounting Principles Board and the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board from time to time.

"*Indebtedness*" of any Person means, for purposes of Section 5.5 only, without duplication, (a) all obligations of such Person for money borrowed by such Person, (b) all obligations of such Person evidenced by bonds, debentures, notes or similar instruments, (c) all obligations of such Person under conditional sale or other title retention agreements relating to property or assets purchased by such Person, (d) all obligations of such Person issued or assumed as the deferred purchase price of property or services, other than trade accounts payable, (e) all Capital Lease Obligations of such Person, (f) obligations, whether contingent or liquidated, in respect of letters of credit (including standby and commercial), bankers' acceptances and similar instruments and (g) any obligation of such Person, contingent or otherwise, guaranteeing or having the economic effect of guaranteeing any Indebtedness of the types set forth in clauses (a) through (f) payable by another Person other than Mortgage Guarantee Obligations.

"*Liquidation End Date*" means the date of completion of the liquidation of Seller's assets.

"*Maximum Amount*" means, as of any date of determination, $100,000,000,000 (one hundred billion dollars), less the aggregate amount of funding under the Commitment prior to such date.

"*Mortgage Assets*" of any Person means assets of such Person consisting of mortgages, mortgage loans, mortgage-related securities, participation certificates, mortgage-backed commercial paper, obligations of real estate mortgage investment conduits and similar assets, in each case to the extent such assets would appear on the balance sheet of such Person in accordance with GAAP as in effect as of the date hereof (and, for the avoidance of doubt, without giving effect to any change that may be made hereafter in respect of Statement of Financial Accounting Standards No. 140 or any similar accounting standard).

"*Mortgage Guarantee Obligations*" means guarantees, standby commitments, credit enhancements and other similar obligations of Seller, in each case in respect of Mortgage Assets.

"*Named Executive Officer*" has the meaning given to such term in Item 402(a)(3) of Regulation S-K under the Exchange Act, as in effect on the date hereof.

"*Person*" shall mean any individual, corporation, limited liability company, partnership, joint venture, association, joint-stock company, trust, estate, unincorporated organization or government or any agency or political subdivision thereof, or any other entity whatsoever.

"*SEC*" means the Securities and Exchange Commission.

"*Senior Preferred Stock*" means the Variable Liquidation Preference Senior Preferred Stock of Seller, substantially in the form of Exhibit A hereto.

"*Warrant*" means a warrant for the purchase of common stock of Seller representing 79.9% of the common stock of Seller on a fully-diluted basis, substantially in the form of Exhibit B hereto.

2. COMMITMENT

2.1. *Commitment.* Purchaser hereby commits to provide to Seller, on the terms and conditions set forth herein, immediately available funds in an amount up to but not in excess of the Available Amount, as determined from time to time (the "Commitment"); provided, that in no event shall the aggregate amount funded under the Commitment exceed $100,000,000,000 (one hundred billion dollars). The liquidation preference of the Senior Preferred Stock shall increase in connection with draws on the Commitment, as set forth in Section 3.3 below.

2.2. *Quarterly Draws on Commitment.* Within fifteen (15) Business Days following the determination of the Deficiency Amount, if any, as of the end of each fiscal quarter of Seller which ends on or before the Liquidation End Date, the Designated Representative may, on behalf of Seller, request that Purchaser provide immediately available funds to Seller in an amount up to but not in excess of the Available Amount as of the end of such quarter. Any such request shall be valid only if it is in writing, is timely made, specifies the account of Seller to which such funds are to be transferred, and contains a certification of the Designated Representative that the requested amount does not exceed the Available Amount as of the end of the applicable quarter. Purchaser shall provide such funds within sixty (60) days of its receipt of such request or, following any determination by the Director that the Director will be mandated by law to appoint a receiver for Seller if such funds are not received sooner, such shorter period as may be necessary to avoid such mandatory appointment of a receiver if reasonably practicable taking into consideration Purchaser's access to funds.

2.3. *Accelerated Draws on Commitment.* Immediately following any determination by the Director that the Director will be mandated by law to appoint a receiver for Seller prior to the Liquidation End Date unless Seller's capital is increased by an amount (the "Special Amount") up to but not in excess of the then current Available Amount (computed based on a balance sheet of Seller prepared in accordance with GAAP that differs from the most recent balance sheet of Seller delivered in accordance with Section 5.9(a) or (b)) on a date that is prior to the date that funds will be available to Seller pursuant to Section 2.2, Conservator may, on behalf of Seller, request that Purchaser provide to Seller the Special Amount in immediately available funds. Any such request shall be valid only if it is in writing, is timely made, specifies the account of Seller to which such funds are to be transferred, and contains certifications of Conservator that (i) the requested amount does not exceed the Available Amount (including computations in reasonable detail and satisfactory to Purchaser of the then existing Deficiency Amount) and (ii) the requested amount is required to avoid the imminent mandatory appointment of a receiver for Seller. Purchaser shall provide such funds within thirty (30) days of its receipt of such request or, if reasonably practicable taking into consideration Purchaser's access to funds, any shorter period as may be necessary to avoid mandatory appointment of a receiver.

2.4. *Final Draw on Commitment.* Within fifteen (15) Business Days following the determination of the Deficiency Amount, if any, as of the Liquidation End Date (computed based on a balance sheet of Seller as of the Liquidation End Date prepared in accordance with GAAP), the Designated Representative may, on behalf of Seller, request that Purchaser provide immediately available funds to Seller in an amount up to but not in excess of the Available Amount as of the Liquidation End Date. Any such request shall be valid only if it is in writing, is timely made, specifies the account of Seller to which such funds are to be transferred, and contains a certification of the Designated Representative that the requested amount does not exceed the Available Amount (including computations in reasonable detail and satisfactory to Purchaser of the Deficiency Amount as of the Liquidation End Date). Purchaser shall provide such funds within sixty (60) days of its receipt of such request.

2.5. *Termination of Purchaser's Obligations.* Subject to earlier termination pursuant to Section 6.7, all of Purchaser's obligations under and in respect of the Commitment shall terminate upon the earliest of: (a) if the Liquidation End Date shall have occurred, (i) the payment in full of Purchaser's obligations with respect to any valid request for funds pursuant to Section 2.4 or (ii) if there is no Deficiency Amount on the Liquidation End Date or if no such request pursuant to Section 2.4 has been made, the close of business on the 15th Business Day following the determination of the Deficiency Amount, if any, as of the Liquidation End Date; (b) the payment in full of, defeasance of or other reasonable provision for all liabilities of Seller, whether or not contingent, including payment of any amounts that may become payable on, or expiry of or other provision for, all Mortgage Guarantee Obligations and provision for unmatured debts; and (c) the funding by Purchaser under the Commitment of an aggregate of $100,000,000,000 (one hundred billion dollars). For the avoidance of doubt, the Commitment shall *not* be terminable by Purchaser solely by reason of (i) the conservatorship, receivership or other insolvency proceeding of Seller or (ii) the Seller's financial condition or any adverse change in Seller's financial condition.

3. PURCHASE OF SENIOR PREFERRED STOCK AND WARRANT; FEES

3.1. *Initial Commitment Fee.* In consideration of the Commitment, and for no additional consideration, on the Effective Date (or as soon thereafter as is practicable) Seller shall sell and issue to Purchaser, and Purchaser shall purchase from Seller, (a) one million (1,000,000) shares of Senior Preferred Stock, with an initial liquidation preference equal to $1,000 per share

($1,000,000,000 (one billion dollars) liquidation preference in the aggregate), and (b) the Warrant.

3.2. *Periodic Commitment Fee.* (a) Commencing March 31, 2010, Seller shall pay to Purchaser quarterly, on the last day of March, June, September and December of each calendar year (each a "Periodic Fee Date"), a periodic commitment fee (the "Periodic Commitment Fee"). The Periodic Commitment Fee shall accrue from January 1, 2010.

(b) The Periodic Commitment Fee is intended to fully compensate Purchaser for the support provided by the ongoing Commitment following December 31, 2009. The amount of the Periodic Commitment Fee shall be set not later than December 31, 2009 with respect to the ensuing five-year period, shall be reset every five years thereafter and shall be determined with reference to the market value of the Commitment as then in effect. The amount of the Periodic Commitment Fee shall be mutually agreed by Purchaser and Seller, subject to their reasonable discretion and in consultation with the Chairman of the Federal Reserve; provided, that Purchaser may waive the Periodic Commitment Fee for up to one year at a time, in its sole discretion, based on adverse conditions in the United States mortgage market.

(c) At the election of Seller, the Periodic Commitment Fee may be paid in cash or by adding the amount thereof ratably to the liquidation preference of each outstanding share of Senior Preferred Stock so that the aggregate liquidation preference of all such outstanding shares of Senior Preferred Stock is increased by an amount equal to the Periodic Commitment Fee. Seller shall deliver notice of such election not later than three (3) Business Days prior to each Periodic Fee Date. If the Periodic Commitment Fee is not paid in cash by 12:00 pm (New York time) on the applicable Periodic Fee Date (irrespective of Seller's election pursuant to this subsection), Seller shall be deemed to have elected to pay the Periodic Commitment Fee by adding the amount thereof to the liquidation preference of the Senior Preferred Stock, and the aggregate liquidation preference of the outstanding shares of Senior Preferred Stock shall thereupon be automatically increased, in the manner contemplated by the first sentence of this section, by an aggregate amount equal to the Periodic Commitment Fee then due.

3.3. *Increases of Senior Preferred Stock Liquidation Preference as a Result of Funding under the Commitment.* The aggregate liquidation preference of the outstanding shares of Senior Preferred Stock shall be automatically increased by an amount equal to the amount of each draw on the Commitment pursuant to Article 2 that is funded by Purchaser to Seller, such increase to occur simultaneously with such funding and ratably with respect to each share of Senior Preferred Stock.

3.4. *Notation of Increase in Liquidation Preference.* Seller shall duly mark its records to reflect each increase in the liquidation preference of the Senior Preferred Stock contemplated herein (but, for the avoidance of doubt, such increase shall be effective regardless of whether Seller has properly marked its records).

4. REPRESENTATIONS

Seller represents and warrants as of the Effective Date, and shall be deemed to have represented and warranted as of the date of each request for and funding of an advance under the Commitment pursuant to Article 2, as follows:

4.1. *Organization and Good Standing.* Seller is a corporation, chartered by the Congress of the United States, duly organized, validly existing and in good standing under the laws of the United States and has all corporate power and authority to carry on its business as now conducted and as proposed to be conducted.

4.2. *Organizational Documents.* Seller has made available to Purchaser a complete and correct copy of its charter and bylaws, each as amended to date (the "Organizational Documents"). The Organizational Documents are in full force and effect. Seller is not in violation of any provision of its Organizational Documents.

4.3. *Authorization and Enforceability.* All corporate or other action on the part of Seller or Conservator necessary for the authorization, execution, delivery and performance of this Agreement by Seller and for the authorization, issuance and delivery of the Senior Preferred Stock and the Warrant being purchased under this Agreement, has been taken. This Agreement has been duly and validly executed and delivered by Seller and (assuming due authorization, execution and delivery by the Purchaser) shall constitute the valid and legally binding obligation of Seller, enforceable against Seller in accordance with its terms, except to the extent the enforceability thereof may be limited by bankruptcy laws, insolvency laws, reorganization laws, moratorium laws or other laws of general applicability affecting creditors' rights generally or by general equitable principles (regardless of whether enforcement is sought in a proceeding in equity or at law). The Agency is acting as conservator for Seller under Section 1367 of the FHE Act. The Board of Directors of Seller, by valid action at a duly called meeting of the Board of Directors on September 6, 2008, consented to the appointment of the Agency as conservator for purposes of Section 1367(a)(3)(I) of the FHE Act, and the Director of the Agency has appointed the Agency as Conservator for Seller pursuant to Section 1367(a)(1) of the FHE Act, and each such action has not been rescinded, revoked or modified in any respect.

4.4. *Valid Issuance.* When issued in accordance with the terms of this Agreement, the Senior Preferred Stock and the Warrant will be duly authorized, validly issued, fully paid and nonassessable, free and clear of all liens and preemptive rights. The shares of common stock to which the holder of the Warrant is entitled have been duly and validly reserved for issuance. When issued and delivered in accordance with the terms of this Agreement and the Warrant, such shares will be duly authorized, validly issued, fully paid and nonassessable, free and clear of all liens and preemptive rights.

4.5. *Non-Contravention.*

(a) The execution, delivery or performance by Seller of this Agreement and the consummation by Seller of the transactions contemplated hereby do not and will not (i) conflict with or violate any provision of the Organizational Documents of Seller; (ii) conflict with or violate any law, decree or regulation applicable to Seller or by which any property or asset of Seller is bound or affected, or (iii) result in any breach of, or constitute a default (with or without notice or lapse of time, or both) under, or give to others any right of termination, amendment, acceleration or cancellation of, or result in the creation of a lien upon any of the properties or assets of Seller, pursuant to any note, bond, mortgage, indenture or credit agreement, or any other contract, agreement, lease, license, permit, franchise or other instrument or obligation to which Seller is a party or by which Seller is bound or affected, other than, in the case of clause (iii), any such breach, default, termination, amendment, acceleration, cancellation or lien that would not have and would not reasonably be expected to have, individually or in the aggregate, a material adverse effect on the business, property, operations or condition of the Seller, the authority of the Conservator or the validity or enforceability of this Agreement (a "Material Adverse Effect").

(b) The execution and delivery of this Agreement by Seller does not, and the consummation by Seller of the transactions contemplated by this Agreement will not, require any consent, approval, authorization, waiver or permit of, or filing with or notification to, any governmental authority or any other person, except for such as have already been obtained.

5. COVENANTS

From the Effective Date until such time as the Senior Preferred Stock shall have been repaid or redeemed in full in accordance with its terms:

5.1. *Restricted Payments.* Seller shall not, and shall not permit any of its subsidiaries to, in each case without the prior written consent of Purchaser, declare or pay any dividend (preferred or otherwise) or make any other distribution (by reduction of capital or otherwise), whether in cash, property, securities or a combination thereof, with respect to any of Seller's Equity Interests (other than with respect to the Senior Preferred Stock or the Warrant) or directly or indirectly redeem, purchase, retire or otherwise acquire for value any of Seller's Equity Interests (other than the Senior Preferred Stock or the Warrant), or set aside any amount for any such purpose.

5.2. *Issuance of Capital Stock.* Seller shall not, and shall not permit any of its subsidiaries to, in each case without the prior written consent of Purchaser, sell or issue Equity Interests of Seller or any of its subsidiaries of any kind or nature, in any amount, other than the sale and issuance of the Senior Preferred Stock and Warrant on the Effective Date and the common stock subject to the Warrant upon exercise thereof, and other than as required by (and pursuant to) the terms of any binding agreement as in effect on the date hereof.

5.3. *Conservatorship.* Seller shall not (and Conservator, by its signature below, agrees that it shall not), without the prior written consent of Purchaser, terminate, seek termination of or permit to be terminated the conservatorship of Seller pursuant to Section 1367 of the FHE Act, other than in connection with a receivership pursuant to Section 1367 of the FHE Act.

5.4. *Transfer of Assets.* Seller shall not, and shall not permit any of its subsidiaries to, in each case without the prior written consent of Purchaser, sell, transfer, lease or otherwise dispose of (in one transaction or a series of related transactions) all or any portion of its assets (including Equity Interests in other persons, including subsidiaries), whether now owned or hereafter acquired (any such sale, transfer, lease or disposition, a "Disposition"), other than Dispositions for fair market value:

(a) to a limited life regulated entity ("LLRE") pursuant to Section 1367(i) of the FHE Act;

(b) of assets and properties in the ordinary course of business, consistent with past practice;

(c) in connection with a liquidation of Seller by a receiver appointed pursuant to Section 1367(a) of the FHE Act;

(d) of cash or cash equivalents for cash or cash equivalents; or

(e) to the extent necessary to comply with the covenant set forth in Section 5.7 below.

5.5. *Indebtedness.* Seller shall not, and shall not permit any of its subsidiaries to, in each case without the prior written consent of Purchaser, incur, assume or otherwise become liable for (a) any Indebtedness if, after giving effect to the incurrence thereof, the aggregate Indebtedness of Seller and its subsidiaries on a consolidated basis would exceed 110.0% of the aggregate Indebtedness of Seller and its subsidiaries on a consolidated basis as of June 30, 2008 or (b) any Indebtedness if such Indebtedness is subordinated by its terms to any other Indebtedness of Seller or the applicable subsidiary. For purposes of this covenant the acquisition of a subsidiary with Indebtedness will be deemed to be the incurrence of such Indebtedness at the time of such acquisition.

5.6. *Fundamental Changes.* Seller shall not, and shall not permit any of its subsidiaries to, in each case without the prior written consent of Purchaser, (i) merge into or consolidate or amalgamate with any other Person, or permit any other Person to merge into or consolidate or amalgamate with it, (ii) effect a reorganization or recapitalization involving the common stock of Seller, a reclassification of the common stock of Seller or similar corporate transaction or event or (iii) purchase, lease or otherwise acquire (in one transaction or a series of transactions) all or substantially all of the assets of any other Person or any division, unit or business of any Person.

5.7. *Mortgage Assets.* Seller shall not own, as of any applicable date, Mortgage Assets in excess of (i) on December 31, 2009, $850 billion, or (ii) on December 31 of each year thereafter, 90.0% of the aggregate amount of Mortgage Assets of Seller as of December 31 of the immediately preceding calendar year; provided, that in no event shall Seller be required under this Section 5.7 to own less than $250 billion in Mortgage Assets.

5.8. *Transactions with Affiliates.* Seller shall not, and shall not permit any of its subsidiaries to, without the prior written consent of Purchaser, engage in any transaction of any kind or nature with an Affiliate of Seller unless such transaction is (i) pursuant to this Agreement, the Senior Preferred Stock or the Warrant, (ii) upon terms no less favorable to Seller than would be obtained in a comparable arm's-length transaction with a Person that is not an Affiliate of Seller or (iii) a transaction undertaken in the ordinary course or pursuant to a contractual obligation or customary employment arrangement in existence as of the date hereof.

5.9. *Reporting*. Seller shall provide to Purchaser:

(a) not later than the time period specified in the SEC's rules and regulations with respect to issuers as to which Section 13 and 15(d) of the Exchange Act apply, annual reports on Form 10-K (or any successor or comparable form) containing the information required to be contained therein (or required in such successor or comparable form);

(b) not later than the time period specified in the SEC's rules and regulations with respect to issuers as to which Section 13 and 15(d) of the Exchange Act apply, reports on Form 10-Q (or any successor or comparable form) containing the information required to be contained therein (or required in such successor or comparable form);

(c) promptly from time to time after the occurrence of an event required to be therein reported (and in any event within the time period specified in the SEC's rules and regulations), such other reports on Form 8-K (or any successor or comparable form);

(d) concurrently with any delivery of financial statements under paragraphs (a) or (b) above, a certificate of the Designated Representative, (i) certifying that Seller is (and since the last such certificate has at all times been) in compliance with each of the covenants contained herein and that no representation made by Seller herein or in any document delivered pursuant hereto or in connection herewith was false or misleading in any material respect when made, or, if the foregoing is not true, specifying the nature and extent of the breach of covenant and/or representation and any corrective action taken or proposed to be taken with respect thereto, and (ii) setting forth computations in reasonable detail and satisfactory to the Purchaser of the Deficiency Amount, if any;

(e) promptly, from time to time, such other information regarding the operations, business affairs, plans, projections and financial condition of Seller, or compliance with the terms of this Agreement, as Purchaser may reasonably request; and

(f) as promptly as reasonably practicable, written notice of the following:

(i) the occurrence of the Liquidation End Date;

(ii) the filing or commencement of, or any written threat or notice of intention of any Person to file or commence, any action, suit or proceeding, whether at law or in equity or by or before any governmental authority or in arbitration, against Conservator, Seller or any other Person which, if adversely determined, would reasonably be expected to have a Material Adverse Effect;

(iii) any other development that is not a matter of general public knowledge and that has had, or would reasonably be expected to have, a Material Adverse Effect.

5.10. *Executive Compensation.* Seller shall not, without the consent of the Director, in consultation with the Secretary of the Treasury, enter into any new compensation arrangements with, or increase amounts or benefits payable under existing compensation arrangements of, any Named Executive Officer of Seller.

6. MISCELLANEOUS

6.1. *No Third-Party Beneficiaries.* Until the termination of the Commitment, at any time during the existence and continuance of a payment default with respect to debt securities issued by Seller and/or a default by Seller with respect to any Mortgage Guarantee Obligations, any holder of such defaulted debt securities or beneficiary of such Mortgage Guarantee Obligations (collectively, the "Holders") may (a) deliver notice to the Seller and the Designated Representative requesting exercise of all rights available to them under this Agreement to draw on the Commitment up to the lesser of the amount necessary to cure the outstanding payment defaults and the Available Amount as of the last day of the immediately preceding fiscal quarter, and (b) if Seller and the Designated Representative fail to act as requested within thirty (30) days of such notice, or if Purchaser shall fail to perform its obligations in respect of any draw on the Commitment and Seller and/or the Designated Representative shall not be diligently pursuing remedies in respect of such failure, seek judicial relief requiring Seller to draw on the Commitment or Purchaser to fund the Commitment, as applicable. The Holders shall have no other rights under or in respect of this Agreement, and the Commitment shall not otherwise be enforceable by any creditor of Seller or by any other Person other than the parties hereto, and no such creditor or other Person is intended to be, or shall be, a third party beneficiary of any provision of this Agreement.

6.2. *Non-Transferable; Successors.* The Commitment is solely for the benefit of Seller and shall not inure to the benefit of any other Person (other than the Holders to the extent set forth in Section 6.1), including any entity to which the charter of Seller may be transferred, to any LLRE or to any other successor to the assets, liabilities or operations of Seller. The Commitment may not be assigned or otherwise transferred, in whole or in part, to any Person (including, for the avoidance of doubt, any LLRE to which a receiver has assigned all or a portion of Seller's assets) without the prior written consent of Purchaser (which may be withheld in its sole discretion). In no event shall any successor to Seller (including such an LLRE) be entitled to the benefit of the Commitment without the prior written consent of Purchaser. Seller and Conservator, for themselves and on behalf of their permitted successors, covenant and agree not to transfer or purport to transfer the Commitment in contravention of the terms hereof, and any such attempted transfer shall be null and void *ab initio*. It is the expectation of the parties that, in the event Seller were placed into receivership and an LLRE formed to purchase certain of its assets and assume certain of its liabilities, the Commitment would remain with Seller for the benefit of the holders of the debt of Seller not assumed by the LLRE.

6.3. *Amendments; Waivers.* This Agreement may be waived or amended solely by a writing executed by both of the parties hereto, and, with respect to amendments to or waivers of the provisions of Sections 5.3, 6.2 and 6.11, the Conservator; provided, however, that no such waiver or amendment shall decrease the aggregate Commitment or add conditions to funding the amounts required to be funded by Purchaser under the Commitment if such waiver or amendment would, in the reasonable opinion of Seller, adversely affect in any material respect the holders of debt securities of Seller and/or the beneficiaries of Mortgage Guarantee Obligations, in each case in their capacities as such, after taking into account any alternative arrangements that may be implemented concurrently with such waiver or amendment. In no event shall any rights granted hereunder prevent the parties hereto from waiving or amending in any manner whatsoever the covenants of Seller hereunder.

6.4. *Governing Law; Jurisdiction; Venue.* This Agreement and the Warrant shall be governed by, and construed in accordance with, the federal law of the United States of America if and to the extent such federal law is applicable, and otherwise in accordance with the laws of the State of New York. The Senior Preferred Stock shall be governed as set forth in the terms thereof. The United States District Court for the District of Columbia shall have exclusive jurisdiction over all civil actions arising out of this Agreement, the Commitment, the Senior Preferred Stock and the Warrant, and venue for any such civil action shall lie exclusively in the United States District Court for the District of Columbia.

6.5. *Notices.* Any notices delivered pursuant to or in connection with this Agreement shall be delivered to the applicable parties at the addresses set forth below:

If to Seller:

Federal Home Loan Mortgage Corporation
c/o Federal Housing Finance Authority
1700 G Street, NW
4th Floor
Washington, DC 20552
Attention: General Counsel

If to Purchaser:

United States Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington DC 20220
Attention: Under Secretary for Domestic Finance

with a copy to:

United States Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington DC 20220
Attention: General Counsel

If to Conservator:

Federal Housing Finance Authority
1700 G Street, NW

4th Floor
Washington, DC 20552
Attention: General Counsel

All notices and other communications provided for herein shall be in writing and shall be delivered by hand or overnight courier service, mailed by certified or registered mail. All notices hereunder shall be effective upon receipt.

6.6. *Disclaimer of Guarantee.* This Agreement and the Commitment are not intended to and shall not be deemed to constitute a guarantee by Purchaser or any other agency or instrumentality of the United States of the payment or performance of any debt security or any other obligation, indebtedness or liability of Seller of any kind or character whatsoever.

6.7. *Effect of Order; Injunction; Decree.* If any order, injunction or decree is issued by any court of competent jurisdiction that vacates, modifies, amends, conditions, enjoins, stays or otherwise affects the appointment of Conservator as conservator of Seller or otherwise curtails Conservator's powers as such conservator (except in each case any order converting the conservatorship to a receivership under Section 1367(a) of the FHE Act), Purchaser may by written notice to Conservator and Seller declare this Agreement null and void, whereupon all transfers hereunder (including the issuance of the Senior Preferred Stock and the Warrant and any funding of the Commitment) shall be rescinded and unwound and all obligations of the parties (other than to effectuate such rescission and unwind) shall immediately and automatically terminate.

6.8. *Business Day.* To the extent that any deadline or date of performance of any right or obligation set forth herein shall fall on a day other than a Business Day, then such deadline or date of performance shall automatically be extended to the next succeeding Business Day.

6.9. *Entire Agreement.* This Agreement, together with the Senior Preferred Stock and Warrant, contains the entire agreement between the parties hereto with respect to the transactions contemplated hereby and supersedes and cancels all prior agreements, including, but not limited to, all proposals, term sheets, statements, letters of intent or representations, written or oral, with respect thereto.

6.10. *Remedies.* In the event of a breach by Seller of any covenant or representation of Seller set forth herein, Purchaser shall be entitled to specific performance (in the case of a breach of covenant), damages and such other remedies as may be available at law or in equity; provided, that Purchaser shall not have the right to terminate the Commitment solely as a result of any such breach, and compliance with the covenants and the accuracy of the representations set forth in this Agreement shall not be conditions to funding the Commitment.

6.11. *Tax Reporting.* Neither Seller nor Conservator shall take, or shall permit any of their respective successors or assigns to take, a position for any tax, accounting or other purpose that is inconsistent with Internal Revenue Service Notice 2008-76 (or the regulations to be issued pursuant to such Notice) regarding the application of Section 382 of the Internal Revenue Code of 1986, as amended, a copy of which Notice has been provided to Seller in connection with the execution of this Agreement.

6.12. *Non-Severability.* Each of the provisions of this Agreement is integrated with and integral to the whole and shall not be severable from the remainder of the Agreement. In the event that any provision of this Agreement, the Senior Preferred Stock or the Warrant is determined to be illegal or unenforceable, then Purchaser may, in its sole discretion, by written notice to Conservator and Seller, declare this Agreement null and void, whereupon all transfers hereunder (including the issuance of the Senior Preferred Stock and the Warrant and any funding of the Commitment) shall be rescinded and unwound and all obligations of the parties (other than to effectuate such rescission and unwind) shall immediately and automatically terminate.

[Signature Page Follows]

FEDERAL HOME LOAN MORTGAGE
CORPORATION, by

Federal Housing Finance Agency,
its Conservator

James B. Lockhart III
James B. Lockhart III
Director

UNITED STATES DEPARTMENT
OF THE TREASURY

Henry M. Paulson, Jr.
Henry M. Paulson, Jr.
Secretary of the Treasury

Acknowledged and, solely as
to Sections 5.3, 6.2 and 6.11,
agreed:

FEDERAL HOUSING
FINANCE AGENCY,
as Conservator

James B. Lockhart III
James B. Lockhart III
Director

FREDDIE MAC

CERTIFICATE OF CREATION, DESIGNATION, POWERS, PREFERENCES, RIGHTS, PRIVILEGES, QUALIFICATIONS, LIMITATIONS, RESTRICTIONS, TERMS AND CONDITIONS OF VARIABLE LIQUIDATION PREFERENCE SENIOR PREFERRED STOCK (PAR VALUE $1.00 PER SHARE)

The Federal Housing Finance Agency, as Conservator of the Federal Home Loan Mortgage Corporation, a government-sponsored enterprise of the United States of America (the "Company"), does hereby certify that, pursuant to authority vested in the Board of Directors of the Company by Section 306(f) of the Federal Home Loan Mortgage Corporation Act, and pursuant to the authority vested in the Conservator of the Company by Section 1367(b) of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (12 U.S.C. §4617), as amended, the Conservator adopted Resolution FHLMC 2008-___ on September 7, 2008, which resolution is now, and at all times since such date has been, in full force and effect, and that the Conservator approved the final terms of the issuance and sale of the preferred stock of the Company designated above.

The Senior Preferred Stock shall have the following designation, powers, preferences, rights, privileges, qualifications, limitations, restrictions, terms and conditions:

1. Designation, Par Value, Number of Shares and Seniority

The class of preferred stock of the Company created hereby (the "Senior Preferred Stock") shall be designated "Variable Liquidation Preference Senior Preferred Stock," shall have a par value of $1.00 per share and shall consist of 1,000,000 shares. The Senior Preferred Stock shall rank prior to the common stock of the Company as provided in this Certificate and shall rank, as to both dividends and distributions upon liquidation, prior to (a) the Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock issued on December 4, 2007, (b) the 6.55% Non-Cumulative Preferred Stock issued on September 28, 2007, (c) the 6.02% Non-Cumulative Preferred Stock issued on July 24, 2007, (d) the 5.66% Non-Cumulative Preferred Stock issued on April 16, 2007, (e) the 5.57% Non-Cumulative Preferred Stock issued on January 16, 2007, (f) the 5.9% Non-Cumulative Preferred Stock issued on October 16, 2006, (g) the 6.42% Non-Cumulative Preferred Stock issued on July 17, 2006, (h) the Variable Rate, Non-Cumulative Preferred Stock issued on July 17, 2006, (i) the 5.81% Non-Cumulative Preferred Stock issued on January 29, 2002, (j) the 5.7% Non-Cumulative Preferred Stock issued on October 30, 2001, (k) the 6% Non-Cumulative Preferred Stock issued on May 30, 2001, (l) the Variable Rate, Non-Cumulative Preferred Stock issued on May 30, 2001 and June 1, 2001, (m) the 5.81% Non-Cumulative Preferred Stock issued on March 23, 2001, (n) the Variable Rate, Non-Cumulative Preferred Stock issued on March 23, 2001, (o) the Variable Rate, Non-Cumulative Preferred Stock issued on January 26, 2001, (p) the Variable Rate, Non-Cumulative Preferred Stock issued on November 5, 1999, (q) the 5.79% Non-Cumulative Preferred Stock issued on July 21, 1999, (r) the 5.1% Non-Cumulative Preferred Stock issued on March 19, 1999, (s) the 5.3% Non-Cumulative Preferred Stock issued on October 28, 1998, (t) the

5.1% Non-Cumulative Preferred Stock issued on September 23, 1998, (u) the Variable Rate, Non-Cumulative Preferred Stock issued on September 23, 1998 and September 29, 1998, (v) the 5% Non-Cumulative Preferred Stock issued on March 23, 1998, (w) the 5.81% Non-Cumulative Preferred Stock issued on October 27, 1997, (x) the Variable Rate, Non-Cumulative Preferred Stock issued on April 26, 1996, (y) any other capital stock of the Company outstanding on the date of the initial issuance of the Senior Preferred Stock, and (z) any capital stock of the Company that may be issued after the date of initial issuance of the Senior Preferred Stock.

2. Dividends

(a) For each Dividend Period from the date of the initial issuance of the Senior Preferred Stock, holders of outstanding shares of Senior Preferred Stock shall be entitled to receive, ratably, when, as and if declared by the Board of Directors, in its sole discretion, out of funds legally available therefor, cumulative cash dividends at the annual rate per share equal to the then-current Dividend Rate on the then-current Liquidation Preference. Dividends on the Senior Preferred Stock shall accrue from but not including the date of the initial issuance of the Senior Preferred Stock and will be payable in arrears when, as and if declared by the Board of Directors quarterly on March 31, June 30, September 30 and December 31 of each year (each, a "Dividend Payment Date"), commencing on December 31, 2008. If a Dividend Payment Date is not a "Business Day," the related dividend will be paid not later than the next Business Day with the same force and effect as though paid on the Dividend Payment Date, without any increase to account for the period from such Dividend Payment Date through the date of actual payment. "Business Day" means a day other than (i) a Saturday or Sunday, (ii) a day on which New York City banks are closed, or (iii) a day on which the offices of the Company are closed.

If declared, the initial dividend will be for the period from but not including the date of the initial issuance of the Senior Preferred Stock through and including December 31, 2008. Except for the initial Dividend Payment Date, the "Dividend Period" relating to a Dividend Payment Date will be the period from but not including the preceding Dividend Payment Date through and including the related Dividend Payment Date. The amount of dividends payable on the initial Dividend Payment Date or for any Dividend Period that is not a full calendar quarter shall be computed on the basis of 30-day months, a 360-day year and the actual number of days elapsed in any period of less than one month. For the avoidance of doubt, in the event that the Liquidation Preference changes in the middle of a Dividend Period, the amount of dividends payable on the Dividend Payment Date at the end of such Dividend Period shall take into account such change in Liquidation Preference and shall be computed at the Dividend Rate on each Liquidation Preference based on the portion of the Dividend Period that each Liquidation Preference was in effect.

(b) To the extent not paid pursuant to Section 2(a) above, dividends on the Senior Preferred Stock shall accrue and shall be added to the Liquidation Preference pursuant to Section 8, whether or not there are funds legally available for the payment of such dividends and whether or not dividends are declared.

(c) "Dividend Rate" means 10.0%; provided, however, that if at any time the Company shall have for any reason failed to pay dividends in cash in a timely manner as required by this Certificate, then immediately following such failure and for all Dividend Periods thereafter until the Dividend Period following the date on which the Company shall have paid in cash full cumulative dividends (including any unpaid dividends added to the Liquidation Preference pursuant to Section 8), the "Dividend Rate" shall mean 12.0%.

(d) Each such dividend shall be paid to the holders of record of outstanding shares of the Senior Preferred Stock as they appear in the books and records of the Company on such record date as shall be fixed in advance by the Board of Directors, not to be earlier than 45 days nor later than 10 days preceding the applicable Dividend Payment Date. The Company may not, at any time, declare or pay dividends on, make distributions with respect to, or redeem, purchase or acquire, or make a liquidation payment with respect to, any common stock or other securities ranking junior to the Senior Preferred Stock unless (i) full cumulative dividends on the outstanding Senior Preferred Stock in respect of the then-current Dividend Period and all past Dividend Periods (including any unpaid dividends added to the Liquidation Preference pursuant to Section 8) have been declared and paid in cash (including through any pay down of Liquidation Preference pursuant to Section 3) and (ii) all amounts required to be paid pursuant to Section 4 (without giving effect to any prohibition on such payment under any applicable law) have been paid in cash.

(e) Notwithstanding any other provision of this Certificate, the Board of Directors, in its discretion, may choose to pay dividends on the Senior Preferred Stock without the payment of any dividends on the common stock, preferred stock or any other class or series of stock from time to time outstanding ranking junior to the Senior Preferred Stock with respect to the payment of dividends.

(f) If and whenever dividends, having been declared, shall not have been paid in full, as aforesaid, on shares of the Senior Preferred Stock, all such dividends that have been declared on shares of the Senior Preferred Stock shall be paid to the holders pro rata based on the aggregate Liquidation Preference of the shares of Senior Preferred Stock held by each holder, and any amounts due but not paid in cash shall be added to the Liquidation Preference pursuant to Section 8.

3. Optional Pay Down of Liquidation Preference

(a) Following termination of the Commitment (as defined in the Preferred Stock Purchase Agreement referred to in Section 8 below), and subject to any limitations which may be imposed by law and the provisions below, the Company may pay down the Liquidation Preference of all outstanding shares of the Senior Preferred Stock pro rata, at any time, in whole or in part, out of funds legally available therefor, with such payment first being used to reduce any accrued and unpaid dividends previously added to the Liquidation Preference pursuant to Section 8 below and, to the extent all such accrued and unpaid dividends have been paid, next being used to reduce any Periodic Commitment Fees (as defined in the Preferred Stock Purchase Agreement referred to in Section 8 below) previously added to the Liquidation Preference pursuant to Section 8 below. Prior to termination of the Commitment, and subject to any limitations which may be imposed by law and the provisions below, the Company may pay down the Liquidation Preference of all outstanding shares of the Senior Preferred Stock pro rata, at any time, out of funds legally available therefor, but only to the extent of (i) accrued and unpaid dividends previously added to the Liquidation Preference pursuant to Section 8 below and not repaid by any prior pay down of Liquidation Preference and (ii) Periodic Commitment Fees previously added to the Liquidation

Preference pursuant to Section 8 below and not repaid by any prior pay down of Liquidation Preference. Any pay down of Liquidation Preference permitted by this Section 3 shall be paid by making a payment in cash to the holders of record of outstanding shares of the Senior Preferred Stock as they appear in the books and records of the Company on such record date as shall be fixed in advance by the Board of Directors, not to be earlier than 45 days nor later than 10 days preceding the date fixed for the payment.

(b) In the event the Company shall pay down of the Liquidation Preference of the Senior Preferred Stock as aforesaid, notice of such pay down shall be given by the Company by first class mail, postage prepaid, mailed neither less than 10 nor more than 45 days preceding the date fixed for the payment, to each holder of record of the shares of the Senior Preferred Stock, at such holder's address as the same appears in the books and records of the Company. Each such notice shall state the amount by which the Liquidation Preference of each share shall be reduced and the pay down date.

(c) If after termination of the Commitment the Company pays down the Liquidation Preference of each outstanding share of Senior Preferred Stock in full, such shares shall be deemed to have been redeemed as of the date of such payment, and the dividend that would otherwise be payable for the Dividend Period ending on the pay down date will be paid on such date. Following such deemed redemption, the shares of the Senior Preferred Stock shall no longer be deemed to be outstanding, and all rights of the holders thereof as holders of the Senior Preferred Stock shall cease, with respect to shares so redeemed, other than the right to receive the pay down amount (which shall include the final dividend for such shares). Any shares of the Senior Preferred Stock which shall have been so redeemed, after such redemption, shall no longer have the status of authorized, issued or outstanding shares.

4. Mandatory Pay Down of Liquidation Preference Upon Issuance of Capital Stock

(a) If the Company shall issue any shares of capital stock (including without limitation common stock or any series of preferred stock) in exchange for cash at any time while the Senior Preferred Stock is outstanding, then the Company shall, within 10 Business Days, use the proceeds of such issuance net of the direct costs relating to the issuance of such securities (including, without limitation, legal, accounting and investment banking fees) to pay down the Liquidation Preference of all outstanding shares of Senior Preferred Stock pro rata, out of funds legally available therefor, by making a payment in cash to the holders of record of outstanding shares of the Senior Preferred Stock as they appear in the books and records of the Company on such record date as shall be fixed in advance by the Board of Directors, not to be earlier than 45 days nor later than 10 days preceding the date fixed for the payment, with such payment first being used to reduce any accrued and unpaid dividends previously added to the Liquidation Preference pursuant to Section 8 below and, to the extent all such accrued and unpaid dividends have been paid, next being used to reduce any Periodic Commitment Fees (as defined in the Preferred Stock Purchase Agreement referred to in Section 8 below) previously added to the Liquidation Preference pursuant to Section 8 below; provided that, prior to the termination of the Commitment (as defined in the Preferred Stock Purchase Agreement referred to in Section 8 below), the Liquidation Preference of each share of Senior Preferred Stock shall not be paid down below $1,000 per share.

(b) If the Company shall not have sufficient assets legally available for the pay down of the Liquidation Preference of the shares of Senior Preferred Stock required under Section 4(a), the Company shall pay down the Liquidation Preference per share to the extent permitted by law, and shall pay down any Liquidation Preference not so paid down because of the unavailability of legally available assets or other prohibition as soon as practicable to the extent it is thereafter able to make such pay down legally. The inability of the Company to make such payment for any reason shall not relieve the Company from its obligation to effect any required pay down of the Liquidation Preference when, as and if permitted by law.

(c) If after the termination of the Commitment the Company pays down the Liquidation Preference of each outstanding share of Senior Preferred Stock in full, such shares shall be deemed to have been redeemed as of the date of such payment, and the dividend that would otherwise be payable for the Dividend Period ending on the pay down date will be paid on such date. Following such deemed redemption, the shares of the Senior Preferred Stock shall no longer be deemed to be outstanding, and all rights of the holders thereof as holders of the Senior Preferred Stock shall cease, with respect to shares so redeemed, other than the right to receive the pay down amount (which shall include the final dividend for such redeemed shares). Any shares of the Senior Preferred Stock which shall have been so redeemed, after such redemption, shall no longer have the status of authorized, issued or outstanding shares.

5. No Voting Rights

Except as set forth in this Certificate or otherwise required by law, the shares of the Senior Preferred Stock shall not have any voting powers, either general or special.

6. No Conversion or Exchange Rights

The holders of shares of the Senior Preferred Stock shall not have any right to convert such shares into or exchange such shares for any other class or series of stock or obligations of the Company.

7. No Preemptive Rights

No holder of the Senior Preferred Stock shall as such holder have any preemptive right to purchase or subscribe for any other shares, rights, options or other securities of any class of the Company which at any time may be sold or offered for sale by the Company.

8. Liquidation Rights and Preference

(a) Except as otherwise set forth herein, upon the voluntary or involuntary dissolution, liquidation or winding up of the Company, the holders of the outstanding shares of the Senior Preferred Stock shall be entitled to receive out of the assets of the Company available for distribution to stockholders, before any payment or distribution shall be made on the common stock or any other class or series of stock of the Company ranking junior to the Senior Preferred Stock upon liquidation, the amount per share equal to the Liquidation Preference plus an amount, determined in accordance with Section 2(a) above, equal to the dividend otherwise payable for the then-current Dividend Period accrued through and including the date of payment in respect of such dissolution, liquidation or winding up; provided, however, that if the assets of the Company available for distribution to stockholders shall be insufficient for the payment of the amount which the holders of the outstanding shares of the Senior Preferred Stock shall be entitled to receive upon such dissolution, liquidation or winding up of the Company as aforesaid, then, all of the assets of the Company available for distribution to stockholders shall be distributed to the holders of outstanding shares of the Senior Preferred Stock pro rata based on the aggregate Liquidation Preference of the shares of Senior Preferred Stock held by each holder.

(b) "Liquidation Preference" shall initially mean $1,000 per share and shall be:

(i) increased each time a Deficiency Amount (as defined in the Preferred Stock Purchase Agreement) is paid to the Company by an amount per share equal to the aggregate amount so paid to the Company divided by the number of shares of Senior Preferred Stock outstanding at the time of such payment;

(ii) increased each time the Company does not pay the full Periodic Commitment Fee (as defined in the Preferred Stock Purchase Agreement) in cash by an amount per share equal to the amount of the Periodic Commitment Fee that is not paid in cash divided by the number of shares of Senior Preferred Stock outstanding at the time such payment is due;

(iii) increased on the Dividend Payment Date if the Company fails to pay in full the dividend payable for the Dividend Period ending on such date by an amount per share equal to the aggregate amount of unpaid dividends divided by the number of shares of Senior Preferred Stock outstanding on such date; and

(iv) decreased each time the Company pays down the Liquidation Preference pursuant to Section 3 or Section 4 of this Certificate by an amount per share equal to the aggregate amount of the pay down divided by the number of shares of Senior Preferred Stock outstanding at the time of such pay down.

(c) "Preferred Stock Purchase Agreement" means the Preferred Stock Purchase Agreement, dated September 7, 2008, between the Company and the United States Department of the Treasury.

(d) Neither the sale of all or substantially all of the property or business of the Company, nor the merger, consolidation or combination of the Company into or with any other corporation or entity, shall be deemed to be a dissolution, liquidation or winding up for the purpose of this Section 8.

9. Additional Classes or Series of Stock

The Board of Directors shall have the right at any time in the future to authorize, create and issue, by resolution or resolutions, one or more additional classes or series of stock of the Company, and to determine and fix the distinguishing characteristics and the relative rights, preferences, privileges and other terms of the shares thereof; provided that, any such class or series of stock may not rank prior to or on parity with the Senior Preferred Stock without the prior written consent of the holders of at least two-thirds of all the shares of Senior Preferred Stock at the time outstanding.

10. Miscellaneous

(a) The Company and any agent of the Company may deem and treat the holder of a share or shares of Senior Preferred Stock, as shown in the Company's books and records, as the absolute owner of such share or shares of Senior Preferred Stock for the purpose of receiving payment of dividends in respect of such share or shares of Senior Preferred Stock and for all other purposes whatsoever, and neither the Company nor any agent of the Company shall be affected by any notice to the contrary. All payments made to or upon the order of any such person shall be valid and, to the extent of the sum or sums so paid, effectual to satisfy and discharge liabilities for moneys payable by the Company on or with respect to any such share or shares of Senior Preferred Stock.

(b) The shares of the Senior Preferred Stock, when duly issued, shall be fully paid and non-assessable.

(c) The Senior Preferred Stock may be issued, and shall be transferable on the books of the Company, only in whole shares.

(d) For purposes of this Certificate, the term "the Company" means the Federal Home Loan Mortgage Corporation and any successor thereto by operation of law or by reason of a merger, consolidation, combination or similar transaction.

(e) This Certificate and the respective rights and obligations of the Company and the holders of the Senior Preferred Stock with respect to such Senior Preferred Stock shall be construed in accordance with and governed by the laws of the United States, provided that the law of the Commonwealth of Virginia shall serve as the federal rule of decision in all instances except where such law is inconsistent with the Company's enabling legislation, its public purposes or any provision of this Certificate.

(f) Any notice, demand or other communication which by any provision of this Certificate is required or permitted to be given or served to or upon the Company shall be given or served in writing addressed (unless and until another address shall be published by the Company) to Freddie Mac, 8200 Jones Branch Drive, McLean, Virginia 22102, Attn: Executive Vice President and General Counsel. Such notice, demand or other communication to or upon the Company shall be deemed to have been sufficiently given or made only upon actual receipt of a writing by the Company. Any notice, demand or other communication which by any provision of this Certificate is required or permitted to be given or served by the Company hereunder may be given or served by being deposited first class, postage prepaid, in the United States mail addressed (i) to the holder as such holder's name and address may appear at such time in the books and records of the Company or (ii) if to a person or entity other than a holder of record of the Senior Preferred Stock, to such person or entity at such address as reasonably appears to the Company to be appropriate at such time. Such notice, demand or other communication shall be deemed to have been sufficiently given or made, for all purposes, upon mailing.

(g) The Company, by or under the authority of the Board of Directors, may amend, alter, supplement or repeal any provision of this Certificate pursuant to the following terms and conditions:

(i) Without the consent of the holders of the Senior Preferred Stock, the Company may amend, alter, supplement or repeal any provision of this Certificate to cure any ambiguity, to correct or supplement any provision herein which may be defective or inconsistent with any other provision herein, or to make any other provisions with respect to matters or questions arising under this Certificate, provided that such action shall not adversely affect the interests of the holders of the Senior Preferred Stock.

(ii) The consent of the holders of at least two-thirds of all of the shares of the Senior Preferred Stock at the time outstanding, given in person or by proxy, either in writing or by a vote at a meeting called for the purpose at which the holders of shares of the Senior Preferred Stock shall vote together as a class, shall be necessary for authorizing, effecting or validating the amendment, alteration, supplementation or repeal (whether by merger, consolidation or otherwise) of the provisions of this Certificate other than as set forth in subparagraph (i) of this paragraph (g). The creation and issuance of any other class or series of stock, or the issuance of additional shares of any existing class or series of stock, of the Company ranking junior to the Senior Preferred Stock shall not be deemed to constitute such an amendment, alteration, supplementation or repeal.

(iii) Holders of the Senior Preferred Stock shall be entitled to one vote per share on matters on which their consent is required pursuant to subparagraph (ii) of this paragraph (g). In connection with any meeting of such holders, the Board of Directors shall fix a record date, neither earlier than 60 days nor later than 10 days prior to the date of such meeting, and holders of record of shares of the Senior Preferred Stock on such record date shall be entitled to notice of and to vote at any such meeting and any adjournment. The Board of Directors, or such person or persons as it may designate, may establish reasonable rules and procedures as to the solicitation of the consent of holders of the Senior Preferred Stock at any such meeting or otherwise, which rules and procedures shall conform to the requirements of any national securities exchange on which the Senior Preferred Stock may be listed at such time.

(h) **RECEIPT AND ACCEPTANCE OF A SHARE OR SHARES OF THE SENIOR PREFERRED STOCK BY OR ON BEHALF OF A HOLDER SHALL CONSTITUTE THE UNCONDITIONAL ACCEPTANCE BY THE HOLDER (AND ALL OTHERS HAVING BENEFICIAL OWNERSHIP OF SUCH SHARE OR SHARES) OF ALL OF THE TERMS AND PROVISIONS OF THIS CERTIFICATE. NO SIGNATURE OR OTHER FURTHER MANIFESTATION OF ASSENT TO THE TERMS AND PROVISIONS OF THIS CERTIFICATE SHALL BE NECESSARY FOR ITS OPERATION OR EFFECT AS BETWEEN THE COMPANY AND THE HOLDER (AND ALL SUCH OTHERS).**

IN WITNESS WHEREOF, I have hereunto set my hand and the seal of the Company this 7th day of September, 2008.

[Seal]

FEDERAL HOME LOAN MORTGAGE CORPORATION,
by

The Federal Housing Finance Agency, its Conservator

____
James B. Lockhart III
Director

FEDERAL HOME LOAN MORTGAGE CORPORATION
WARRANT TO PURCHASE COMMON STOCK

NO. _____ September 7, 2008

VOID AFTER SEPTEMBER 7, 2028

THIS CERTIFIES THAT, for value received, the United States Department of the Treasury, with its principal office at 1500 Pennsylvania Avenue, NW, Washington, DC 20220 (the "Holder"), is entitled to purchase at the Exercise Price (defined below) from Federal Home Loan Mortgage Corporation, a government-sponsored enterprise of the United States of America, with its principal office at 8200 Jones Branch Drive, McLean, Virginia 22102 (the "Company"), shares of common stock, no par value, of the Company, as provided herein.

1. Definitions. As used herein, the following terms shall have the following respective meanings:

"Affiliate" shall mean, as to any specified Person, any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For the purposes of this definition, "control," when used with respect to any Person, means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise and the terms "affiliated," "controlling" and "controlled" have meanings correlative to the foregoing.

"Business Day" shall mean each Monday, Tuesday, Wednesday, Thursday and Friday that is not a day on which banking institutions in New York, New York are authorized or obligated by law or executive order to close.

"Common Stock" shall mean the common stock, no par value, of the Company, and all other stock of any class or classes (however designated) of the Company from time to time outstanding, the holders of which have the right, without limitation as to amount, either to all or to a share of the balance of current dividends or liquidating distributions after the payment of dividends and distributions on any shares entitled to preference.

"Exercise Period" shall mean the time period commencing with the date hereof and ending at 5:00 p.m. New York time on the 20th anniversary of the date hereof.

"Exercise Price" shall mean one one-thousandth of a cent ($0.00001) per share.

"Exercise Shares" shall mean the shares of the Common Stock issuable upon exercise of this Warrant, subject to adjustment pursuant to the terms herein, and shall also mean any other shares, securities, assets or property otherwise issuable upon exercise of this Warrant.

"Fair Market Value" shall mean, with respect to a share of Common Stock, or any other security of the Company or any other issuer:

(a) the volume weighted average daily Market Price during the period of the most recent twenty (20) Trading Days, ending on the last Trading Day before the date of determination of Fair Market Value, if such class of Common Stock or other security is (i) traded on the New York Stock Exchange or any other U.S. national or regional securities exchange, or admitted to unlisted trading privileges on such an exchange, or (ii) is quoted or reported on the Over-the-Counter Bulletin Board ("OTCBB") or by Pink OTC Markets Inc. or a similar organization or agency succeeding to its functions of reporting prices; or

(b) if such class of Common Stock or other security is not then so listed, admitted to trading or quoted, the Fair Market Value shall be the Market Price on the last Business Day before the date of determination of Fair Market Value.

"Fully Diluted" shall mean, as of immediately prior to the exercise of this Warrant (or a portion of this Warrant), the sum of, without duplication, (i) the total number of shares of Common Stock outstanding and (ii) all shares of Common Stock issuable in respect of securities convertible into or exercisable or exchangeable for Common Stock, stock appreciation rights or options, warrants (including this Warrant) and other rights to purchase or subscribe for Common Stock or securities convertible into or exercisable or exchangeable for Common Stock (in each case, assuming that no restrictions apply with respect to conversion, exercise, exchange, subscription or purchase).

"Market Price" shall be, as of any specified date with respect to any share of any class of Common Stock or any other security of the Company or any other issuer:

(i) the closing price on that date or, if no closing price is reported, the last reported sale price, of shares of the Common Stock or such other security on the New York Stock Exchange on that date; or

(ii) if the Common Stock or such other security is not traded on the New York Stock Exchange, the closing price on that date as reported in composite transactions for the principal U.S. national or regional securities exchange on which the Common Stock or such other security is so traded or, if no closing price is reported, the last reported sale price of shares of the Common Stock or such other security on the principal U.S. national or regional securities exchange on which the Common Stock or such other security is so traded on that date; or

(iii) if the Common Stock or such other security is not traded on a U.S. national or regional securities exchange, the last quoted bid price on that date for the Common Stock or such other security in the over-the-counter market as reported (x) by the OTCBB or (y) if reports are unavailable under clause (x) above by Pink OTC Markets Inc. or a similar organization or agency succeeding to its functions of reporting prices;

(iv) if the Common Stock or such other security is not so quoted by OTCBB or Pink OTC Markets Inc. or a similar organization, the Market Price shall be determined in accordance with the Valuation Procedure.

"Participating Securities" shall mean, (i) any equity security (other than Common Stock) that entitles the holders thereof to participate in liquidations or other distributions with the holders of Common Stock or otherwise participate in the capital of the Company other than through a fixed or floating rate of return on capital loaned or invested, and (ii) any stock appreciation rights, phantom stock rights, or any other profit participation rights with respect to any of the Company's capital stock or other equity ownership interest, or any rights or options to acquire any such rights.

"Person" shall mean any individual, corporation, limited liability company, partnership, joint venture, association, joint-stock company, trust, estate, unincorporated organization or government or any agency or political subdivision thereof, or any other entity whatsoever.

"Trading Day" shall mean, with respect to any class of Common Stock or any other security of the Company or any other issuer a day (i) on which the securities exchange or other trading platform applicable for purposes of determining the Market Price of a share or unit of such class of Common Stock or other security shall be open for business or (ii) for which quotations from such securities exchange or other trading platform of the character specified for purposes of determining such Market Price shall be reported.

"Valuation Procedure" shall mean a determination made in good faith by the Board of Directors of the Company (the "Board") that is set forth in resolutions of the Board that are certified by the Secretary of the Company, which certified resolutions (i) set forth the basis of the Board's determination, which, in the case of a valuation in excess of $100 million, shall include the Board's reliance on the valuation of a nationally recognized investment banking or appraisal firm, and (ii) are delivered to the Holder within ten (10) Business Days following such determination. A Valuation Procedure with respect to the value of any capital stock shall be based on the price that would be paid for all of the capital stock of the issuer in an arm's-length transaction between a willing buyer and a willing seller (neither acting under compulsion).

2. Exercise of Warrant; Number of Shares.

2.1 Exercise. This Warrant may be exercised in whole or in part at any time during the Exercise Period, by delivery of the following to the Company at its address set forth above (or at such other address as it may designate by notice in writing to the Holder):

(a) an executed Notice of Exercise in the form attached hereto;

(b) payment of the Exercise Price (i) in cash or by check, (ii) by cancellation of indebtedness or (iii) pursuant to Section 2.2 hereof; and

(c) this Warrant.

This Warrant will be exercisable for a number of shares of Common Stock that, together with the shares of Common Stock previously issued pursuant to this Warrant, is equal to 79.9% of the total number of shares of Common Stock outstanding on a Fully Diluted basis on the date of exercise. Whenever the Holder exercises this Warrant in whole or in part, it may assign its right to receive the Exercise Shares issuable upon such exercise to any other Person.

As soon as practicable (and in any event within five Business Days) after this Warrant shall have been exercised, a certificate or certificates for the Exercise Shares so purchased, registered in the name of the Holder or such other Person as may be designated by the Holder (to the extent such transfer is not validly restricted and upon payment of any transfer taxes that are required to be paid by the Holder in connection with any such transfer), shall be issued and delivered by the Company to the Holder or such other Person .

The Person in whose name any certificate or certificates for the Exercise Shares are to be issued upon exercise of this Warrant shall be deemed to have become the holder of record of such shares on the date on which this Warrant was surrendered and payment of the Exercise Price was made, irrespective of the date of delivery of such certificate or certificates, except that, if the date of such surrender and payment is a date when the stock transfer books of the Company are closed, such Person shall be deemed to have become the holder of such shares at the close of business on the next succeeding date on which the stock transfer books are open (whether before or after the end of the Exercise Period).

2.2 Net Exercise. Notwithstanding any provision herein to the contrary, if the Market Price of one share of the Common Stock is greater than the Exercise Price (at the date of calculation as set forth below), in lieu of exercising this Warrant by payment of cash, check or cancellation of indebtedness, the Holder may elect (the "Conversion Right") to receive shares equal to the value (as determined below) of this Warrant (or the portion thereof being canceled) by surrender of this Warrant at the principal office of the Company together with the properly endorsed Notice of Exercise in which event the Company shall issue to the Holder a number of shares of Common Stock computed using the following formula:

$$X = \frac{Y\,(A-B)}{A}$$

Where X = the number of shares of Common Stock to be issued

Y = the number of shares of Common Stock purchasable under this Warrant or, if only a portion of this Warrant is being exercised, the portion of this Warrant being exercised (at the date of such calculation)

A = the Market Price of one share of the Common Stock (at the date of such calculation)

B = Exercise Price (as adjusted pursuant to the terms herein to the date of such calculation)

The Company shall pay all reasonable administrative costs incurred by the Holder in connection with the exercise of the Conversion Right by the Holder pursuant to this Section 2.2.

3. Covenants and Representations of the Company

3.1 Covenants as to Exercise Shares.

(a) The Company covenants and agrees that all Exercise Shares that may be issued upon the exercise of this Warrant will, upon issuance, be validly authorized, issued and outstanding, fully paid and nonassessable, free of preemptive rights and free from all taxes, liens and charges with respect to the issuance thereof. If the Common Stock or the class of securities of any other Exercise Shares is then listed or quoted on a national securities exchange or a regional securities exchange, all such Exercise Shares shall, upon issuance, also be so listed or quoted. The Company further covenants and agrees that the Company will at all times during the Exercise Period, have authorized and reserved solely for purposes of the exercise of this Warrant, free from preemptive rights, a sufficient number of shares of its Common Stock or the class of securities of any other Exercise Shares to provide for the exercise in full of this Warrant (without taking into account any possible exercise pursuant to Section 2.2 hereof). If at any time during the Exercise Period the number of authorized but unissued shares of Common Stock or the class of securities of any other Exercise Shares shall not be sufficient to permit exercise in full of this Warrant (without taking into account any possible exercise pursuant to Section 2.2 hereof), the Company will take such corporate action as shall be necessary to increase its authorized but unissued shares of Common Stock or the class of securities of any other Exercise Shares to such number of shares as shall be sufficient for such purposes.

(b) If at any time the Exercise Shares shall include any shares or other securities other than shares of Common Stock, or any other property or assets, the terms of this Warrant shall be modified or supplemented (and in the absence of express written documentation thereof, shall be deemed to be so modified or supplemented), and the Company shall take all actions as may be necessary to preserve, in a manner and on terms as nearly equivalent as practicable to the provisions of this Warrant as they apply to the Common Stock, the rights of the Holder hereunder, including any equitable replacements of the term "Common Stock" with the term "Exercise Shares" and adjustments of any formula included herein.

(c) The Company's filings under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), will comply in all material respects as to form with the Exchange Act and the rules and regulations thereunder.

(d) Without prior written consent of the Holder, the Company shall not permit any Significant Subsidiary (as defined by Rule 1-02(w) of Regulation S-X under the Securities Act or any successor rule) to (i) issue or grant any capital stock or equity ownership interest, including any Participating Security; (ii) any rights, options, warrants or convertible security that is exercisable for or convertible into any capital stock or other equity ownership interest, including any Participating Security; or (iii) any stock appreciation rights, phantom stock rights, or any other profit participation rights, or any rights or options to acquire any such rights, in each case of clauses (i), (ii) and (iii) above, to any Person other than the Company or its wholly owned subsidiaries.

(e) The Company shall not take any action that will result in an increase in the par value of the Common Stock.

3.2 No Impairment. Except and to the extent as waived or consented to in writing by the Holder, the Company will not, by amendment of its charter, bylaws or other governing documents or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed hereunder by the Company, but will at all times in good faith assist in the carrying out of all the provisions of this Warrant and in the taking of all such action as may be necessary or appropriate in order to protect the exercise rights of the Holder against impairment or dilution consistent with the intent and principles expressed herein. If any event or occurrence shall occur (including without limitation, stock dividends and stock splits) as to which the failure to make any adjustment to the Exercise Price and/or the number of shares or other assets or property subject to this Warrant would adversely affect the purchase rights or value represented by this Warrant, including any issuance of Common Stock or Participating Securities, then, in each such case, the Company shall determine the adjustment, if any, on a basis consistent with the essential intent and principles herein, necessary to preserve, without dilution, the purchase rights represented by this Warrant. If such determination involves or is based on a determination of the Fair Market Value of any securities or other assets or property, such determination shall be made in accordance with the Valuation Procedure. Without limiting the foregoing, in the event of any dividend or distribution by the Company of assets or property (including shares of any other Person) on or with respect to the Common Stock, or any exchange of the shares of Common Stock into any other assets, property or securities, this Warrant will be equitably adjusted to permit the Holder to receive upon exercise the assets, property or securities that would have been received if the Warrant had been exercised immediately prior to such dividend, distribution or exchange.

3.3 Notice of Record Date. In the event (i) the Company takes a record of the holders of any class of securities for the purpose of determining the holders thereof who are entitled to receive any dividend or other distribution, (ii) the Company authorizes the granting to the holders of Common Stock (or holders of the class of securities of any other Exercise Shares) of rights to subscribe to or purchase any shares of capital stock of any class or securities convertible into any shares of capital stock or of any other right, (iii) the Company authorizes any reclassification of, or any recapitalization involving, any class of Common Stock or any consolidation or merger to which the Company is a party and for which approval of the stockholders of the Company is required, or of the sale or transfer of all or substantially all of the assets of the Company, (iv) the Company authorizes or consents to or otherwise commences the voluntary or involuntary dissolution, liquidation or winding up of the Company or (v) the Company authorizes or takes any other action that would trigger an adjustment in the Exercise Price or the number or amount of shares of Common Stock or other Exercise Shares subject to this Warrant, the Company shall mail to the Holder, at least ten (10) days prior to the earlier of the record date for any such action or stockholder vote and the date of such action, a notice specifying (a) which action is to be taken and the date on which any such record is to be taken for the purpose of any such action, (b) the date that any such action is to take place and (c) the amount and character of any stock, other securities or property and amounts, or rights or options with respect thereto, proposed to be issued, granted or delivered to each holder of Common Stock (or holders of the class of securities of any other Exercise Shares).

4. Fractional Shares. No fractional shares shall be issued upon the exercise of this Warrant. All Exercise Shares (including fractions) issuable upon exercise of this Warrant may be aggregated for purposes of determining whether the exercise would result in the issuance of any fractional share. If, after aggregation, the exercise would result in the issuance of a fractional share, the Company shall, in lieu of issuance of any fractional share, pay the Holder otherwise entitled to such fraction a sum in cash equal to the product resulting from multiplying such fractional amount by the Fair Market Value of one share of Common Stock.

5. Listing Rights. The Company shall use its best efforts, upon the request of the Holder, to cause the Exercise Shares to be listed or quoted on a national securities exchange or a regional securities exchange.

6. No Stockholder Rights or Liabilities. Without limiting the consent rights of the Holder contained in Section 3, this Warrant in and of itself shall not entitle the Holder to any voting rights or other rights as a stockholder of the Company. No provision of this Warrant, in the absence of affirmative action by the Holder to exercise this Warrant in exchange for shares of Common Stock, and no mere enumeration herein of the rights or privileges of the Holder, shall give rise to any liability of the Holder for the Exercise Price or as a stockholder of the Company, whether such liability is asserted by the Company or by creditors of the Company.

7. Transfer of Warrant. This Warrant is not transferable; provided, however, that the Holder may assign its rights to receive shares upon exercise of this Warrant pursuant to Section 2.1.

8. Payment of Taxes on Stock Certificate Issues Upon Exercise. The initial issuance of certificates of Common Stock upon any exercise of this Warrant shall be made without charge to the exercising Holder for any transfer, stamp or similar tax or for any other governmental charges that may be imposed in respect of the issuance of such stock certificates, and such stock certificates shall be issued in the respective names of, or in such names as may be directed by, the Holder; provided, however, that the Company shall not be required to pay any tax or such other charges that may be payable in respect of any transfer involved in the issuance and delivery of any such stock certificate, any new warrants or other securities in a name other than that of the Holder upon exercise of this Warrant (other than to an Affiliate), and the Company shall not be required to issue or deliver such certificates or other securities unless and until the Person or Persons requesting the issuance thereof shall have paid to the Company the amount of such tax or shall have established to the satisfaction of the Company that such tax has been paid or is not payable.

9. Lost, Stolen, Mutilated or Destroyed Warrant. If this Warrant is lost, stolen, mutilated or destroyed, the Company may, on such terms as to indemnity or otherwise as it may reasonably impose (which shall, in the case of a mutilated Warrant, include the surrender thereof), issue a new Warrant of like denomination and tenor as this Warrant so lost, stolen, mutilated or destroyed. Any such new Warrant shall constitute an original contractual obligation of the Company, whether or not the allegedly lost, stolen, mutilated or destroyed Warrant shall be at any time enforceable by anyone.

10. Closing of Books. The Company will at no time close its transfer books against the transfer of any shares of Common Stock issued or issuable upon the exercise or conversion of any Warrant in any manner which interferes with the timely exercise or conversion of this Warrant.

11. Notices, Etc. All notices required or permitted hereunder shall be in writing and shall be deemed effectively given: (a) upon personal delivery to the party to be notified, (b) when sent by confirmed telex or facsimile if sent during normal business hours of the recipient or if not, then on the next Business Day, (c) five (5) days after having been sent by registered or certified mail, return receipt requested, postage prepaid, or (d) one (1) Business Day after deposit with a nationally recognized overnight courier, specifying next Business Day delivery, with written verification of receipt. All notices and other communications shall be sent to the Company at the address listed on the signature page and to Holder at the address set forth below or at such other address as the Company or Holder may designate by ten (10) days advance written notice to the other parties hereto:

United States Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220
Attn: Under Secretary for Domestic Finance

with a copy to:

United States Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220
Attn: General Counsel

12. Acceptance. Receipt of this Warrant by the Holder shall constitute acceptance of and agreement to all of the terms and conditions contained herein.

13. Binding Effect on Successors. This Warrant shall be binding upon any Person succeeding the Company by merger, consolidation or acquisition of all or substantially all of the Company's assets, and all of the obligations of the Company relating to the Common Stock issuable upon the exercise or conversion of this Warrant shall survive the exercise, conversion and termination of this Warrant and all of the covenants and agreements of the Company shall inure to the benefit of the successors and assigns of the Holder.

14. Governing Law. This Warrant and all rights, obligations and liabilities hereunder shall be governed and construed in accordance with Federal law, if and to the extent such Federal law is applicable, and otherwise in accordance with the law of the State of New York.

IN WITNESS WHEREOF, the Company has caused this Warrant to be executed by its duly authorized officer as of September 7, 2008.

FEDERAL HOME LOAN MORTGAGE CORPORATION, by

The Federal Housing Finance Agency, its Conservator

James B. Lockhart III
Director

Address: 8200 Jones Branch Drive
McLean, Virginia 22102

NOTICE OF EXERCISE

TO: FEDERAL HOME LOAN MORTGAGE CORPORATION

(1) ☐ The undersigned hereby elects to purchase _______________ shares of the Common Stock of Federal Home Loan Mortgage Corporation (the "Company") pursuant to the terms of the attached Warrant, and tenders herewith or is delivering by wire transfer to account number ____________ at _____________________ (bank) payment of the exercise price in full.

☐ The undersigned hereby elects to purchase ________ shares of the Common Stock of the Company pursuant to the terms of the net exercise provisions set forth in Section 2.2 of the attached Warrant.

(2) Please issue a certificate or certificates representing said shares of Common Stock in the name of the undersigned or in such other name as is specified below:

____
(Name)

____

____
(Address)

____
(Date)

____
(Signature)

____
(Print name)

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UNITED STATES SECURITIES AND EXCHANGE COMMISSIONWashington, D.C. 20549
FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the quarterly period ended September 30, 2008 or

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the transition period from to Commission File Number: 000-53330
Federal Home Loan Mortgage Corporation(Exact name of registrant as specified in its charter) Freddie Mac

Federally chartered corporation	52-0904874
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
8200 Jones Branch Drive, McLean, Virginia	22102-3110
(Address of principal executive offices)	(Zip Code)

(703) 903-2000 (Registrant's telephone number, including area code) Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x Yes o No Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "accelerated filer," "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer o Accelerated filer o

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). o Yes x No As of November 10, 2008, there were 647,158,633 shares of the registrant's common stock outstanding.

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FINANCIAL STATEMENTS

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PART I -- FINANCIAL INFORMATION This Quarterly Report on Form 10-Q includes forward-looking statements, which may include expectations and objectives related to our operating results, financial condition, business, capital management, remediation of significant deficiencies in internal controls, credit losses, market share and trends, the conservatorship and its effects on our business and other matters. You should not rely unduly on our forward-looking statements. Actual results might differ significantly from those described in or implied by such forward-looking statements due to various factors and uncertainties, including those described in (i) "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS," or MD&A, "FORWARD-LOOKING STATEMENTS" and "RISK FACTORS" in this Form 10-Q and in the comparably captioned sections of our Form 10-Q for the quarter ended June 30, 2008 and our Form 10 Registration Statement filed and declared effective by the SEC on July 18, 2008, or Registration Statement, and (ii) the "BUSINESS" section of our Registration Statement. These forward-looking statements are made as of the date of this Form 10-Q and we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date of this Form 10-Q, or to reflect the occurrence of unanticipated events. ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS EXECUTIVE SUMMARY Conservatorship Entry Into Conservatorship and Treasury Agreements On September 7, 2008, Henry M. Paulson, Jr., Secretary of the U.S. Department of the Treasury, or Treasury, and James B. Lockhart III, Director of the Federal Housing Finance Agency, or FHFA, announced several actions taken by Treasury and FHFA regarding Freddie Mac and Fannie Mae. Director Lockhart stated that they took these actions "to help restore confidence in Fannie Mae and Freddie Mac, enhance their capacity to fulfill their mission, and mitigate the systemic risk that has contributed directly to the instability in the current market." These actions included the following:

ù placing us and Fannie Mae in conservatorship;
ù the execution of a senior preferred stock purchase agreement by our Conservator, on our behalf, and Treasury, pursuant to which we issued to Treasury both senior preferred stock and a warrant to purchase common stock; and
ù the agreement to establish a temporary secured lending credit facility that is available to us.

Entry into Conservatorship On September 6, 2008, at the request of the Secretary of the Treasury, the Chairman of the Board of Governors of the Federal Reserve and the Director of FHFA, our Board of Directors adopted a resolution consenting to putting the company into conservatorship. After obtaining this consent, the Director of FHFA appointed FHFA as our Conservator on September 6, 2008, in accordance with the Federal Housing Finance Regulatory Reform Act of 2008, or Reform Act, and the Federal Housing Enterprises Financial Safety and Soundness Act of 1992. Upon its appointment, the Conservator immediately succeeded to all rights, titles, powers and privileges of Freddie Mac, and of any stockholder, officer or director of Freddie Mac with respect to Freddie Mac and its assets, and succeeded to the title to all books, records and assets of Freddie Mac held by any other legal custodian or third party. The Conservator has the power to take over our assets and operate our business with all the powers of our stockholders, directors and officers, and to conduct all business of the company. The Conservator announced at that time that it would eliminate the payment of dividends on common and preferred stock during the conservatorship. On September 7, 2008, the Director of FHFA issued a statement that he had determined that we could not continue to operate safely and soundly and fulfill our critical public mission without significant action to address FHFA's concerns, which were principally: safety and soundness concerns as they existed at that time, including our capitalization; market conditions; our financial performance and condition; our inability to obtain funding according to normal practices and prices; and our critical importance in supporting the U.S. residential mortgage market. We describe the terms of the conservatorship and the powers of our Conservator in detail below under "Legislative and Regulatory Matters -- Conservatorship and Treasury Agreements." Overview of Treasury Agreements Senior Preferred Stock Purchase Agreement The Conservator, acting on our behalf, entered into a senior preferred stock purchase agreement, or Purchase Agreement, with Treasury on September 7, 2008. Under the Purchase Agreement, Treasury provided us with its commitment to provide up to $100 billion in funding under specified conditions. The Purchase Agreement requires Treasury, upon the request of the Conservator, to provide funds to us after any quarter in which we have a negative net worth (that is, our total liabilities exceed our total assets, as reflected on our GAAP balance sheet). In addition, the Purchase Agreement requires

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Treasury, upon the request of the Conservator, to provide funds to us if the Conservator determines, at any time, that it will be mandated by law to appoint a receiver for us unless we receive funds from Treasury under the Commitment. In exchange for Treasury's funding commitment, we issued to Treasury, as an initial commitment fee: (1) one million shares of Variable Liquidation Preference Senior Preferred Stock (with an initial liquidation preference of $1 billion), which we refer to as the senior preferred stock; and (2) a warrant to purchase, for a nominal price, shares of our common stock equal to 79.9% of the total number of shares of our common stock outstanding on a fully diluted basis at the time the warrant is exercised, which we refer to as the warrant. We received no other consideration from Treasury as a result of issuing the senior preferred stock or the warrant. Under the terms of the agreement, Treasury is entitled to a quarterly dividend of 10% per year (which increases to 12% per year if not paid timely and in cash) on the aggregate liquidation preference of the senior preferred stock. To the extent we are required to draw on Treasury's funding commitment the liquidation preference of the senior preferred stock will be increased by the amount of any funds we receive. The amounts payable for this dividend could be substantial and have an adverse impact on our financial position and net worth. The senior preferred stock is senior in liquidation preference to our common stock and all other series of preferred stock. In addition, beginning on March 31, 2010, we are required to pay a quarterly commitment fee to Treasury, which will accrue from January 1, 2010. We are required to pay this fee each quarter for as long as the Purchase Agreement is in effect. The amount of this fee has not yet been determined. The Purchase Agreement includes significant restrictions on our ability to manage our business, including limiting the amount of indebtedness we can incur to 110% of our aggregate indebtedness as of June 30, 2008 and capping the size of our retained portfolio at $850 billion as of December 31, 2009. See "CONSOLIDATED BALANCE SHEETS ANALYSIS -- Retained Portfolio" and "OUR PORTFOLIOS" for a description and composition of our portfolios. In addition, beginning in 2010, we must decrease the size of our retained portfolio at the rate of 10% per year until it reaches $250 billion. Depending on the pace of future mortgage liquidations, we may need to reduce or eliminate our purchases of mortgage assets or sell mortgage assets to achieve this reduction. We currently do not have plans to sell our mortgage assets at a loss. In addition, while the senior preferred stock is outstanding, we are prohibited from paying dividends (other than on the senior preferred stock) or issuing equity securities without Treasury's consent. The terms of the Purchase Agreement and warrant make it unlikely that we will be able to obtain equity from private sources. The Purchase Agreement has an indefinite term and can terminate only in very limited circumstances, which do not include the end of the conservatorship. The agreement therefore could continue after the conservatorship ends. Treasury has the right to exercise the warrant, in whole or in part, at any time on or before September 7, 2028. We provide more detail about the provisions of the Purchase Agreement, the senior preferred stock and the warrant, the limited circumstances under which those agreements terminate, and the limitations they place on our ability to manage our business under "Legislative and Regulatory Matters -- Conservatorship and Treasury Agreements" below. See "ITEM 1A. RISK FACTORS" for a discussion of how the restrictions under the Purchase Agreement may have a material adverse effect on our business. Expected Draw Under the Purchase Agreement At September 30, 2008, our liabilities exceeded our assets under GAAP by $(13.7) billion while our stockholders' equity (deficit) totaled $(13.8) billion. The Director of FHFA has submitted a request under the Purchase Agreement in the amount of $13.8 billion to Treasury. We expect to receive such funds by November 29, 2008. If the Director of FHFA were to determine in writing that our assets are, and have been for a period of 60 days, less than our obligations to creditors and others, FHFA would be required to place us into receivership. As a result of this draw, the aggregate liquidation preference of the senior preferred stock will increase to $14.8 billion, and our annual aggregate dividend payment to Treasury, at the 10% dividend rate, would increase to $1.5 billion. If we are unable to pay such dividend in cash in any quarter, the unpaid amount will be added to the aggregate liquidation preference of the senior preferred stock and the dividend rate on the unpaid liquidation preference will increase to 12% per year. Treasury Credit Facility On September 18, 2008, we entered into a lending agreement with Treasury, or Lending Agreement, pursuant to which Treasury established a new secured lending credit facility that is available to us until December 31, 2009 as a liquidity back-stop. In order to borrow pursuant to the Lending Agreement, we are required to post collateral in the form of Freddie Mac or Fannie Mae mortgage-backed securities to secure all borrowings under the facility. The terms of any borrowings under the Lending Agreement, including the interest rate payable on the loan and the amount of collateral we will need to provide as security for the loan, will be determined by Treasury. Treasury is not obligated under the Lending Agreement to make any loan to us. Treasury does not have authority to extend the term of this credit facility beyond December 31, 2009, which is when Treasury's temporary authority to purchase our obligations and other securities, granted by the Reform Act, expires. After December 31, 2009, Treasury may purchase up to $2.25 billion of our obligations under its permanent authority, as set forth in our charter.

As of November 14, 2008, we have not borrowed any amounts under the Lending Agreement. The terms of the Lending Agreement are described in more detail in "Legislative and Regulatory Matters -- Conservatorship and Treasury Agreements." Changes in Company Management and our Board of Directors Since our entry into conservatorship on September 6, 2008, eight members of our Board of Directors have resigned, including Richard F. Syron, our former Chairman and Chief Executive Officer. On September 16, 2008, the Conservator appointed John A. Koskinen as the new non-executive Chairman of our Board of Directors. We currently have four members of our Board of Directors and nine vacancies. As noted above, as our Conservator, FHFA has assumed the powers of our Board of Directors. Accordingly, the current Board of Directors acts with neither the power nor the duty to manage, direct or oversee our business and affairs. The

Conservator has indicated that it intends to appoint a full Board of Directors to which it will delegate specified roles and responsibilities. On September 7, 2008, the Conservator appointed David M. Moffett as our Chief Executive Officer, effective immediately. Since September 7, 2008, we have announced the departures of our former Chief Financial Officer and our former Chief Business Officer. Supervision of our Business under the Reform Act and During Conservatorship During the third quarter of 2008, the company experienced a number of significant changes in our regulatory supervisory environment. First, on July 30, 2008, President Bush signed into law the Reform Act, which placed us under the regulation of a new regulator, FHFA. That legislation strengthened the existing safety and soundness oversight of the government sponsored enterprises, or GSEs, and provided FHFA with new safety and soundness authority that is comparable to, and in some respects, broader than that of the federal bank agencies. That legislation gave FHFA enhanced powers that, even if we were not placed into conservatorship, gave them the authority to raise capital levels above statutory minimum levels, regulate the size and content of our portfolio, and to approve new mortgage products. That legislation also gave FHFA the authority to place the GSEs into conservatorship or receivership under conditions set forth in the statute. Refer to "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS -- EXECUTIVE SUMMARY -- Legislative and Regulatory Matters" in our Form 10-Q for the period ended June 30, 2008 for additional detail regarding the provisions of the Reform Act. See "ITEM 1A. RISK FACTORS," for additional risks and information regarding this legislation, including the receivership provisions. Second, we experienced a change in control when we were placed into conservatorship on September 6, 2008. Under conservatorship, we have additional heightened supervision and direction from our regulator, FHFA, who is also acting as our Conservator. Below is a summary comparison of various features of our business before and after we were placed into conservatorship and entered into the Purchase Agreement. Following this summary, we provide additional information about a number of aspects of our business now that we are in conservatorship under "Managing Our Business During Conservatorship -- Our Objectives." In addition, we describe the impacts of the Treasury agreements on our business above under "Overview of Treasury Agreements" and below under "Legislative and Regulatory Matters -- Conservatorship and Treasury Agreements."

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Topic	Before Conservatorship	During Conservatorship
Authority of Board of Directors, Management and Stockholders	ù Board of Directors with right to determine the general policies governing the operations of the corporation and exercise all power and authority of the company except as vested in stockholders or as the Board chooses to delegate to management	ù FHFA, as Conservator, has all of the power and authority of the Board of Directors, management and the shareholders
	ù Board of Directors delegated significant authority to management	ù The Conservator has delegated authority to management to conduct day-to-day operations so that the company can continue to operate in the

		ordinary course of business. The Conservator retains overall management authority, including the authority to withdraw its delegations to us at any time.
	ù Stockholders with specified voting rights	ù Stockholders have no voting rights
Regulatory Supervision	ù Regulated by FHFA, our new regulator created by the Reform Act	ù Regulated by FHFA, with powers as provided by Reform Act
	ù Reform Act gave regulator significant additional safety and soundness supervisory powers	ù Additional management authority by FHFA, which is serving as our Conservator
Structure of Board of Directors	ù 13 directors: 11 independent, plus Chairman and Chief Executive Officer, and one vacancy; independent, non-management lead director	ù Currently, four directors, consisting of a non-management Chairman of the Board and three independent directors (who were also directors of Freddie Mac immediately prior to conservatorship), with neither the power nor the duty to manage, direct or oversee our business and affairs
	ù Five separate Board committees, including Audit Committee in which one of the five independent members was an "audit committee financial expert"	ù No Board committees have members or authority to act
		ù Conservator has indicated its intent to appoint a full Board of Directors to which it will delegate specified roles and responsibilities
Management	ù Richard F. Syron served as Chairman and Chief Executive Officer from December 2003 to September 6, 2008	ù David M. Moffett began serving as Chief Executive Officer on September 7, 2008
Capital	ù Statutory and regulatory capital requirements	ù Capital requirements not binding
	ù Capital classifications as to adequacy of capital provided by FHFA on quarterly basis	ù Quarterly capital classifications by FHFA suspended
Net Worth(1)	ù Receivership mandatory if we have negative net worth for 60 days	ù Conservator has directed management to focus on maintaining positive stockholders' equity in order to avoid both the need to request

		funds under the Purchase Agreement and our mandatory receivership
		ù Receivership mandatory if we have negative net worth for 60 days(2)
Managing for the Benefit of Shareholders	ù Maximize shareholder value over the long term	ù No longer managed with a strategy to maximize common shareholder returns
	ù Fulfill our mission of providing liquidity, stability and affordability to the mortgage market	ù Maintain positive net worth and fulfill our mission of providing liquidity, stability and affordability to the mortgage market
		ù Focus on returning to long-term profitability if it does not adversely affect our ability to maintain net worth or fulfill our mission

(1) Our net worth refers to our assets less our liabilities, as reflected on our GAAP balance sheet. If we have a negative net worth (which means that our liabilities exceed our assets, as reflected on our GAAP balance sheet), then, if requested by the Conservator (or by our Chief Financial Officer, if we are not under conservatorship), Treasury is required to provide funds to us pursuant to the Purchase Agreement. Net worth is substantially the same as stockholders' equity (deficit); however, net worth also includes the minority interests that third parties own in our consolidated subsidiaries (which was $95 million as of September 30, 2008). At September 30, 2008, we had a negative net worth of $13.7 billion. In addition, if the Director of FHFA were to determine in writing that our assets are, and would have been for a period of 60 days, less than our obligations to creditors and others, FHFA would be required to place us into receivership.

(2) Treasury's funding commitment under the Purchase Agreement is expected to enable us to maintain a positive net worth as long as Treasury has not invested the full $100 billion provided for in that agreement.

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The conservatorship has no specified termination date. There can be no assurance as to when or how the conservatorship will be terminated, whether we will continue to exist following conservatorship, or what our business structure will be during or following our conservatorship. In a statement issued on September 7, 2008, the Secretary of the Treasury indicated that 2008 and 2009 should be viewed as a "time out" where we and Fannie Mae are stabilized while policymakers decide our future role and structure. He also stated that there is a consensus that we and Fannie Mae pose a systemic risk and that we cannot continue in our current form. For more information on the risks to our business relating to the conservatorship and uncertainties regarding the future of our business, see "ITEM 1A. RISK FACTORS." Managing Our Business During Conservatorship Our Management FHFA, in its role as Conservator, has overall management authority over our business. During the conservatorship, the Conservator has delegated authority to management to conduct day-to-day operations so that the company can continue to operate in the ordinary course of business. We can, and have continued to, enter into and enforce contracts with third parties. The Conservator retains the authority to withdraw its delegations to us at any time. The Conservator is working actively with management to address and determine the strategic direction for the enterprise, and in general has retained final decision-making authority in areas regarding: significant impacts on operational, market, reputational or credit risk; major accounting determinations, including policy changes; the creation of subsidiaries or affiliates and transacting with them; significant litigation; setting executive compensation; retention of external auditors; significant mergers and acquisitions; and any other matters the Conservator believes are strategic or critical to the enterprise in order for the Conservator to fulfill its obligations during conservatorship. See "Conservatorship and Treasury Agreements -- Conservatorship -- General Powers of the Conservator Under the Regulatory Reform Act" for more information. Our Objectives Based on the Federal Home Loan Mortgage Corporation Act, which we refer to as our charter, public statements from Treasury officials and guidance from our Conservator, we have a variety of different, and potentially conflicting, objectives, including:

ù providing liquidity, stability and affordability in the mortgage market;
ù immediately providing additional assistance to the struggling housing and mortgage markets;
ù reducing the need to draw funds from Treasury pursuant to the Purchase Agreement;
ù returning to long-term profitability; and
ù protecting the interests of the taxpayers.

These objectives create conflicts in strategic and day-to-day decision making that will likely lead to less than optimal outcomes for one or more, or possibly all, of these objectives. For example, maintaining a positive net worth could require us to constrain some of our business activities, including activities that provide liquidity, stability and affordability to the mortgage market. Conversely, to the extent we increase activities to assist the mortgage market, our financial results are likely to suffer, and we may be less able to maintain a positive net worth. We regularly consult with and get direction from our Conservator on how to balance these objectives. To the extent that we are unable to maintain a positive net worth following our expected draw of funds from Treasury after the filing of this Form 10-Q, we will be required to request additional funding from Treasury under the Purchase Agreement, which will further increase our ongoing dividend obligations and, therefore, extend the period of time until we might be able to return to profitability. These objectives also create risks that we discuss in "ITEM 1A. RISK FACTORS." Changes in Strategies to Meet New Objectives Since September 6, 2008, we have made a number of changes in the strategies we use to manage our business in support of our new objectives outlined above. These include the changes we describe below. Eliminating Planned Increase in Adverse Market Delivery Charge As part of our efforts to increase liquidity in the mortgage market and make mortgage loans more affordable, we announced on October 3, 2008 that we were eliminating our previously announced 25 basis point increase in our adverse market delivery charge that was scheduled to take effect on November 7, 2008. The elimination of this charge will reduce our future net income. Temporarily Increasing the Size of Our Mortgage Portfolio Consistent with our ability under the senior preferred stock purchase agreement to increase the size of our on-balance sheet mortgage portfolio through the end of 2009, FHFA has directed us to acquire and hold increased amounts of mortgage loans and mortgage-related securities in our mortgage portfolio to provide additional liquidity to the mortgage market. Our extremely limited ability to issue callable or long-term debt at this time makes it difficult to increase the size of our mortgage portfolio. In addition, we are also subject to the covenant in the senior preferred stock purchase agreement

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prohibiting us from issuing debt in excess of 110% of our aggregate indebtedness as of June 30, 2008. For a discussion of the limitations we are currently experiencing on our ability to issue debt securities, see "LIQUIDITY AND CAPITAL RESOURCES" and "RISK FACTORS." Current Conditions in the Housing and Mortgage Market Deterioration in Market Conditions and Impact on Third Quarter Results Market conditions affecting the company deteriorated dramatically during the third quarter. This had a materially adverse impact on our quarterly results of operations in the third quarter of 2008 compared to the second quarter of 2008. Home prices nationwide resumed the rate of decline experienced earlier in the year after briefly leveling off during the second quarter of 2008. The percentage decline in home prices was particularly large in California, Florida, Arizona and Nevada, where Freddie Mac has significant concentrations of mortgage loans. Unemployment rates also worsened significantly. California, Arizona and Nevada saw increases of between 14 and 27% in unemployment from the second quarter to the third quarter of 2008, on a seasonally-adjusted basis, while the national rate exceeded 6%. Unemployment rates increased again in October to a national rate of 6.5%. An upward spike in food and other goods prices during the third quarter of 2008 further eroded household financial conditions, and real consumer spending declined significantly. Both consumer and business credit tightened considerably during the third quarter of 2008 as financial institutions curtailed their lending activities. This contributed to significant increases in credit spreads for both mortgage and corporate loans. These macro-economic conditions and other factors contributed to a substantial increase in the number of delinquent loans in our single-family mortgage portfolio during the third quarter of 2008. The rate of transition of these loans from delinquency through foreclosure also increased. We observed a significant increase in market-reported delinquency rates for mortgages serviced by financial institutions not only for subprime and Alt-A loans but also for prime loans. This delinquency data suggests that continuing home price declines and growing unemployment are now affecting behavior by a broader segment of mortgage borrowers, increasing numbers of whom are "underwater," or owing more on their mortgage loans than their homes are currently worth. Our loan loss severities, or the average amount of recognized losses per loan, also increased in the third quarter of 2008, especially in California, Florida and Arizona, where home price declines have been more severe and where we have significant concentrations of mortgage loans with higher average loan balances than in other states. We were not the only financial institution that was adversely affected by the worsening market conditions during the third quarter of 2008. IndyMac Bank, FSB and Washington Mutual Bank were placed into receivership, and Lehman Brothers Holdings, Inc., or Lehman, filed for bankruptcy. American International Group, Inc. received a substantial infusion of cash from the U.S. government, and both Merrill Lynch & Co, Inc. and Wachovia Corporation were acquired by other institutions. In an attempt to stabilize the markets and restore liquidity, the U.S. government introduced several unprecedented programs to provide various forms of financial support to market participants. One of these proposed programs involves guarantees by the Federal Deposit Insurance Corporation, or FDIC, of the debt obligations issued by banks. This proposal and other existing programs have created uncertainty in the market resulting in limited access to long-term and callable funding. Uncertainty has also contributed to increased borrowing costs relative to the U.S. Treasury market and the London Interbank Offered Rate, or LIBOR. See "LIQUIDITY AND CAPITAL RESOURCES" for further information. These market developments have been the principal drivers of our substantially increased loss for the third quarter of 2008. Our provision for credit losses increased from $2.5 billion in the second quarter of 2008 to $5.7 billion in the third quarter of 2008, principally due to increased estimates of incurred losses caused by the deteriorating economic conditions and evidenced by our increased rates of delinquency and foreclosure; increased mortgage loan loss severities; and, to a much lesser extent, heightened concerns that certain of our seller/servicer counterparties may fail to perform their recourse or repurchase obligations to us. Our security impairments on available for sale securities increased from $1.0 billion in the second quarter of 2008 to $9.1 billion in the third quarter of 2008. The deteriorating market conditions during the third quarter also led to a considerably more pessimistic outlook for the performance of the non-agency mortgage-related securities in our retained portfolio. The loans backing these securities exhibited much worse delinquency behavior than that mentioned above with respect to loans in our guarantee portfolio. Rising unemployment, accelerating house price declines, tight credit conditions, volatility in interest rates, and weakening consumer confidence not only contributed to poor performance during the third quarter but significantly impacted our expectations regarding future performance, both of which are critical in assessing security impairments. Furthermore, the mortgage-related securities backed by subprime and Alt-A and other loans, including Moving Treasury Average, or MTA, loans, have significantly greater concentrations in the states that are undergoing the greatest stress, including California, Florida, Arizona and Nevada. MTA adjustable-rate mortgages (also referred to as option ARMs) have adjustable interest rates and optional payment terms, including options that result in negative amortization, for an initial period of years that allow for deferral of principal repayments. MTA loans generally have a date when the

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mortgage is recast to require principal payments under new terms, which can result in substantial increases in monthly payments to the borrower. Additionally, during the third quarter of 2008 there were significant negative ratings actions and unprecedented and sustained categorical asset price declines most notably in the mortgage-related securities backed by Alt-A loans, including MTA loans, in our portfolio. The combination of all of these factors not only had a material, negative impact on our view of expected performance in the third quarter, but also significantly reduced the likelihood of more favorable outcomes, resulting in a substantial increase in other-than-temporary impairments in the third quarter of 2008. Our aggregate losses on trading securities, our guarantee asset and derivatives, net of the unrealized gains on foreign-currency denominated debt, increased from $481 million in the second quarter of 2008 to $4.2 billion in the third quarter of 2008, as the turmoil in the markets contributed to dislocations in the normal correlations between different instruments. In our capacity as securities administrator for our issued securities, we also incurred a $1.1 billion loss in the third quarter of 2008 related to investments in short-term unsecured loans as a result of Lehman's bankruptcy. We determined it was necessary to establish a partial valuation allowance against our deferred tax assets due to the rapid deterioration of market conditions discussed above, the uncertainty of future market conditions on our results of operations and the uncertainty surrounding our future business model as a result of our placement into conservatorship by FHFA on September 6, 2008. These and other factors led us to record a non-cash charge of $14.3 billion in the third quarter of 2008 in order to establish a partial valuation allowance against our deferred tax asset. As a result, at September 30, 2008, we had a net deferred tax asset of $11.9 billion representing the tax effect of unrealized losses on our available-for-sale securities portfolio. Each of these drivers of our third quarter results is discussed in more detail below within "GAAP Results" and our "CONSOLIDATED RESULTS OF OPERATIONS". Credit Overview The factors affecting all residential mortgage market participants during 2008 have continued to adversely impact our single-family mortgage portfolio during the third quarter of 2008. The following statistics illustrate the credit deterioration of loans in our single-family mortgage portfolio, which consists of single-family mortgage loans in our retained portfolio and those backing our guaranteed PCs and Structured Securities. Table 1 -- Credit Statistics, Single-Family Mortgage Portfolio(1)

	As of				
	09/30/2008	06/30/2008	03/31/2008	12/31/2007	09/30/2007
Delinquency rate (in basis points, or bps)(2)	122	93	77	65	51
Non-performing assets (in millions)(3)	$ 35,497	$ 27,480	$ 22,379	$ 18,121	$ 13,118
REO inventory (in units)	28,089	22,029	18,419	14,394	11,916
	For the Three Months Ended				
	09/30/2008	06/30/2008	03/31/2008	12/31/2007	09/30/2007
	(in units, unless noted)				
Loan modifications(4)	8,316	4,827	4,246	2,272	1,752
REO acquisitions	15,880	12,410	9,939	7,284	5,905
REO disposition severity ratio(5)	29.3%	25.2%	21.4%	18.1%	14.1%
Single-family credit losses (in millions)(6)	$ 1,270	$ 810	$ 528	$ 236	$ 122

(1) Consists of single-family mortgage loans for which we actively manage credit risk, which are those loans held in our retained portfolio as well as those loans underlying our PCs and Structured Securities, excluding Structured Transactions and that portion of our Structured Securities that are backed by Government National Mortgage Association, or Ginnie Mae, Certificates.
(2) We report single-family delinquency rate information based on the number of loans that are 90 days or more past due and those in the process of foreclosure. Mortgage loans whose contractual terms have been modified under agreement with the borrower are not included if the borrower is less than 90 days delinquent under the modified terms. See "CREDIT RISKS -- Credit Performance -- Delinquencies" for further information.
(3) Includes those loans in our single-family mortgage portfolio, based on unpaid principal balances, that are past due for 90 days or more or where contractual terms have been modified as a troubled debt restructuring. Also includes single-family real estate owned, or REO, which are acquired principally through foreclosure on loans within our single-family mortgage portfolio.
(4) Consist of modifications under agreement with the borrower. Excludes forbearance agreements, which are made in certain circumstances and under which reduced or no payments are required during a defined period as well as repayment plans, which are separate agreements with the borrower to repay past due amounts and return to compliance with the original terms.
(5) Calculated as the aggregate amount of our losses recorded on disposition of REO properties during the respective quarterly period divided by the aggregate unpaid principal balances of the related loans with the borrowers. The amount of losses recognized on disposition of the properties is equal to the amount by which the unpaid principal balance of loans exceeds the amount of gross sales proceeds from disposition of the properties. Excludes other related credit losses, such as property maintenance and selling expenses, as well as related recoveries from credit enhancements, such as mortgage insurance.
(6) Consists of REO operations expense plus charge-offs, net of recoveries from

third-party insurance and other credit enhancements. See "CREDIT RISKS -- Credit Performance -- Credit Loss Performance" for further information.

As the table above illustrates, we experienced continued deterioration in the performance of our single-family mortgage portfolio. Certain loan groups of the single-family mortgage portfolio, such as Alt-A and interest-only loans, as well as 2006 and 2007 vintage loans, are the main contributors to our worsening credit statistics. These loan groups have been affected by certain macro-economic factors, such as recent declines in home prices, which have resulted in erosion in the borrower's equity. These loan groups are also concentrated in the West region. The West region comprised 26% of the unpaid principal balances of our single-family mortgage portfolio as of September 30, 2008, but accounted for 48% and 43% of our REO

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acquisitions in the third and second quarters of 2008, respectively. Alt-A loans, which represented 10% of our single-family mortgage portfolio as of September 30, 2008, accounted for approximately 50% of our credit losses for the nine months ended September 30, 2008. In addition, stressed markets in the West region (especially California, Arizona and Nevada) and Florida tend to have higher average loan balances than the rest of the U.S. and were most affected by the steep home price declines. As we continue to experience home price declines in these and other regions, the severity of our single-family credit losses will continue to increase, as evidenced by our REO disposition severity ratio. As of September 30, 2008, single-family mortgage loans in the state of Florida comprise 7% of our single-family mortgage portfolio; however the loans in this state make up more than 20% of the total delinquent loans in our single-family mortgage portfolio, based on unpaid principal balances. Consequently, Florida remains our leading state for serious delinquencies, although these have not yet evidenced themselves in REO acquisitions or our credit losses due to the duration of Florida's foreclosure process. California and Arizona were the states with the highest credit losses in the third quarter of 2008 with 44% of our single-family credit losses on a combined basis. These and other factors caused us to significantly increase our estimate for loan loss reserves during the third quarter of 2008. In an effort to mitigate our losses and the continued growth of non-performing assets, we continue to expand our efforts to increase our foreclosure alternatives. Due to the overall deterioration in the mortgage credit environment, our loss mitigation activity has increased, as exemplified by our increased volumes of loan modifications in 2008. We are continuing to implement and develop strategies designed to mitigate the increase in our credit losses, including a recently announced program by our Conservator to expedite the modification process for certain troubled borrowers. Our non-agency securities in our retained portfolio, which are primarily backed by subprime, Alt-A and MTA mortgage loans, also continue to be affected by the deteriorating credit conditions during 2008. The table below illustrates the changes in delinquencies that are 60 days or more past due within our non-agency mortgage-related securities portfolio backed by subprime, Alt-A, and MTA loans in our retained portfolio. Increases in delinquencies that are 60 days or more past due do not fully reflect the recent poor performance of these securities as cumulative losses are also growing considerably more rapidly. Given the recent unprecedented deterioration in the economic outlook and the renewed acceleration of housing price declines, future performance of the loans backing these securities could continue to deteriorate. Table 2 -- Credit Statistics, Non-Agency Mortgage-Related Securities Backed by Subprime, Alt-A and MTA Loans

	As of				
	09/30/2008	06/30/2008	03/31/2008	12/31/2007	09/30/2007
Delinquency rates:					
Non-agency mortgage-related securities backed by:					
Subprime 1st Lien	35%	31%	27%	21%	16%
Alt-A(1)	14%	12%	10%	8%	5%
MTA	24%	18%	12%	7%	4%
Cumulative loss:					
Non-agency mortgage-related securities backed by:					
Subprime 1st Lien	4%	2%	1%	1%	1%
Alt-A(1)	1%	0%	0%	0%	0%
MTA	1%	0%	0%	0%	0%
Gross unrealized losses, pre-tax (in millions)	$ 22,411	$ 25,858	$ 28,065	$ 11,127	$ 2,993
Impairment loss for the three months ended (in millions)	$ 8,856	$ 826	--	--	--

(1) Exclude non-agency mortgage-related securities backed by other loans primarily comprised of securities backed by home equity lines of credit.

We held unpaid principal balances of $125.7 billion of non-agency mortgage-related securities backed by subprime and Alt-A and other loans in our retained portfolio as of September 30, 2008 compared to $152.6 billion as of December 31, 2007. We recognized impairment losses on these securities of $8.9 billion for the three months ended September 30, 2008. We had gross unrealized losses, net of tax, on these securities totaling $14.6 billion and $7.2 billion at September 30, 2008 and December 31, 2007, respectively. The increase in unrealized losses, despite the decline in unpaid principal balance, is due to the significant declines in non-agency mortgage asset prices which occurred during 2008 and which accelerated significantly for Alt-A and other loans, including MTA loans, during the third quarter of 2008. We believe the majority of the declines in the fair value of these securities are attributable to decreased liquidity and larger risk premiums in the mortgage market. See "CONSOLIDATED BALANCE SHEETS ANALYSIS -- Retained Portfolio" for further information. GAAP Results Summary of Financial Results for the Three Months Ended September 30, 2008 Net loss was $25.3 billion and $1.2 billion for the three months ended September 30, 2008 and 2007, respectively. Net loss increased in the three months ended September 30, 2008 compared to the same period of 2007, principally due to the establishment of a partial valuation allowance on our deferred tax asset, increased losses on investment activities, increased derivative losses, increased losses on our guarantee asset as well as increased credit-related expenses, which consist of the provision for credit losses and REO operations expense. In the third quarter of 2008, we recorded a non-cash charge of

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$14.3 billion related to the establishment of a partial valuation allowance against our deferred tax asset. The valuation allowance excludes the portion of the deferred tax asset representing the tax effect of unrealized losses on available-for-sale securities recorded in accumulated other comprehensive income, or AOCI, which management has the intent and ability to hold until recovery of the unrealized loss amounts. See "CONSOLIDATED BALANCE SHEETS ANALYSIS -- Deferred Tax Asset" for further information. These loss and expense items for the three months ended September 30, 2008 were partially offset by: (a) higher net interest income and income on guarantee obligation; (b) unrealized gains on foreign-currency denominated debt recorded at fair value; (c) lower losses on certain credit guarantees; and (d) lower losses on loans purchased due principally to changes in our operational practice of purchasing delinquent loans out of PC securitization pools in December 2007. As a result of the net loss, at September 30, 2008, our liabilities exceeded our assets under GAAP by $(13.7) billion while our stockholders' equity (deficit) totaled $(13.8) billion. The Director of FHFA has submitted a request under the Purchase Agreement in the amount of $13.8 billion to Treasury. We expect to receive such funds by November 29, 2008. Net interest income was $1.8 billion for the three months ended September 30, 2008, compared to $761 million for the three months ended September 30, 2007. We held higher amounts of fixed-rate agency mortgage-related securities in our retained portfolio at significantly wider spreads relative to our funding costs during the three months ended September 30, 2008. The increase in net interest income and yield is also due to significantly lower short-term interest rates on our short-term borrowings and lower long-term interest rates on our long-term borrowings for the three months ended September 30, 2008. The combination of a higher proportion of short-term debt, together with a higher proportion of fixed-rate securities within our retained portfolio during a steep yield curve environment, contributed to the improvement in net interest income and net interest yield during the three months ended September 30, 2008. Non-interest income (loss) was $(11.3) billion for the three months ended September 30, 2008, compared to non-interest income of $117 million for the three months ended September 30, 2007. The decrease in non-interest income in the third quarter of 2008 was primarily due to higher losses on investment activity, increased derivative losses, net of related foreign-currency gains and higher losses on our guarantee asset, partially offset by increased income on our guarantee obligation and higher management and guarantee income. Increased losses on investment activity during the third quarter of 2008 were principally attributed to $9.1 billion of security impairments primarily recognized on available-for-sale non-agency mortgage-related securities backed by subprime and Alt-A and other loans during the third quarter of 2008. See "CONSOLIDATED BALANCE SHEET ANALYSIS -- Retained Portfolio" for additional information. Income on our guarantee obligation was $783 million and $473 million for the three months ended September 30, 2008 and 2007, respectively. The amortization of income on our guarantee obligation was accelerated in the third quarter of 2008 as compared to the third quarter of 2007 in order to match our economic release from risk on the pools of mortgage loans we guarantee. Management and guarantee income increased 16%, to $832 million for the three months ended September 30, 2008 from $718 million for the three months ended September 30, 2007. This reflects increases in the average balance of our PCs and Structured Securities of 11% on an annualized basis for the three months ended September 30, 2008, as compared to the average balance during the third quarter of 2007. This increase in management and guarantee income also reflects higher average fee rates for the three months ended September 30, 2008 compared to the third quarter of 2007. Non-interest expense for the three months ended September 30, 2008 and 2007 totaled $7.9 billion and $3.1 billion, respectively. This includes normal credit-related expenses of $6.0 billion and $1.4 billion for the three months ended September 30, 2008 and 2007, respectively. For the three months ended September 30, 2008, our provision for credit losses significantly increased due to continued credit deterioration in our single-family credit guarantee portfolio, primarily due to further increases in delinquency rates and higher severity of losses on a per-property basis. Credit deterioration has been largely driven by declines in home prices and regional economic conditions as well as the effect of a greater composition of interest-only and Alt-A mortgage products in the mortgage origination market that we have purchased or guaranteed. REO operations expense increased primarily as a result of an increase in market-based write-downs of REO property due to the decline in home prices, coupled with higher volumes in REO inventory, particularly in the states of California, Florida, Arizona, Michigan and Nevada. Non-interest expense, excluding normal credit-related expenses, for the three months ended September 30, 2008 totaled $1.9 billion compared to $1.7 billion for the three months ended September 30, 2007. The increase in non-interest expense, excluding normal credit-related expenses, was primarily due to a loss of $1.1 billion during the third quarter of 2008, related to the investments in short-term, unsecured loans we made to Lehman in our role as securities administrator for certain trust-related assets offset by decreases in losses on certain credit guarantees and losses on loans purchased. We refer to these transactions with Lehman as the Lehman short-term lending transactions. For more information on the Lehman short-term lending transactions, see "CONSOLIDATED RESULTS OF OPERATIONS -- Securities Administrator Loss on Investment Activity." Losses on certain credit guarantees decreased to $2 million for the three months ended September 30, 2008, compared to $392 million for the three months ended September 30, 2007, due to the change in our method for determining the fair value of our newly-issued guarantee obligation upon adoption of Statement of Accounting Standards, or SFAS,

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No. 157, "Fair Value Measurements," or SFAS 157, effective January 1, 2008. Losses on loans purchased decreased to $252 million for the three months ended September 30, 2008, compared to $649 million for the three months ended September 30, 2007, due to changes in our operational practice of purchasing delinquent loans out of PC pools. See "CONSOLIDATED RESULTS OF OPERATIONS -- Non-Interest Expense -- Losses on Certain Credit Guarantees and -- Losses on Loans Purchased," for additional information on this change in our operational practice. Administrative expenses totaled $308 million for the three months ended September 30, 2008, down from $428 million for the three months ended September 30, 2007 primarily due to a reduction in our short-term performance compensation during the third quarter of 2008 as well as a decrease in our use of consultants throughout 2008. As a percentage of our average total mortgage portfolio, administrative expenses declined to 5.6 basis points for the three months ended September 30, 2008, from 8.7 basis points for the three months ended September 30, 2007. For the three months ended September 30, 2008 and 2007, we recognized effective tax rates of (46)% and 44%, respectively. See "NOTE 12: INCOME TAXES" to our consolidated financial statements for additional information about how our effective tax rate is determined. Summary of Financial Results for the Nine Months Ended September 30, 2008 Effective January 1, 2008, we adopted SFAS 157 which defines fair value, establishes a framework for measuring fair value in financial statements and expands required disclosures about fair value measurements. In connection with the adoption of SFAS 157, we changed our method for determining the fair value of our newly-issued guarantee obligations. Under SFAS 157, the initial fair value of our guarantee obligation equals the fair value of compensation received, consisting of management and guarantee fees and other upfront compensation, in the related securitization transaction, which is a practical expedient for determining fair value. As a result, prospectively from January 1, 2008, we no longer record estimates of deferred gains or immediate, "day one" losses on most guarantees. Our adoption of SFAS 157 did not result in an immediate recognition of gain or loss, but the prospective change had a positive impact on our financial results for the three and nine months ended September 30, 2008. Also effective January 1, 2008, we adopted SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities, Including an Amendment of FASB Statement No. 115," or SFAS 159 or the fair value option, which permits companies to choose to measure certain eligible financial instruments at fair value that are not currently required to be measured at fair value in order to mitigate volatility in reported earnings caused by measuring assets and liabilities differently. We initially elected the fair value option for certain available-for-sale mortgage-related securities and our foreign-currency denominated debt. Upon adoption of SFAS 159, we recognized a $1.0 billion after-tax increase to our retained earnings at January 1, 2008. We may continue to elect the fair value option for certain securities to mitigate interest-rate aspects of our guarantee asset and certain non-hedge designated pay-fixed swaps. Net loss was $26.3 billion and $642 million for the nine months ended September 30, 2008 and 2007, respectively. Net loss increased during the nine months ended September 30, 2008 compared to the same periods of 2007, principally due to the establishment of a partial valuation allowance against our deferred tax asset, increased losses on investment activity primarily related to impairment losses on certain non-agency mortgage-related securities, increased derivative losses, increased losses on guarantee asset as well as an increase in normal credit-related expenses, which consist of our provision for credit losses and REO operations expense. In the third quarter of 2008, we recorded a $14.3 billion non-cash charge related to the establishment of a partial valuation allowance against our deferred tax asset. The valuation allowance excludes the portion of the deferred tax asset representing the tax effect of unrealized losses on available-for-sale securities recorded in AOCI, which management has the intent and ability to hold until recovery of the unrealized loss amounts. These loss and expense items for the nine months ended September 30, 2008 were partially offset by higher net interest income and income on our guarantee obligation as well as lower losses on certain credit guarantees due to our use of the practical expedient for determining fair value under SFAS 157 and lower losses on loans purchased due to changes in our operational practice of purchasing delinquent loans out of PC securitization pools. Net interest income was $4.2 billion for the nine months ended September 30, 2008, compared to $2.3 billion for the nine months ended September 30, 2007. The 2% annualized limitation on the growth of our retained portfolio established by FHFA expired during March of 2008 as we became a timely filer of our financial statements. As a result, we were able to hold higher amounts of fixed-rate agency mortgage-related securities at significantly wider spreads relative to our funding costs during the nine months ended September 30, 2008. Non-interest income (loss) was $(10.4) billion and $1.6 billion for the nine months ended September 30, 2008 and 2007, respectively. The decrease in non-interest income in the 2008 period was primarily due to higher losses on investment activity, higher derivative losses excluding foreign-currency related effects, and higher losses on our guarantee asset. These losses were partially offset by increased income on our guarantee obligation and higher management and guarantee income in the 2008 period. Non-interest expense for the nine months ended September 30, 2008 and 2007 totaled $13.5 billion and $5.8 billion, respectively, and included normal credit-related expenses of $10.3 billion and $2.1 billion, respectively. Non-interest expense, excluding normal credit-related expenses, for the nine

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months ended September 30, 2008 and 2007 totaled $3.2 billion and $3.7 billion, respectively. The decline in non-interest expense, excluding normal credit-related expenses, was primarily due to the reductions in losses on certain credit guarantees and losses on loans purchased and was partially offset by the $1.1 billion loss on the Lehman short-term lending transactions. Administrative expenses totaled $1.1 billion for the nine months ended September 30, 2008, down from $1.3 billion for the nine months ended September 30, 2007. As a percentage of our average total mortgage portfolio, administrative expenses declined to 6.8 basis points for the nine months ended September 30, 2008, from 8.8 basis points for the nine months ended September 30, 2007. For the nine months ended September 30, 2008 and 2007, we recognized effective tax rates of (33)% and 66%, respectively. See "NOTE 12: INCOME TAXES" to our consolidated financial statements for additional information about how our effective tax rate is determined. Segments We manage our business through three reportable segments subject to the conduct of our business under the direction of the Conservator, as discussed above under "Managing Our Business During Conservatorship -- Our Objectives.":

ù Investments;
ù Single-family Guarantee; and
ù Multifamily.

Certain activities that are not part of a segment are included in the All Other category. We manage and evaluate the performance of the segments and All Other using a Segment Earnings approach. Segment Earnings differs significantly from, and should not be used as a substitute for, net income (loss) as determined in accordance with GAAP. There are important limitations to using Segment Earnings as a measure of our financial performance. Among them, our regulatory capital measures are based on our GAAP results, as is the need to obtain funding under the Purchase Agreement. Segment Earnings adjusts for the effects of certain gains and losses and mark-to-fair-value items, which depending on market circumstances, can significantly affect, positively or negatively, our GAAP results and have in recent periods caused us to record significant GAAP net losses. GAAP net losses will adversely impact our GAAP stockholders' equity (deficit), as well as our need for funding under the Purchase Agreement, regardless of results reflected in Segment Earnings. For a summary and description of our financial performance on a segment basis, see "CONSOLIDATED RESULTS OF OPERATIONS -- Segment Earnings" and "NOTE 16: SEGMENT REPORTING" to our consolidated financial statements. In managing our business, we present the operating performance of our segments using Segment Earnings. Segment Earnings present our results on an accrual basis as the cash flows from our segments are earned over time. The objective of Segment Earnings is to present our results in a manner more consistent with our business models. The business model for our investment activity is one where we generally buy and hold our investments in mortgage-related assets for the long term, fund our investments with debt and use derivatives to minimize interest rate risk, thus generating net interest income in line with our return on equity objectives. We believe it is meaningful to measure the performance of our investment business using long-term returns, not short-term value. The business model for our credit guarantee activity is one where we are a long-term guarantor in the conforming mortgage markets, manage credit risk and generate guarantee and credit fees, net of incurred credit losses. As a result of these business models, we believe that this accrual-based metric is a meaningful way to present our results as actual cash flows are realized, net of credit losses and impairments. We believe Segment Earnings provides us with a view of our financial results that is more consistent with our business objectives and helps us better evaluate the performance of our business, both from period-to-period and over the longer term.

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Table 3 presents Segment Earnings (loss) by segment and the All Other category and includes a reconciliation of Segment Earnings (loss) to net income (loss) prepared in accordance with GAAP. Table 3 -- Reconciliation of Segment Earnings (Loss) to GAAP Net Income (Loss)

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
	(in millions)			
Segment Earnings (loss) after taxes:				
Investments	$ (1,119)	$ 503	$ (213)	$ 1,588
Single-family Guarantee	(3,501)	(483)	(5,347)	(130)
Multifamily	135	83	351	292
All Other	(6)	(45)	134	(104)
Total Segment Earnings (loss), net of taxes	(4,491)	58	(5,075)	1,646
Reconciliation to GAAP net loss:				
Derivative- and foreign-currency denominated debt-related adjustments	(1,292)	(1,725)	(1,959)	(3,278)
Credit guarantee-related adjustments	(1,076)	(925)	568	(596)
Investment sales, debt retirements and fair value-related adjustments	(7,717)	659	(9,288)	349
Fully taxable-equivalent adjustments	(103)	(98)	(318)	(288)
Total pre-tax adjustments	(10,188)	(2,089)	(10,997)	(3,813)
Tax-related adjustments(1)	(10,616)	793	(10,195)	1,525
Total reconciling items, net of taxes	(20,804)	(1,296)	(21,192)	(2,288)
GAAP net loss	$ (25,295)	$ (1,238)	$ (26,267)	$ (642)

(1) Includes a non-cash charge related to the establishment of a partial valuation allowance against our deferred tax assets of $14.3 billion that is not included in Segment Earnings.

Investments Segment Our Investments segment is responsible for our investment activity in mortgages and mortgage-related securities, other investments, debt financing and managing our interest-rate risk, liquidity and capital positions. We invest principally in mortgage-related securities and single-family mortgage loans through our mortgage-related investment portfolio. We seek to manage our mortgage-related investments portfolio to generate positive returns while maintaining a disciplined approach to interest-rate risk and capital management. We seek to accomplish this objective through opportunistic purchases, sales and restructurings of mortgage assets and repurchases of liabilities. Although we are primarily a buy-and-hold investor in mortgage assets, we may sell assets that are no longer expected to produce desired results, to reduce risk, to respond to capital constraints, to provide liquidity or to structure certain transactions in order to improve our returns. We currently do not plan to sell assets at a loss. We estimate our expected investment returns using an option-adjusted spread, or OAS, approach. Our Investments segment activities may also include the purchase of mortgages and mortgage-related securities with less attractive investment returns and with incremental risk in order to achieve our mission. Additionally, we maintain a cash and non-mortgage-related securities investment portfolio in this segment to help manage our liquidity needs. Investments segment performance highlights for the three and nine months ended September 30, 2008:

ù Segment Earnings (loss) decreased to $(1.1) billion in the third quarter of 2008 compared to Segment Earnings of $503 million in the third quarter of 2007. For the nine months ended September 30, 2008, Segment Earnings (loss) decreased to $(213) million compared to Segment Earnings of $1.6 billion during the nine months ended September 30, 2007.
ù Segment Earnings net interest yield was 72 basis points in the third quarter of 2008, an increase of 19 basis points as compared to the third quarter of 2007 due to both the purchase of fixed-rate assets at wider spreads relative to our funding costs and the replacement of higher cost short- and long-term debt with lower cost debt issuances, which was partially offset by lower returns on floating rate securities. Segment Earnings net interest yield

increased 5 basis points in the nine months ended September 30, 2008 compared to the nine months ended September 30, 2007 to 58 basis points, due to wider spreads as a result of lower funding costs in the second and third quarters of 2008 and the replacement of higher cost short- and long-term debt with lower cost debt issuances. Also contributing to the increase was the amortization of gains on certain futures positions that matured in March 2008.

ù During the third quarter of 2008, we recognized security impairments in Segment Earnings of $1.9 billion that reflect expected credit principal losses. In contrast, non-credit related security impairments of $7.2 billion are not included in Segment Earnings during the third quarter of 2008.

ù Segment Earnings non-interest expense for the third quarter of 2008 includes a loss of $1.1 billion on investment transactions related to the Lehman short-term lending transactions. For more information on the Lehman short-term lending transactions, see "CONSOLIDATED RESULTS OF OPERATIONS -- Securities Administrator Loss on Investment Activity."

ù The unpaid principal balance of our mortgage-related investment portfolio increased 0.8% to $669 billion at September 30, 2008 compared to $663 billion at December 31, 2007. Agency securities comprised approximately 65% of the unpaid principal balance of the mortgage-related investment portfolio at September 30, 2008 versus 61% at December 31, 2007.

ù Over the course of the past year, worldwide financial markets have experienced unprecedented levels of volatility. This has been particularly true over the latter half of the third quarter of 2008 as market participants struggled to digest the new government initiatives, including our conservatorship. In this environment where demand for debt instruments weakened considerably, the debt funding markets are sometimes frozen, and our ability to access both the term and callable debt markets has been limited. As a result, toward the latter part of the third quarter and continuing into the fourth quarter, we have relied increasingly on the issuance of shorter-term debt at higher-interest rates. While we use interest rate derivatives to economically hedge a significant portion of our interest rate exposure, we are exposed to risks relating to both our ability to issue new debt when our outstanding debt matures and to the variability in interest costs on our new issuances of debt, which directly impacts our Investments Segment earnings.

ù The objectives set forth for us under our charter and conservatorship may negatively impact our Investments segment results. For example, the planned reduction in our retained portfolio balance to $250 billion, through successive annual 10% declines commencing in 2010, will result in an impact on our net interest income. This may cause our Investments segment results to decline.

Single-family Guarantee Segment In our Single-family Guarantee segment, we securitize substantially all of the newly or recently originated single-family mortgages we have purchased and issue mortgage-related securities called PCs that can be sold to investors or held by us in our Investments segment. We guarantee the payment of principal and interest on our single-family PCs, including those held in our retained portfolio, in exchange for management and guarantee fees, which are paid on a monthly basis as a percentage of the underlying unpaid principal balance of the loans, and initial upfront cash

payments referred to as credit or delivery fees. Earnings for this segment consist of management and guarantee fee revenues, including amortization of upfront payments, and trust management fees, less the related credit costs (i.e., provision for credit losses) and operating expenses. Also included is the interest earned on assets held in the Investments segment related to single-family guarantee activities, net of allocated funding costs.
Single-family Guarantee segment performance highlights for the three and nine months ended September 30, 2008 and 2007:

ù Segment Earnings (loss) decreased to $(3.5) billion for the three months ended September 30, 2008 compared to earnings (loss) of $(483) million for the three months ended September 30, 2007. Segment Earnings (loss) decreased to $(5.3) billion for the nine months ended September 30, 2008 compared to $(130) million for the nine months ended September 30, 2007.
ù Segment Earnings provision for credit losses for the Single-family Guarantee segment increased to $5.9 billion for the three months ended September 30, 2008 from $1.4 billion for the three months ended September 30, 2007. Segment Earnings provision for credit losses for the Single-family Guarantee segment increased to $9.9 billion for the nine months ended September 30, 2008 from $2.2 billion for the nine months ended September 30, 2007.
ù Realized single-family credit losses were 27.9 basis points of the average single-family credit guarantee portfolio for the three months ended September 30, 2008, compared to 3.0 basis points for the three months ended September 30, 2007. Realized single-family credit losses for the nine months ended September 30, 2008 were 19.4 basis points compared to 2.2 basis points for the nine months ended September 30, 2007.
ù We implemented several delivery fee increases that were effective at varying dates between March and June 2008, or as our customers' contracts permitted. These increases included a 25 basis point fee assessed on all loans issued through flow-business channels, as well as higher or new delivery fees for certain mortgage products and for mortgages deemed to be higher-risk based primarily on property type, loan purpose, loan-to-value, or LTV ratio and/or borrower credit scores. Certain of our planned increases in delivery fees that were to be implemented in November 2008 have been cancelled. Our efforts to provide increased support to the mortgage market will likely affect our future guarantee pricing decisions.
ù The single-family credit guarantee portfolio increased by 2% and 18% on an annualized basis for the three months ended September 30, 2008 and 2007, respectively.
ù Average rates of Segment Earnings management and guarantee fee income for the Single-family Guarantee segment increased to 19.4 basis points for the three months ended September 30, 2008 compared to 18.1 basis points for the three months ended September 30, 2007. Average rates of Segment Earnings management and guarantee fee income

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for the Single-family Guarantee segment increased to 19.5 basis points for the nine months ended September 30, 2008 compared to 18.0 basis points for the nine months ended September 30, 2007.

ù The objectives set forth for us under our charter and conservatorship may negatively impact our Single-family Guarantee segment results. For example our objective of assisting the mortgage market may cause us to change our pricing strategy in our core mortgage loan purchase or guarantee business, which may cause our Single-Family guarantee segment results to suffer.

Multifamily Segment Our Multifamily segment activities include purchases of multifamily mortgages for our retained portfolio and guarantees of payments of principal and interest on multifamily mortgage-related securities and mortgages underlying multifamily housing revenue bonds. The assets of the Multifamily segment include mortgages that finance multifamily rental apartments. Our Multifamily segment also includes certain equity investments in various limited partnerships that sponsor low- and moderate-income multifamily rental apartments, which benefit from low-income housing tax credits, or LIHTC. These activities support our mission to supply financing for affordable rental housing. Also included is the interest earned on assets held in our Investments segment related to multifamily guarantee activities, net of allocated funding costs. Multifamily segment performance highlights for the three and nine months ended September 30, 2008 and 2007:

ù Segment Earnings increased 63% to $135 million for the three months ended September 30, 2008 versus $83 million for the three months ended September 30, 2007. Segment Earnings increased 20% to $351 million for the nine months ended September 30, 2008 versus $292 million for the nine months ended September 30, 2007.
ù Segment Earnings net interest income was $120 million for the three months ended September 30, 2008, an increase of $32 million versus the three months ended September 30, 2007 as a result of an increase in interest income on mortgage loans due to higher average balances, partially offset by a decrease in prepayment fees, or yield maintenance income. Segment Earnings net interest income was $293 million for the nine months ended September 30, 2008, a decline of $12 million versus the nine months ended September 30, 2007.
ù Mortgage purchases into our multifamily loan portfolio increased approximately 56% for the three months ended September 30, 2008 to $5.2 billion from $3.3 billion for the three months ended September 30, 2007. Mortgage purchases into our multifamily loan portfolio increased approximately 52% for the nine months ended September 30, 2008 to $13.4 billion from $8.8 billion for the nine months ended September 30, 2007.
ù Unpaid principal balance of our multifamily loan portfolio increased to $68.3 billion at September 30, 2008 from $57.6 billion at December 31, 2007 as market fundamentals continued to provide opportunities to purchase loans to be held in our portfolio.
ù Segment Earnings provision for credit losses for the Multifamily segment totaled $14 million and $30 million for the three and nine months ended September 30, 2008, respectively. Segment Earnings provision for credit losses for the Multifamily segment totaled $16 million and $20 million for the three and nine months ended September 30, 2007, respectively.
ù The objectives set forth for us under our charter and conservatorship may negatively impact our Multifamily segment results. For example, our objective of assisting the mortgage market may cause us to change our pricing strategy in our core mortgage loan purchase or guarantee business, which may cause our Multifamily segment results to suffer.

Capital Management The conservatorship resulted in changes to the assessment of our capital adequacy and our management of capital. On October 9, 2008, FHFA announced that it was suspending capital classification of us during conservatorship in light of the Purchase Agreement. Concurrent with this announcement, FHFA classified us as undercapitalized as of June 30, 2008 based on discretionary authority provided by statute. FHFA noted that although our capital calculations as of June 30, 2008 reflected that we met the statutory and FHFA-directed requirements for capital, the continued market downturn in July and August of 2008 raised significant questions about the sufficiency of our capital. Factors cited by FHFA leading to the downgrade in our capital classification and the need for conservatorship included (a) our accelerated safety and soundness weaknesses, especially with regard to our credit risk, earnings outlook and capitalization, (b) continued and substantial deterioration in equity, debt and mortgage-related securities market conditions, (c) our current and projected financial performance, (d) our inability to raise capital or issue debt according to normal practices and prices, (e) our critical importance in supporting the U.S. residential mortgage markets and (f) concerns over the proportion of intangible assets as part of our core capital. FHFA will continue to closely monitor our capital levels, but the existing statutory and FHFA-directed regulatory capital requirements will not be binding during conservatorship. We will continue to provide our regular submissions to FHFA on both minimum and risk-based capital. FHFA will publish relevant capital figures (minimum capital requirement, core capital, and GAAP net worth) but does not intend to publish our critical capital, risk-based capital or subordinated debt levels during

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conservatorship. Additionally, FHFA announced it will engage in rule-making to revise our minimum capital and risk-based capital requirements. See "NOTE 9: REGULATORY CAPITAL" to our consolidated financial statements for our minimum capital requirement, core capital and GAAP net worth results as of September 30, 2008. FHFA has directed us to focus our risk and capital management on maintaining a positive balance of GAAP stockholders' equity while returning to long-term profitability. FHFA is directing us to manage to a positive stockholders' equity position in order to reduce the likelihood that we will need to make a draw on the Purchase Agreement with Treasury. The Purchase Agreement provides that, if FHFA determines as of quarter end that our liabilities have exceeded our assets under GAAP, Treasury will contribute funds to us in an amount equal to the difference between such liabilities and assets; a higher amount may be drawn if Treasury and Freddie Mac mutually agree that the draw should be increased beyond the level by which liabilities exceed assets under GAAP. The maximum aggregate amount that may be funded under the Purchase Agreement is $100 billion. At September 30, 2008, our liabilities exceeded our assets under GAAP by $(13.7) billion while our stockholders' equity (deficit) totaled $(13.8) billion. The Director of FHFA has submitted a request under the Purchase Agreement in the amount of $13.8 billion to Treasury. Under the Reform Act, FHFA must place us into receivership if our assets are less than our obligations for a period of 60 days. If this were to occur, we would be required to obtain funding from Treasury pursuant to its commitment under the Purchase Agreement in order to avoid a mandatory trigger of receivership under the Reform Act. The Purchase Agreement places several restrictions on our business activities, which, in turn, affect our management of capital. For instance, our retained portfolio may not exceed $850 billion as of December 31, 2009 and must then decline by 10% per year until it reaches $250 billion. We are also unable to issue capital stock of any kind without Treasury's prior approval, other than in connection with the common stock warrant issued to Treasury under the Purchase Agreement or binding agreements in effect on the date of the Purchase Agreement. In addition, on September 7, 2008, the Director of FHFA announced the elimination of dividends on our common and preferred stock, excluding the senior preferred stock, which will accrue quarterly cumulative dividends at a rate of 10% per year or 12% in any quarter in which dividends are not paid in cash until all dividend accruals have been paid in cash. See "Legislative and Regulatory Matters" for additional information regarding covenants under the Purchase Agreement. A variety of factors could materially affect the level and volatility of our GAAP stockholders' equity (deficit) in future periods, requiring us to make additional draws under the Purchase Agreement. Key factors include continued deterioration in the housing market, which could increase credit expenses; adverse changes in interest rates, the yield curve, implied volatility or mortgage OAS, which could increase realized and unrealized mark-to-market losses recorded in earnings or AOCI; dividend obligations under the Purchase Agreement; establishment of a valuation allowance for our remaining deferred tax assets; changes in accounting practices or standards; or changes in business practices resulting from legislative and regulatory developments or mission fulfillment activities or as directed by the Conservator. At September 30, 2008, our remaining deferred tax assets, which could be subject to a valuation allowance in future periods, totaled $11.9 billion. In addition, during October 2008 mortgage spreads widened significantly, resulting in additional mark-to-market losses included in stockholders' equity (deficit). As a result of the factors described above, it is difficult for us to manage our stockholders' equity (deficit). Thus, it may be difficult for us to meet the objective of managing to a positive stockholders' equity (deficit). If we need additional draws under the Purchase Agreement, this would result in a considerably higher dividend obligation for us. Higher dividends combined with potentially substantial commitment fees payable to Treasury starting in 2010 and limited flexibility to pay down capital draws will have a significant adverse impact on our future financial position and net worth. For additional information concerning the potential impact of the Purchase Agreement, including taking additional large draws, see "RISK FACTORS." Liquidity Since early July 2008, we have experienced significant deterioration in our access to the unsecured medium- and long-term debt markets and in the yields on our debt as compared to relevant market benchmarks. Consistent demand for our debt securities has decreased for our term debt and callable debt, and the spreads we must pay on our new issuances of short-term debt securities increased. There are many factors contributing to the reduced demand for our debt securities, including continued severe market disruptions, market concerns about our capital position and the future of our business (including its future profitability, future structure, regulatory actions and agency status) and the extent of U.S. government support for our debt securities. In addition, the various U.S. government programs are still being digested by market participants creating uncertainty as to whether competing obligations of other companies are more attractive investments than our debt securities. As noted above, due to our limited ability to issue long-term debt, we have relied increasingly on short-term debt to fund our purchases of mortgage assets and to refinance maturing debt. As a result, we are required to refinance our debt on a more frequent basis, exposing us to an increased risk of insufficient demand, increasing interest rates and adverse credit market conditions. It is unclear when these market conditions will reverse allowing us access to the longer term debt

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markets. See "LIQUIDITY AND CAPITAL RESOURCES -- Liquidity" for more information on our debt funding activities and risks posed by our current market challenges and "Part II -- Item 1A -- Risk Factors" for a discussion of the risks to our business posed by our reliance on the issuance of debt to fund our operations. Fair Value Results Our consolidated fair value measurements are a component of our risk management processes, as we use daily estimates of the changes in fair value to calculate our Portfolio Market Value Sensitivity, or PMVS, and duration gap measures. During the three months ended September 30, 2008, the fair value of net assets, before capital transactions, decreased by $36.7 billion compared to a $8.4 billion decrease during the three months ended September 30, 2007. Included in the reduction of the fair value of net assets is $19.4 billion related to our partial valuation allowance for our deferred tax asset for the three months ended September 30, 2008. Our attribution of changes in the fair value of net assets relies on models, assumptions and other measurement techniques that evolve over time. The following attribution of changes in fair value reflects our current estimate of the items presented (on a pre-tax basis) and excludes the effect of returns on capital and administrative expenses. During the three months ended September 30, 2008, our investment activities decreased fair value by approximately $12.2 billion. This estimate includes declines in fair value of approximately $5.3 billion attributable to the net widening of mortgage-to-debt OAS. Of this amount, approximately $7.9 billion was related to the impact of the net mortgage-to-debt OAS widening on our portfolio of non-agency mortgage-related securities with a limited, but increasing amount attributable to the risk of future losses, as well as an $11.1 billion decrease in negative fair value from our preferred stock. The reduction in fair value was partially offset by our higher core spread income. Core spread income on our retained portfolio is a fair value estimate of the net current period accrual of income from the spread between mortgage-related investments and debt, calculated on an option-adjusted basis. During the three months ended September 30, 2007, our investment activities decreased fair value by approximately $6.2 billion. This estimate includes declines in fair value of approximately $8.0 billion attributable to the net widening of mortgage-to-debt OAS. Of this amount, approximately $3.5 billion was related to the impact of the net mortgage-to-debt OAS widening on our portfolio of non-agency mortgage-related securities. The impact of mortgage-to-debt OAS widening during the three months ended September 30, 2008 decreased the current fair value of our investment activities. Due to the relatively wide OAS levels for purchases during the period, there is a likelihood that, in future periods, we will be able to recognize core-spread income from our investment activities at a higher spread level than historically. We estimate that for the three months ended September 30, 2008, we will recognize core spread income at a net mortgage-to-debt OAS level of approximately 190 to 210 basis points in the long run, as compared to approximately 60 to 70 basis points estimated for the three months ended September 30, 2007. As market conditions change, our estimate of expected fair value gains from OAS may also change, leading to significantly different fair value results. During the three months ended September 30, 2008, our credit guarantee activities, including our single-family whole loan credit exposure, decreased fair value by an estimated $8.1 billion. This estimate includes an increase in the single-family guarantee obligation of approximately $6.3 billion, primarily attributable to an increase in expected default costs. During the three months ended September 30, 2007, our credit guarantee activities decreased fair value by an estimated $6.4 billion. This estimate includes an increase in the single-family guarantee obligation of approximately $7.6 billion, primarily attributable to the market's pricing of mortgage credit. This increase in the single-family guarantee obligation was partially offset by a fair value increase in the single-family guarantee asset of approximately $0.5 billion and cash receipts primarily related to management and guarantee fees and other up-front fees related to new business. See "CONSOLIDATED FAIR VALUE BALANCE SHEETS ANALYSIS" for additional information regarding attribution of changes in the fair value of net assets for the nine months ended September 30, 2008. Legislative and Regulatory Matters Conservatorship and Treasury Agreements Conservatorship On September 6, 2008, FHFA, our safety, soundness and mission regulator, was appointed as our Conservator when the Director of FHFA placed us into conservatorship. The conservatorship is a statutory process designed to preserve and conserve our assets and property, and put the company in a sound and solvent condition. As Conservator, FHFA has assumed the powers of our Board of Directors and management, as well as the powers of our stockholders. The powers of the Conservator under the Reform Act are summarized below. The conservatorship has no specified termination date. In a Fact Sheet issued by FHFA on September 7, 2008, FHFA indicated that the Director of FHFA will issue an order terminating the conservatorship upon the Director's determination that the Conservator's plan to restore the company to a safe and solvent condition has been completed successfully. The FHFA's

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September 7, 2008 Fact Sheet also indicated that, at present, there is no time frame that can be given as to when the conservatorship may end. General Powers of the Conservator Pursuant to the Reform Act Upon its appointment, the Conservator immediately succeeded to all rights, titles, powers and privileges of Freddie Mac, and of any stockholder, officer or director of Freddie Mac with respect to Freddie Mac and its assets, and succeeded to the title to all books, records and assets of Freddie Mac held by any other legal custodian or third party. The Conservator has the power to take over our assets and operate our business with all the powers of our stockholders, directors and officers, and to conduct all business of the company. The Conservator may take any actions it determines are necessary and appropriate to carry on our business and preserve and conserve our assets and property. The Conservator's powers include the ability to transfer or sell any of our assets or liabilities (subject to limitations and post-transfer notice provisions for transfers of qualified financial contracts, as defined below under "Special Powers of the Conservator -- Security Interests Protected; Exercise of Rights Under Qualified Financial Contracts") without any approval, assignment of rights or consent. The Reform Act, however, provides that mortgage loans and mortgage-related assets that have been transferred to a Freddie Mac securitization trust must be held for the beneficial owners of the trust and cannot be used to satisfy our general creditors. In connection with any sale or disposition of our assets, the Conservator must conduct its operations to maximize the net present value return from the sale or disposition, to minimize the amount of any loss realized, and to ensure adequate competition and fair and consistent treatment of offerors. The Conservator is required to pay all of our valid obligations that were due and payable on September 6, 2008 (the date we were placed into conservatorship), but only to the extent that the proceeds realized from the performance of contracts or sale of our assets are sufficient to satisfy those obligations. In addition, the Conservator is required to maintain a full accounting of the conservatorship and make its reports available upon request to stockholders and members of the public. We remain liable for all of our obligations relating to our outstanding debt and mortgage-related securities. In a Fact Sheet dated September 7, 2008, FHFA indicated that our obligations will be paid in the normal course of business during the conservatorship. Special Powers of the Conservator Under the Reform Act Disaffirmance and Repudiation of Contracts The Conservator may disaffirm or repudiate contracts (subject to certain limitations for qualified financial contracts) that we entered into prior to its appointment as Conservator if it determines, in its sole discretion, that performance of the contract is burdensome and that disaffirmation or repudiation of the contract promotes the orderly administration of our affairs. The Reform Act requires FHFA to exercise its right to disaffirm or repudiate most contracts within a reasonable period of time after its appointment as Conservator. As of November 14, 2008, the Conservator had not determined whether or not such reasonable period of time had passed for purposes of the applicable provisions of the Reform Act. As of November 14, 2008, the Conservator has advised us that it has not disaffirmed or repudiated any contracts we entered into prior to its appointment as Conservator. We can, and have continued to, enter into and enforce contracts with third parties. The Conservator has advised us that it has no intention of repudiating any guarantee obligation relating to Freddie Mac's mortgage-related securities because it views repudiation as incompatible with the goals of the conservatorship. In addition, as noted above, the Conservator cannot use mortgage loans or mortgage-related assets that have been transferred to a securitization trust to satisfy the general creditors of the company. The Conservator must hold these assets for the beneficial owners of the related Freddie Mac mortgage-related securities. In general, the liability of the Conservator for the disaffirmance or repudiation of any contract is limited to actual direct compensatory damages determined as of September 6, 2008, which is the date we were placed into conservatorship. The liability of the Conservator for the disaffirmance or repudiation of a qualified financial contract is limited to actual direct compensatory damages determined as of the date of the disaffirmance or repudiation. If the Conservator disaffirms or repudiates any lease to or from us, or any contract for the sale of real property, the Reform Act specifies the liability of the Conservator. Limitations on Enforcement of Contractual Rights by Counterparties The Reform Act provides that the Conservator may enforce most contracts entered into by us, notwithstanding any provision of the contract that provides for termination, default, acceleration, or exercise of rights upon the appointment of, or the exercise of rights or powers by, a conservator.

Security Interests Protected; Exercise of Rights Under Qualified Financial Contracts Notwithstanding the Conservator's powers described above, the Conservator must recognize legally enforceable or perfected security interests, except where such an interest is taken in contemplation of our insolvency or with the intent to hinder, delay or defraud us or our creditors. In addition, the Reform Act provides that no person will be stayed or prohibited from exercising specified rights in connection with qualified financial contracts, including termination or acceleration (other than solely by reason of, or incidental to, the appointment of the Conservator), rights of offset, and rights under any security agreement or arrangement or other credit enhancement relating to such contract. The term qualified financial contract means any securities contract, commodity contract, forward contract, repurchase agreement, swap agreement and any similar agreement, as determined by FHFA.

Avoidance of Fraudulent Transfers The Conservator may avoid, or refuse to recognize, a transfer of any property interest of Freddie Mac or of any of our debtors, and also may avoid any obligation incurred by Freddie Mac or by any debtor of Freddie Mac, if the transfer or obligation was made: (1) within five years of September 6, 2008; and (2) with the intent to hinder, delay, or defraud Freddie Mac, FHFA, the Conservator or, in the case of a transfer in connection with a qualified financial contract, our creditors. To the extent a transfer is avoided, the Conservator may recover, for our benefit, the property or, by court order, the value of that property from the initial or subsequent transferee, unless the transfer was made for value and in good faith. These rights are superior to any rights of a trust or any other party, other than a federal agency, under the U.S. bankruptcy code. Modification of Statutes of Limitations Under the Reform Act, notwithstanding any provision of any contract, the statute of limitations with regard to any action brought by the Conservator is: (1) for claims relating to a contract, the longer of six years or the applicable period under state law; and (2) for tort claims, the longer of three years or the applicable period under state law, in each case, from the later of September 6, 2008 or the date on which the cause of action accrues. In addition, notwithstanding the state law statute of limitation for tort claims, the Conservator may bring an action for any tort claim that arises from fraud, intentional misconduct resulting in unjust enrichment, or intentional misconduct resulting in substantial loss to us, if the state's statute of limitations expired not more than five years before September 6, 2008. Suspension of Legal Actions In any judicial action or proceeding to which we are or become a party, the Conservator may request, and the applicable court must grant, a stay for a period not to exceed 45 days. Treatment of Breach of Contract Claims Any final and unappealable judgment for monetary damages against the Conservator for breach of an agreement executed or approved in writing by the Conservator will be paid as an administrative expense of the Conservator. Attachment of Assets and Other Injunctive Relief The Conservator may seek to attach assets or obtain other injunctive relief without being required to show that any injury, loss or damage is irreparable and immediate.   Subpoena Power The Reform Act provides the Conservator, with the approval of the Director of FHFA, with subpoena power for purposes of carrying out any power, authority or duty with respect to Freddie Mac. Current Management of the Company Under Conservatorship As noted above, as our Conservator, FHFA has assumed the powers of our Board of Directors. Accordingly, the current Board of Directors acts with neither the power nor the duty to manage, direct or oversee our business and affairs. The Conservator has indicated that it intends to appoint a full Board of Directors to which it will delegate specified roles and responsibilities. Until FHFA has made these delegations, our Board of Directors has no power to determine the general policies that govern our operations, to create committees and elect the members of those committees, to select our officers, to manage, direct or oversee our business and affairs, or to exercise any of the other powers of the Board of Directors that are set forth in our charter and bylaws. FHFA, in its role as Conservator, has overall management authority over our business. During the conservatorship, the Conservator has delegated authority to management to conduct day-to-day operations so that the company can continue to operate in the ordinary course of business. The Conservator retains the authority to withdraw its delegations to management at any time. The Conservator is working actively with management to address and determine the strategic direction for the enterprise, and in general has retained final decision-making authority in areas regarding: significant impacts on operational, market, reputational or credit risk; major accounting determinations, including policy changes; the creation of subsidiaries or affiliates and transacting with them; significant litigation; setting executive compensation; retention of external auditors;

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significant mergers and acquisitions; and any other matters the Conservator believes are strategic or critical to the enterprise in order for the Conservator to fulfill its obligations during conservatorship. Treasury Agreements The Reform Act granted Treasury temporary authority (through December 31, 2009) to purchase any obligations and other securities issued by Freddie Mac on such terms and conditions and in such amounts as Treasury may determine, upon mutual agreement between Treasury and Freddie Mac. As of November 14, 2008, Treasury had used this authority as follows: Agreement and Related Issuance of Senior Preferred Stock and Common Stock Warrant Purchase Agreement On September 7, 2008, we, through FHFA, in its capacity as Conservator, and Treasury entered into the Purchase Agreement. The Purchase Agreement was subsequently amended and restated on September 26, 2008. Pursuant to the Purchase Agreement, we agreed to issue to Treasury one million shares of senior preferred stock with an initial liquidation preference equal to $1,000 per share (for an aggregate liquidation preference of $1 billion), and a warrant for the purchase of our common stock. The terms of the senior preferred stock and warrant are summarized in separate sections below. We did not receive any cash proceeds from Treasury as a result of issuing the senior preferred stock or the warrant. The senior preferred stock and warrant were sold and issued to Treasury as an initial commitment fee in consideration of the commitment from Treasury to provide up to $100 billion in funds to us under the terms and conditions set forth in the Purchase Agreement. In addition to the issuance of the senior preferred stock and warrant, beginning on March 31, 2010, we are required to pay a quarterly commitment fee to Treasury. This quarterly commitment fee will accrue from January 1, 2010. The fee, in an amount to be mutually agreed upon by us and Treasury and to be determined with reference to the market value of Treasury's funding commitment as then in effect, will be determined on or before December 31, 2009, and will be reset every five years. Treasury may waive the quarterly commitment fee for up to one year at a time, in its sole discretion, based on adverse conditions in the U.S. mortgage market. We may elect to pay the quarterly commitment fee in cash or add the amount of the fee to the liquidation preference of the senior preferred stock. The Purchase Agreement provides that, on a quarterly basis, we generally may draw funds up to the amount, if any, by which our total liabilities exceed our total assets, as reflected on our GAAP balance sheet for the applicable fiscal quarter (referred to as the deficiency amount), provided that the aggregate amount funded under the Purchase Agreement may not exceed $100 billion. The Purchase Agreement provides that the deficiency amount will be calculated differently if we become subject to receivership or other liquidation process. The deficiency amount may be increased above the otherwise applicable amount upon our mutual written agreement with Treasury. In addition, if the Director of FHFA determines that the Director will be mandated by law to appoint a receiver for us unless our capital is increased by receiving funds under the commitment in an amount up to the deficiency amount (subject to the $100 billion maximum amount that may be funded under the agreement), then FHFA, in its capacity as our Conservator, may request that Treasury provide funds to us in such amount. The Purchase Agreement also provides that, if we have a deficiency amount as of the date of completion of the liquidation of our assets, we may request funds from Treasury in an amount up to the deficiency amount (subject to the $100 billion maximum amount that may be funded under the agreement). Any amounts that we draw under the Purchase Agreement will be added to the liquidation preference of the senior preferred stock. No additional shares of senior preferred stock are required to be issued under the Purchase Agreement. The Purchase Agreement provides that the Treasury's funding commitment will terminate under any the following circumstances: (1) the completion of our liquidation and fulfillment of Treasury's obligations under its funding commitment at that time; (2) the payment in full of, or reasonable provision for, all of our liabilities (whether or not contingent, including mortgage guarantee obligations); and (3) the funding by Treasury of $100 billion under the Purchase Agreement. In addition, Treasury may terminate its funding commitment and declare the Purchase Agreement null and void if a court vacates, modifies, amends, conditions, enjoins, stays or otherwise affects the appointment of the Conservator or otherwise curtails the Conservator's powers. Treasury may not terminate its funding commitment under the agreement solely by reason of our being in conservatorship, receivership or other insolvency proceeding, or due to our financial condition or any adverse change in our financial condition. The Purchase Agreement provides that most provisions of the agreement may be waived or amended by mutual written agreement of the parties; however, no waiver or amendment of the agreement is permitted that would decrease Treasury's aggregate funding commitment or add conditions to Treasury's funding commitment if the waiver or amendment would adversely affect in any material respect the holders of our debt securities or Freddie Mac mortgage guarantee obligations. In the event of our default on payments with respect to our debt securities or Freddie Mac mortgage guarantee obligations, if Treasury fails to perform its obligations under its funding commitment and if we and/or the Conservator are not diligently pursuing remedies in respect of that failure, the holders of these debt securities or Freddie Mac mortgage

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guarantee obligations may file a claim in the United States Court of Federal Claims for relief requiring Treasury to fund to us the lesser of: (1) the amount necessary to cure the payment defaults on our debt and Freddie Mac mortgage guarantee obligations; and (2) the lesser of: (a) the deficiency amount; and (b) $100 billion less the aggregate amount of funding previously provided under the commitment. Any payment that Treasury makes under those circumstances will be treated for all purposes as a draw under the Purchase Agreement that will increase the liquidation preference of the senior preferred stock. The Purchase Agreement includes several covenants that significantly restrict our business activities, which are described below under "Covenants

Under Treasury Agreements -- Purchase Agreement Covenants." The Purchase Agreement is filed as an exhibit to this Form 10-Q. Issuance of Senior Preferred Stock Pursuant to the Purchase Agreement described above, we issued one million shares of senior preferred stock to Treasury on September 8, 2008. The senior preferred stock was issued to Treasury in partial consideration of Treasury's commitment to provide up to $100 billion in funds to us under the terms set forth in the Purchase Agreement. Shares of the senior preferred stock have no par value, and have a stated value and initial liquidation preference equal to $1,000 per share. The liquidation preference of the senior preferred stock is subject to adjustment. Dividends that are not paid in cash for any dividend period will accrue and be added to the liquidation preference of the senior preferred stock. In addition, any amounts Treasury pays to us pursuant to its funding commitment under the Purchase Agreement and any quarterly commitment fees that are not paid in cash to Treasury or waived by Treasury will be added to the liquidation preference of the senior preferred stock. As described below, we may make payments to reduce the liquidation preference of the senior preferred stock. Holders of the senior preferred stock are entitled to receive, when, as and if declared by our Board of Directors, cumulative quarterly cash dividends at the annual rate of 10% per year on the then-current liquidation preference of the senior preferred stock. The initial dividend, if declared, will be payable on December 31, 2008 and will be for the period from but not including September 8, 2008 through and including December 31, 2008. If at any time we fail to pay cash dividends in a timely manner, then immediately following such failure and for all dividend periods thereafter until the dividend period following the date on which we have paid in cash full cumulative dividends (including any unpaid dividends added to the liquidation preference), the dividend rate will be 12% per year. The senior preferred stock ranks ahead of our common stock and all other outstanding series of our preferred stock, as well as any capital stock we issue in the future, as to both dividends and rights upon liquidation. The senior preferred stock provides that we may not, at any time, declare or pay dividends on, make distributions with respect to, or redeem, purchase or acquire, or make a liquidation payment with respect to, any common stock or other securities ranking junior to the senior preferred stock unless: (1) full cumulative dividends on the outstanding senior preferred stock (including any unpaid dividends added to the liquidation preference) have been declared and paid in cash; and (2) all amounts required to be paid with the net proceeds of any issuance of capital stock for cash (as described in the following paragraph) have been paid in cash. Shares of the senior preferred stock are not convertible. Shares of the senior preferred stock have no general or special voting rights, other than those set forth in the certificate of designation for the senior preferred stock or otherwise required by law. The consent of holders of at least two-thirds of all outstanding shares of senior preferred stock is generally required to amend the terms of the senior preferred stock or to create any class or series of stock that ranks prior to or on parity with the senior preferred stock. We are not permitted to redeem the senior preferred stock prior to the termination of Treasury's funding commitment set forth in the Purchase Agreement; however, we are permitted to pay down the liquidation preference of the outstanding shares of senior preferred stock to the extent of (1) accrued and unpaid dividends previously added to the liquidation preference and not previously paid down; and (2) quarterly commitment fees previously added to the liquidation preference and not previously paid down. In addition, if we issue any shares of capital stock for cash while the senior preferred stock is outstanding, the net proceeds of the issuance must be used to pay down the liquidation preference of the senior preferred stock; however, the liquidation preference of each share of senior preferred stock may not be paid down below $1,000 per share prior to the termination of Treasury's funding commitment. Following the termination of Treasury's funding commitment, we may pay down the liquidation preference of all outstanding shares of senior preferred stock at any time, in whole or in part. If, after termination of Treasury's funding commitment, we pay down the liquidation preference of each outstanding share of senior preferred stock in full, the shares will be deemed to have been redeemed as of the payment date. The certificate of designation for the senior preferred stock is incorporated by reference as an exhibit to this Form 10-Q. Issuance of Common Stock Warrant Pursuant to the Purchase Agreement described above, on September 7, 2008, we, through FHFA, in its capacity as Conservator, issued a warrant to purchase common stock to Treasury. The warrant was issued to Treasury in partial

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consideration of Treasury's commitment to provide up to $100 billion in funds to us under the terms set forth in the Purchase Agreement. The warrant gives Treasury the right to purchase shares of our common stock equal to 79.9% of the total number of shares of our common stock outstanding on a fully diluted basis on the date of exercise. The warrant may be exercised in whole or in part at any time on or before September 7, 2028, by delivery to us of: (a) a notice of exercise; (b) payment of the exercise price of $0.00001 per share; and (c) the warrant. If the market price of one share of our common stock is greater than the exercise price, then, instead of paying the exercise price, Treasury may elect to receive shares equal to the value of the warrant (or portion thereof being canceled) pursuant to the formula specified in the warrant. Upon exercise of the warrant, Treasury may assign the right to receive the shares of common stock issuable upon exercise to any other person. The warrant contains several covenants, which are described under "Covenants Under Treasury Agreements -- Treasury Warrant Covenants." As of November 14, 2008, Treasury has not exercised the warrant. The warrant is incorporated by reference as an exhibit to this Form 10-Q. Lending Agreement On September 18, 2008, we entered into the Lending Agreement with Treasury under which we may request loans until December 31, 2009. Loans under the Lending Agreement require approval from Treasury at the time of request. Treasury is not obligated under the Lending Agreement to make, increase, renew or extend any loan to us. The Lending Agreement does not specify a maximum amount that may be borrowed thereunder, but any loans made to us by Treasury pursuant to the Lending Agreement must be collateralized by Freddie Mac or Fannie Mae mortgage-backed securities. Further, unless amended or waived by Treasury, the amount we may borrow under the Lending Agreement is limited by the restriction under the Purchase Agreement on incurring debt in excess of 110% of our aggregate indebtedness as of June 30, 2008. The Lending Agreement does not specify the maturities or interest rate of loans that may be made by Treasury under the credit facility. In a Fact Sheet regarding the credit facility published by Treasury on September 7, 2008, Treasury indicated that loans made pursuant to the credit facility will be for short-term durations and would in general be expected to be for less than one month but no shorter than one week. The Fact Sheet further indicated that the interest rate on loans made pursuant to the credit facility ordinarily will be based on daily LIBOR, fixed for a similar term of the loan plus 50 basis points. Given that the interest rate we are likely to be charged under the credit facility will be significantly higher than the rates we have historically achieved through the sale of unsecured debt, use of the facility in significant amounts could have a material adverse impact on our financial results. As of November 14, 2008, we have not requested any loans or borrowed any amounts under the Lending Agreement. For a description of the covenants contained in the Lending Agreement, refer to "Covenants under Treasury Agreements -- Lending Agreement Covenants" below. For additional information on the terms of the Lending Agreement, refer to our Current Report on Form 8-K filed with the SEC on September 23, 2008 and a copy of the Lending Agreement is incorporated by reference as an exhibit to this Form 10-Q. Covenants under Treasury Agreements The Purchase Agreement, warrant and Lending Agreement contain covenants that significantly restrict our business activities. These covenants, which are summarized below, include a prohibition on our issuance of additional equity securities (except in limited instances), a prohibition on the payment of dividends or other distributions on our equity securities (other than the senior preferred stock or warrant), a prohibition on our issuance of subordinated debt and a limitation on the total amount of debt securities we may issue. As a result, we can no longer obtain additional equity financing (other than pursuant to the Purchase Agreement) and we are limited in the amount and type of debt financing we may obtain. Purchase Agreement Covenants The Purchase Agreement provides that, until the senior preferred stock is repaid or redeemed in full, we may not, without the prior written consent of Treasury:

ù Declare or pay any dividend (preferred or otherwise) or make any other distribution with respect to any Freddie Mac equity securities (other than with respect to the senior preferred stock or warrant);
ù Redeem, purchase, retire or otherwise acquire any Freddie Mac equity securities (other than the senior preferred stock or warrant);
ù Sell or issue any Freddie Mac equity securities (other than the senior preferred stock, the warrant and the common stock issuable upon exercise of the warrant and other than as required by the terms of any binding agreement in effect on the date of the Purchase Agreement);
ù Terminate the conservatorship (other than in connection with a receivership);

ù Sell, transfer, lease or otherwise dispose of any assets, other than dispositions for fair market value: (a) to a limited life regulated entity (in the context of a receivership); (b) of assets and properties in the ordinary course of business, consistent with past practice; (c) in connection with our liquidation by a receiver; (d) of cash or cash equivalents for cash or cash equivalents; or (e) to the extent necessary to comply with the covenant described below relating to the reduction of our portfolio of retained mortgages and mortgage-backed securities beginning in 2010;
ù Incur indebtedness that would result in our aggregate indebtedness exceeding 110% of our aggregate indebtedness as of June 30, 2008;
ù Issue any subordinated debt;
ù Enter into a corporate reorganization, recapitalization, merger, acquisition or similar event; or
ù Engage in transactions with affiliates unless the transaction is (a) pursuant to the Purchase Agreement, the senior preferred stock or the warrant, (b) upon arm's length terms or (c) a transaction undertaken in the ordinary course or pursuant to a contractual obligation or customary employment arrangement in existence on the date of the Purchase Agreement.

The Purchase Agreement also provides that we may not own mortgage assets in excess of: (a) $850 billion on December 31, 2009; or (b) on December 31 of each year thereafter, 90% of the aggregate amount of our mortgage assets as of December 31 of the immediately preceding calendar year, provided that we are not required to own less than $250 billion in mortgage assets. In addition, the Purchase Agreement provides that we may not enter into any new compensation arrangements or increase amounts or benefits payable under existing compensation arrangements of any named executive officer (as defined by SEC rules) without the consent of the Director of FHFA, in consultation with the Secretary of the Treasury. We are required under the Purchase Agreement to provide annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K to Treasury in accordance with the time periods specified in the SEC's rules. In addition, our designated representative (which, during the conservatorship, is the Conservator) is required to provide quarterly certifications to Treasury certifying compliance with the covenants contained in the Purchase Agreement and the accuracy of the representations made pursuant to the agreement. We also are obligated to provide prompt notice to Treasury of the occurrence of specified events, such as the filing of a lawsuit that would reasonably be expected to have a material adverse effect. As of November 13, 2008, we believe we were in compliance with the covenants under the Purchase Agreement. For a summary of the terms of the Purchase Agreement, see "Purchase Agreement and Related Issuance of Senior Preferred Stock and Common Stock Warrant -- Purchase Agreement" above. For the complete terms of the covenants, see the copy of the Purchase Agreement filed as an exhibit to this Form 10-Q. Warrant Covenants The warrant we issued to Treasury includes, among others, the following covenants: our SEC filings under the Exchange Act will comply in all material respects as to form with the Exchange Act and the rules and regulations thereunder; we may not permit any of our significant subsidiaries to issue capital stock or equity securities, or securities convertible into or exchangeable for such securities, or any stock appreciation rights or other profit participation rights; we may not take any action that will result in an increase in the par value of our common stock; we may not take any action to avoid the observance or performance of the terms of the warrant and we must take all actions necessary or appropriate to protect Treasury's rights against impairment or dilution; and we must provide Treasury with prior notice of specified actions relating to our common stock, such as setting a record date for a dividend payment, granting subscription or purchase rights, authorizing a recapitalization, reclassification, merger or similar transaction, commencing a liquidation of the company or any other action that would trigger an adjustment in the exercise price or number or amount of shares subject to the warrant. The warrant remains outstanding through September 7, 2028. As of November 13, 2008, we believe we were in compliance with the covenants under the warrant. For a summary of the terms of the warrant, see "Purchase Agreement and Related Issuance of Senior Preferred Stock and Common Stock Warrant -- Issuance of Common Stock Warrant" above. For the complete terms of the covenants contained in the warrant, a copy of the warrant is incorporated by reference as an exhibit to this Form 10-Q. Lending Agreement Covenants The Lending Agreement includes covenants requiring us, among other things:

ù to maintain Treasury's security interest in the collateral, including the priority of the security interest, and take actions to defend against adverse claims;
ù not to sell or otherwise dispose of, pledge or mortgage the collateral (other than Treasury's security interest);
ù not to act in any way to impair, or to fail to act in a way to prevent the impairment of, Treasury's rights or interests in the collateral;

ù promptly to notify Treasury of any failure or impending failure to meet our regulatory capital requirements;
ù to provide for periodic audits of collateral held under borrower-in-custody arrangements, and to comply with certain notice and certification requirements;
ù promptly to notify Treasury of the occurrence or impending occurrence of an event of default under the terms of the lending agreement; and
ù to notify Treasury of any change in applicable law or regulations, or in our

charter or bylaws, or certain other events, that may materially affect our ability to perform our obligations under the lending agreement.

The Lending Agreement expires on December 31, 2009. As of November 13, 2008, we believe we were in compliance with the covenants under the Lending Agreement. For a summary of the terms of the Lending Agreement, see "Lending Agreement" above. For the complete terms of the covenants contained in the Lending Agreement, a copy of the agreement is incorporated by reference as an exhibit to this Form 10-Q. Effect of Conservatorship and Treasury Agreements on Existing Stockholders The conservatorship and Purchase Agreement have materially limited the rights of our common and preferred stockholders (other than Treasury as holder of the senior preferred stock). The conservatorship has had the following adverse effects on our common and preferred stockholders:

ù the powers of the stockholders are suspended during the conservatorship. Accordingly, our common stockholders do not have the ability to elect directors or to vote on other matters during the conservatorship unless the Conservator delegates this authority to them;
ù the Conservator has eliminated common and preferred stock dividends (other than dividends on the senior preferred stock) during the conservatorship; and
ù according to a statement made by the Secretary of the Treasury on September 7, 2008, because we are in conservatorship, we "will no longer be managed with a strategy to maximize common shareholder returns."

The Purchase Agreement and the senior preferred stock and warrant issued to Treasury pursuant to the agreement have had the following adverse effects on our common and preferred stockholders:

ù the senior preferred stock ranks senior to the common stock and all other series of preferred stock as to both dividends and distributions upon dissolution, liquidation or winding up of the company;
ù the Purchase Agreement prohibits the payment of dividends on common or preferred stock (other than the senior preferred stock) without the prior written consent of Treasury; and
ù the warrant provides Treasury with the right to purchase shares of our common stock equal to up to 79.9% of the total number of shares of our common stock outstanding on a fully diluted basis on the date of exercise for a nominal price, thereby substantially diluting the ownership in Freddie Mac of our common stockholders at the time of exercise. Until Treasury exercises its rights under the warrant or its right to exercise the warrant expires on September 7, 2028 without having been exercised, the holders of our common stock continue to have the risk that, as a group, they will own no more than 20.1% of the total voting power of the company. Under our charter, bylaws and applicable law, 20.1% is insufficient to control the outcome of any vote that is presented to the common shareholders. Accordingly, existing common shareholders have no assurance that, as a group, they will be able to control the election of our directors or the outcome of any other vote after the time, if any, that the conservatorship ends.

As described above, the conservatorship and Treasury agreements also impact our business in ways that indirectly affect our common and preferred stockholders. By their terms, the Purchase Agreement, senior preferred stock and warrant will continue to exist even if we are released from the conservatorship. For a description of the risks to our business relating to the conservatorship and Treasury agreements, see "ITEM 1A. RISK FACTORS." Treasury Mortgage-Backed Securities Purchase Program Pursuant to its authority under our charter, as amended by the Reform Act, on September 7, 2008, Treasury announced a program under which Treasury will purchase GSE mortgage-backed securities in the open market. The size and timing of Treasury's investments in GSE mortgage-backed securities will be subject to the discretion of the Secretary of the Treasury. The scale of the program will be based on developments in the capital markets and housing markets. Treasury's authority to purchase GSE mortgage-backed securities expires on December 31, 2009. New York Stock Exchange Matters As of November 14, 2008, our common stock continues to trade on the New York Stock Exchange, or NYSE. We have been in discussions with the staff of the NYSE regarding the effect of the conservatorship on our ongoing compliance with the rules of the NYSE and the continued listing of our stock on the NYSE in light of the unique circumstances of the conservatorship. To date, we have not been informed of any non-compliance by the NYSE.

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Other Regulatory Matters FHFA is responsible for implementing the various provisions of the Reform Act. In a statement published on September 7, 2008, the Director of FHFA indicated that FHFA will continue to work expeditiously on the many regulations needed to implement the new legislation, and that some of the key regulations will address minimum capital standards, prudential safety and soundness standards and portfolio limits. In general, we remain subject to existing regulations, orders and determinations until new ones are issued or made. Since we entered into conservatorship on September 6, 2008, FHFA has taken the following actions relating to the implementation of provisions of the Reform Act. Adoption by FHFA of Regulation Relating to Golden Parachute Payments FHFA issued interim final regulations pursuant to the Reform Act relating to "golden parachute payments" in September 2008. Under these regulations, FHFA may limit golden parachute payments as defined. On September 14, 2008, the Director of FHFA notified us that severance and other payments contemplated in the employment contract of Richard F. Syron, our former Chairman and Chief Executive Officer, are golden parachute payments within the meaning of the Reform Act and that these payments should not be paid, effective immediately. On September 22, 2008, the Director of FHFA notified us that severance payments contemplated in the employment agreement of Anthony S. Piszel, our former Chief Financial Officer, are golden parachute payments within the meaning of the Reform Act and should not be paid. Patricia L. Cook, our former Chief Business Officer, also will not receive severance payments contemplated under her employment agreement. Suspension of Regulatory Capital Requirements During Conservatorship As described in "Capital Management," FHFA announced in October 2008 that our existing statutory and FHFA-directed regulatory capital requirements will not be binding during the conservatorship. Subordinated Debt FHFA has directed us to continue to make interest and principal payments on our subordinated debt, even if we fail to maintain required capital levels. As a result, the terms of any of our subordinated debt that provide for us to defer payments of interest under certain circumstances, including our failure to maintain specified capital levels, are no longer applicable. In addition, the requirements in the agreement we entered into with FHFA in September 2005 with respect to issuance, maintenance, and reporting and disclosure of Freddie Mac subordinated debt have been suspended during the term of conservatorship and thereafter until directed otherwise. Emergency Economic Stabilization Act of 2008, or EESA On October 3, 2008, the President signed into law the EESA which among other actions, gave further authority to Treasury to purchase or guarantee financial assets from financial institutions in the public market. The EESA also requires FHFA, as Conservator, to implement a plan for delinquent single family and multifamily mortgage loans (including mortgage-backed securities and asset-backed securities) to maximize assistance for homeowners and encourage servicers to take advantage of the HOPE for Homeowners Program implemented by the U.S. Department of Housing and Urban Development, or HUD, or other available programs to minimize foreclosure. FHFA must develop and begin implementing a plan 60 days after the date of enactment. We cannot predict the content of the plan FHFA may implement or its effect on our business. Mission and Affordable Housing Goals As was the case in 2007, market conditions are making it harder to meet certain affordable housing targets. Nevertheless, we estimate that our affordable mortgage purchases will substantially mirror the levels of goal-qualifying loans being originated in the market today. On September 12, 2008, FHFA issued a statement indicating that support for multifamily housing finance is central to our public purpose and that the conservatorship does not affect existing contracts, our authority to enter into new contracts, or their enforceability. The statement indicated that FHFA, as Conservator, expects us to continue underwriting and financing sound multifamily business. On October 27, 2008, FHFA issued a letter finding that we had officially met or exceeded the affordable housing goals for 2007, except for the two subgoals which HUD had previously determined to be infeasible. Conforming Loan Limits On November 7, 2008, FHFA announced that the conforming loan limit will remain $417,000 for 2009, with higher limits in certain cities and counties. Pursuant to the Reform Act, FHFA has set loan limits for certain "high-cost" areas in 2009. These limits are set equal to 115% of area median house prices and cannot exceed 150% of the base limit, or $625,500 for a one-unit property. The new limits affect loans purchased in 2009.

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SELECTED FINANCIAL DATA AND OTHER OPERATING MEASURES(1)

	At or for the Nine Months Ended September 30,		At or for the Year Ended December 31,				
	2008	2007	2007	2006	2005	2004	2003
	(dollars in millions, except share-related amounts)						
Income Statement Data							
Net interest income	$ 4,171	$ 2,325	$ 3,099	$ 3,412	$ 4,627	$ 8,313	$ 8,598
Non-interest income (loss)	(10,387)	1,589	194	2,086	1,003	(2,723)	532
Non-interest expense	(13,534)	(5,813)	(9,270)	(3,216)	(3,100)	(2,378)	(2,123)
Net income (loss) before cumulative effect of change in accounting principle	(26,267)	(642)	(3,094)	2,327	2,172	2,603	4,809
Cumulative effect of change in accounting principle, net of taxes	--	--	--	--	(59)	--	--
Net income (loss)	(26,267)	(642)	(3,094)	2,327	2,113	2,603	4,809
Net income (loss) available to common stockholders	(26,777)	(938)	(3,503)	2,051	1,890	2,392	4,593

Earnings (loss) per common share before cumulative effect of change in accounting principle:							
Basic	(30.90)	(1.43)	(5.37)	3.01	2.82	3.47	6.68
Diluted	(30.90)	(1.43)	(5.37)	3.00	2.81	3.46	6.67
Earnings (loss) per common share after cumulative effect of change in accounting principle:							
Basic	(30.90)	(1.43)	(5.37)	3.01	2.73	3.47	6.68
Diluted	(30.90)	(1.43)	(5.37)	3.00	2.73	3.46	6.67
Dividends per common share	0.50	1.50	1.75	1.91	1.52	1.20	1.04
Weighted average common shares outstanding (in thousands)(2):							
Basic	866,472	653,825	651,881	680,856	691,582	689,282	687,094
Diluted	866,472	653,825	651,881	682,664	693,511	691,521	688,675
Balance Sheet Data							
Total assets	$ 804,390	$ 786,871	$ 794,368	$ 804,910	$ 798,609	$ 779,572	$ 787,962
Short-term debt	319,641	252,776	295,921	285,264	279,764	266,024	279,180
Long-term senior debt	459,808	468,903	438,147	452,677	454,627	443,772	438,738
Long-term subordinated debt	4,501	5,232	4,489	6,400	5,633	5,622	5,613
All other liabilities	34,140	34,196	28,911	33,139	31,945	32,720	32,094
Minority interests in consolidated subsidiaries	95	281	176	516	949	1,509	1,929
Stockholders' equity (deficit)	(13,795)	25,483	26,724	26,914	25,691	29,925	30,408
Portfolio Balances(3)							
Retained portfolio(4)	$ 736,876	$ 713,164	$ 720,813	$ 703,959	$ 710,346	$ 653,261	$ 645,767
Total PCs and Structured Securities issued(5)	1,834,408	1,664,776	1,738,833	1,477,023	1,335,524	1,208,968	1,162,068
Total mortgage portfolio	2,196,338	2,021,935	2,102,676	1,826,720	1,684,546	1,505,531	1,414,700
Ratios							
Return on average assets(6)	(4.4)%	(0.1)%	(0.4)%	0.3%	0.3%	0.3%	0.6%
Return on	N/A	(6.6)	(21.0)	9.8	8.1	9.4	17.7

common equity(7)							
Return on total equity(8)	N/A	(3.3)	(11.5)	8.8	7.6	8.6	15.8
Dividend payout ratio on common stock(9)	N/A	N/A	N/A	63.9	56.9	34.9	15.6
Equity to assets ratio(10)	0.8	3.3	3.4	3.3	3.5	3.8	4.0
Preferred stock to core capital ratio(11)	130.2	23.4	37.3	17.3	13.2	13.5	14.2

(1) See "ITEM 2. FINANCIAL INFORMATION -- SELECTED FINANCIAL DATA AND OTHER OPERATING MEASURES" in our Registration Statement for information regarding accounting changes impacting periods prior to January 1, 2008.
(2) Includes the weighted average number of shares during the 2008 periods that are associated with the warrant for our common stock issued to Treasury as part of the Purchase Agreement. This warrant is included in basic EPS, since it is unconditionally exercisable by the holder at a minimal cost of $.00001 per share.
(3) Represent the unpaid principal balance and exclude mortgage loans and mortgage-related securities traded, but not yet settled. Effective in December 2007, we established a trust for the administration of cash remittances received related to the underlying assets of our PCs and Structured Securities issued. As a result, for December 2007 and each period in 2008, we report the balance of our mortgage portfolios to reflect the publicly-available security balances of our PCs and Structured Securities. For periods prior to December 2007, we report these balances based on the unpaid principal balance of the underlying mortgage loans. We reflected this change as an increase in the unpaid principal balance of our retained portfolio by $2.8 billion at December 31, 2007.
(4) The retained portfolio presented on our consolidated balance sheets differs from the retained portfolio in this table because the consolidated balance sheet caption includes valuation adjustments and deferred balances. See "CONSOLIDATED BALANCE SHEETS ANALYSIS -- Table 17 -- Characteristics of Mortgage Loans and Mortgage-Related Securities in our Retained Portfolio" for more information.
(5) Includes PCs and Structured Securities that are held in our retained portfolio. See "OUR PORTFOLIOS -- Table 53 -- Freddie Mac's Total Mortgage Portfolio and Segment Portfolio Composition" for the composition of our total mortgage portfolio. Excludes Structured Securities for which we have resecuritized our PCs and Structured Securities. These resecuritized securities do not increase our credit-related exposure and consist of single-class Structured Securities backed by PCs, Real Estate Mortgage Investment Conduits, or REMICs, and principal-only strips. The notional balances of interest-only strips are excluded because this line item is based on unpaid principal balance. Includes other guarantees issued that are not in the form of a PC, such as long-term standby commitments and credit enhancements for multifamily housing revenue bonds.
(6) Ratio computed as annualized net income (loss) divided by the simple average of the beginning and ending balances of total assets.
(7) Ratio computed as annualized net income (loss) available to common stockholders divided by the simple average of the beginning and ending balances of stockholders' equity, net of preferred stock (at redemption value). Ratio is not computed for periods in which stockholders' equity is less than zero.
(8) Ratio computed as annualized net income (loss) divided by the simple

average of the beginning and ending balances of stockholders' equity. Ratio is not computed for periods in which stockholders' equity is less than zero.

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

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

(11) Ratio computed as preferred stock (excluding senior preferred), at redemption value divided by core capital. Senior preferred stock does not meet the statutory definition of core capital. See "NOTE 9: REGULATORY CAPITAL" to our consolidated financial statements for more information regarding core capital.

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CONSOLIDATED RESULTS OF OPERATIONS The following discussion of our consolidated results of operations should be read in conjunction with our consolidated financial statements including the accompanying notes. Also see "CRITICAL ACCOUNTING POLICIES AND ESTIMATES" for more information concerning our more significant accounting policies and estimates applied in determining our reported financial position and results of operations. Table 4 -- Summary Consolidated Statements of Income -- GAAP Results

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(in millions)			
Net interest income	$ 1,844	$ 761	$ 4,171	$ 2,325
Non-interest income (loss):				
Management and guarantee income	832	718	2,378	1,937
Gains (losses) on guarantee asset	(1,722)	(465)	(2,002)	(168)
Income on guarantee obligation	783	473	2,721	1,377
Derivative gains (losses)(1)	(3,080)	(188)	(3,210)	(394)
Gains (losses) on investment activity	(9,747)	478	(11,855)	(44)
Unrealized gains (losses) on foreign-currency denominated debt recorded at fair value	1,500	--	684	--
Gains (losses) on debt retirement	36	91	312	187
Recoveries on loans impaired upon purchase	91	125	438	232
Foreign-currency gains (losses), net	--	(1,162)	--	(1,692)
Other income	25	47	147	154
Non-interest income (loss)	(11,282)	117	(10,387)	1,589
Non-interest expense	(7,886)	(3,070)	(13,534)	(5,813)
Loss before income tax (expense) benefit	(17,324)	(2,192)	(19,750)	(1,899)
Income tax (expense) benefit	(7,971)	954	(6,517)	1,257
Net loss	$ (25,295)	$ (1,238)	$ (26,267)	$ (642)

(1) Includes derivative gains (losses) on foreign-currency swaps of $(1,578)

million and $1,155 million for the three months ended September 30, 2008 and 2007, respectively, and $(389) million and $1,685 million for the nine months ended September 30, 2008 and 2007, respectively. Also includes derivative gains (losses) of $228 million and $(69) million on foreign-currency denominated receive-fixed swaps for the three and nine months ended September 30, 2008, respectively.

Net Interest Income Table 5 presents an analysis of net interest income, including average balances and related yields earned on assets and incurred on liabilities. Table 5 -- Net Interest Income/Yield and Average Balance Analysis

	Three Months Ended September 30, 2008			2007		
	Average Balance(1)(2)	Interest Income (Expense)(1)	Average Rate	Average Balance(1)(2)	Interest Income (Expense)(1)	Average Rate
	(dollars in millions)					
Interest-earning assets:						
Mortgage loans(3)	$ 95,174	$ 1,361	5.72%	$ 71,163	$ 1,103	6.20%
Mortgage-related securities	676,197	8,590	5.08	655,215	8,943	5.46
Total retained portfolio	771,371	9,951	5.16	726,378	10,046	5.53
Investments(4)	47,393	356	2.94	44,135	592	5.25
Securities purchased under agreements to resell and federal funds sold	29,379	162	2.20	27,046	367	5.42
Total interest-earning assets	848,143	10,469	4.93	797,559	11,005	5.51
Interest-bearing liabilities:						
Short-term debt	241,150	(1,468)	(2.38)	175,407	(2,292)	(5.12)
Long-term debt(5)	589,377	(6,795)	(4.60)	588,936	(7,521)	(5.10)
Total debt securities	830,527	(8,263)	(3.96)	764,343	(9,813)	(5.10)
Due to PC investors	--	--	--	7,401	(98)	(5.31)
Total interest-bearing liabilities	830,527	(8,263)	(3.96)	771,744	(9,911)	(5.10)
Expense related to derivatives	--	(362)	(0.18)	--	(333)	(0.17)
Impact of net non-interest-bearing funding	17,616	--	0.09	25,815	--	0.17
Total funding of interest-earning assets	$ 848,143	(8,625)	(4.05)	$ 797,559	(10,244)	(5.10)
Net interest income/yield		1,844	0.88		761	0.41
Fully taxable-equivalent adjustments(6)		98	0.05		98	0.05
Net interest income/yield (fully taxable-equivalent basis)		$ 1,942	0.93		$ 859	0.46

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	Nine Months Ended September 30,					
	2008			2007		
	Average Balance(1)(2)	Interest Income (Expense)(1)	Average Rate	Average Balance(1)(2)	Interest Income (Expense)(1)	Average Rate
	(dollars in millions)					
Interest-earning assets:						
Mortgage loans(3)	$ 89,760	$ 3,924	5.83%	$ 68,580	$ 3,244	6.31%
Mortgage-related securities	656,548	25,103	5.10	649,030	26,278	5.40
Total retained portfolio	746,308	29,027	5.19	717,610	29,522	5.49
Investments(4)	46,970	1,155	3.23	47,328	1,849	5.15
Securities purchased under agreements to resell and federal funds sold	21,491	403	2.49	26,138	1,048	5.34
Total interest-earning assets	814,769	30,585	5.00	791,076	32,419	5.46
Interest-bearing liabilities:						
Short-term debt	228,640	(5,149)	(2.96)	173,083	(6,749)	(5.14)
Long-term debt(5)	565,705	(20,231)	(4.76)	583,521	(22,028)	(5.03)
Total debt securities	794,345	(25,380)	(4.24)	756,604	(28,777)	(5.05)
Due to PC investors	--	--	--	8,043	(322)	(5.33)
Total interest-bearing liabilities	794,345	(25,380)	(4.24)	764,647	(29,099)	(5.06)
Expense related to derivatives	--	(1,034)	(0.17)	--	(995)	(0.17)
Impact of net non-interest-bearing funding	20,424	--	0.11	26,429	--	0.17
Total funding of interest-earning assets	$ 814,769	(26,414)	(4.30)	$ 791,076	(30,094)	(5.06)
Net interest income/yield		4,171	0.70		2,325	0.40
Fully taxable-equivalent adjustments(6)		310	0.05		292	0.05
Net interest income/yield (fully taxable-equivalent basis)		$ 4,481	0.75		$ 2,617	0.45

(1) Excludes mortgage loans and mortgage-related securities traded, but not yet settled.
(2) For securities in our retained portfolio and cash and investment portfolios, we calculated average balances based on their unpaid principal balance plus their associated deferred fees and costs (e.g., premiums and

discounts), but excluded the effect of mark-to-fair-value changes.
(3) Non-performing loans, where interest income is recognized when collected, are included in average balances.
(4) Consist of cash and cash equivalents and non-mortgage-related securities.
(5) Includes current portion of long-term debt.
(6) The determination of net interest income/yield (fully taxable-equivalent basis), which reflects fully taxable-equivalent adjustments to interest income, involves the conversion of tax-exempt sources of interest income to the equivalent amounts of interest income that would be necessary to derive the same net return if the investments had been subject to income taxes using our federal statutory tax rate of 35%.

Net interest income and net interest yield on a fully taxable-equivalent basis increased during the three and nine months ended September 30, 2008 compared to the three and nine months ended September 30, 2007. During the latter half of the first quarter of 2008 and continuing into the second quarter of 2008, liquidity concerns in the market resulted in more favorable investment opportunities for agency mortgage-related securities at wider spreads. In response, we increased our purchase activities resulting in an increase in the average balance of our interest-earning assets. The increases in net interest income and net interest yield on a fully taxable-equivalent basis are primarily attributable to both the purchases of fixed-rate assets at wider spreads relative to our funding costs and the replacement of higher cost short- and long-term debt with lower cost debt issuances. Interest income for the third quarter of 2008 includes $80 million of income related to the accretion of other-than-temporary impairments of investments in available-for-sale securities recorded in the second quarter of 2008. Net interest income and net interest yield for the three and nine months ended September 30, 2008 also benefited from funding fixed-rate assets with a higher proportion of short-term debt in a steep yield curve environment as well as replacing higher cost long-term debt with lower cost issuances. However, our use of short-term debt funding has also been driven by the unprecedented levels of volatility in the worldwide financial markets, which has limited our ability to obtain long-term and callable debt funding. During the first nine months of 2008, our short-term funding balances increased significantly when compared to the first nine months of 2007. We seek to manage interest rate risk by attempting to substantially match the duration characteristics of our assets and liabilities. To accomplish this, we use a strategy that involves asset and liability portfolio management, including the use of derivatives for purposes of rebalancing the portfolio and maintaining low PMVS and duration gap. While we use interest rate derivatives to economically hedge a significant portion of our interest rate exposure, due to the market turmoil we are exposed to risks relating to both our ability to issue new debt when our outstanding debt matures and to the variability in interest costs on our new issuances of debt which directly impacts our net interest income and net interest yield. The increases in net interest income and net interest yield on a fully tax-equivalent basis during the nine months ended September 30, 2008 were partially offset by the impact of declining interest rates because our floating rate assets reset faster than our short-term debt during the first quarter of 2008. As a result of the creation of the securitization trusts in December of 2007, interest due to PC investors is now recorded in trust management fees within other income on our consolidated statements of income. See "Non-Interest Income -- Other Income" for additional information about due to PC investors interest expense.

Non-Interest Income Management and Guarantee Income Table 6 provides summary information about management and guarantee income. Management and guarantee income consists of contractual amounts due to us (reflecting buy-ups and buy-downs to base management and guarantee fees) as well as amortization of certain pre-2003 deferred credit and buy-down fees received by us that were recorded as deferred income as a component of other liabilities. Post-2002 credit and buy-down fees are reflected as increased income on guarantee obligation as the guarantee obligation is amortized. Table 6 -- Management and Guarantee Income(1)

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2008		2007		2008		2007	
	Amount	Rate	Amount	Rate	Amount	Rate	Amount	Rate
	(dollars in millions, rates in basis points)							
Contractual management and guarantee fees	$ 796	17.6	$ 657	16.2	$ 2,331	17.5	$ 1,884	16.1
Amortization of credit and buy-down fees included in other liabilities	36	0.8	61	1.5	47	0.4	53	0.5
Total management and guarantee income	$ 832	18.4	$ 718	17.7	$ 2,378	17.9	$ 1,937	16.6
Unamortized balance of credit and buy-down fees included in other liabilities, at period end	$ 371		$ 390		$ 371		$ 390	

(1) Consists of management and guarantee fees related to all issued and outstanding guarantees, including those issued prior to adoption of Financial Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including indirect Guarantees of Indebtedness of Others, an interpretation of FASB Statements No. 5, 57 and 107 and rescission of FASB Interpretation No. 34," or FIN 45, in January 2003, which did not require the establishment of a guarantee asset.

The primary drivers affecting management and guarantee income are the average balance of our PCs and Structured Securities and changes in management and guarantee fee rates. Contractual management and guarantee fees include adjustments to the contractual rates for buy-ups and buy-downs, whereby the contractual management and guarantee fee rate is adjusted for up-front cash payments we make (buy-up) or receive (buy-down) at guarantee issuance. Our average rates of management and guarantee income are also affected by the mix of products we issue, competition in market pricing and customer preference for buy-up and buy-down fees. The majority of our guarantees are issued under customer "flow" channel contracts, which have pricing schedules for our management and guarantee fees that are fixed for periods of up to one year. The remainder of our purchase and guarantee securitization of mortgage loans occurs through "bulk" purchasing with management and guarantee fees negotiated on an individual transaction basis. The appointment of FHFA as Conservator and the Conservator's subsequent directive that we provide increased support to the mortgage market will likely affect our future guarantee pricing decisions. Management and guarantee income increased for the three and nine months ended September 30, 2008 compared to the three and nine months ended September 30, 2007, primarily reflecting an increase in the average PCs and Structured Securities balances of 11% and 14%, respectively, on an annualized basis. The average contractual management and guarantee fee rate for the three and nine months ended September 30, 2008 was higher than the three and nine months ended September 30, 2007, primarily due to an increase in buy-up activity. To a lesser extent, increased purchases of 30-year fixed-rate product during 2008, which has higher guarantee fee rates relative to adjustable-rate mortgages, or ARMs, and 15-year fixed-rate product, have also contributed to the increase in guarantee fee rates. Gains (Losses) on Guarantee Asset Upon issuance of a guarantee of securitized assets, we record a guarantee asset on our consolidated balance sheets representing the fair value of the management and guarantee fees we expect to receive over the life of our PCs or Structured Securities. Guarantee assets are recognized in connection with transfers of PCs and Structured Securities that are accounted for as sales under SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities, a replacement of Financial Accounting Standards Board, or FASB, Statement No. 125." Additionally, we recognize guarantee assets for PCs issued through our guarantor swap program and for certain Structured Transactions that we issue to third parties in exchange for non-agency mortgage-related securities. Subsequent changes in the fair value of the future cash flows of our guarantee asset are reported in the current period income as gains (losses) on guarantee asset. The change in fair value of our guarantee asset reflects:

ù reductions related to the management and guarantee fees received that are considered a return of our recorded investment in our guarantee asset; and
ù changes in the fair value of management and guarantee fees we expect to receive over the life of the related PC or Structured Security.

The fair value of future management and guarantee fees is driven primarily by expected changes in interest rates that affect the estimated life of mortgages underlying our PCs and Structured Securities and related discount rates used to determine the net present value of the cash flows. For example, an increase in interest rates generally slows the rate of

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prepayments and extends the life of our guarantee asset and increases the fair value of future management and guarantee fees. Our valuation methodology for our guarantee asset uses market-based information, including market values of interest-only securities, to determine the fair value of future cash flows associated with our guarantee asset. Table 7 -- Attribution of Change -- Gains (Losses) on Guarantee Asset

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(in millions)			
Contractual management and guarantee fees	$ (730)	$ (585)	$ (2,139)	$ (1,661)
Portion related to imputed interest income	299	138	757	395
Return of investment on guarantee asset	(431)	(447)	(1,382)	(1,266)
Change in fair value of management and guarantee fees	(1,291)	(18)	(620)	1,098
Gains (losses) on guarantee asset	$ (1,722)	$ (465)	$ (2,002)	$ (168)

Losses on our guarantee asset increased by $1.3 billion for the three months ended September 30, 2008 compared to the three months ended September 30, 2007, primarily due to greater declines in market valuations for interest-only mortgage securities, which are used to value our guarantee asset, during the third quarter of 2008 compared to the third quarter of 2007. Contractual management and guarantee fees represent cash received in the current period related to our PCs and Structured Securities with an established guarantee asset and have increased proportionately with the average balance of outstanding guarantees. Losses on our guarantee asset increased by $1.8 billion for the nine months ended September 30, 2008 compared to the nine months ended September 30, 2007, primarily due to the decreases in fair value of management and guarantee fees resulting from lower market valuations for interest-only mortgage securities. Declines in market values for interest-only mortgage securities during 2008 were attributed to decreases in interest rates during the three and nine months ended September 30, 2008 combined with the effects of a decline in investor demand for mortgage-related securities. Income on Guarantee Obligation Upon issuance of our guarantee, we record a guarantee obligation on our consolidated balance sheets representing the fair value of our obligation to perform under the terms of the guarantee. Our guarantee obligation primarily represents our performance and other related costs, which consist of estimated credit costs, including estimated unrecoverable principal and interest that will be incurred over the expected life of the underlying mortgages backing PCs, estimated foreclosure-related costs, and estimated administrative and other costs related to our guarantee. Our guarantee obligation is amortized into income using a static effective yield determined at inception of the guarantee based on forecasted repayments of the principal balances. The static effective yield is periodically evaluated and adjusted when significant changes in economic events cause a shift in the pattern of our economic release from risk. For example, certain market environments may lead to sharp and sustained changes in home prices, which results in the need for an adjustment in the static effective yield for specific mortgage pools underlying the guarantee. When this type of change is required, a cumulative catch-up adjustment, which could be significant in a given period, will be recognized and a new static effective yield will be used to determine our guarantee obligation amortization. Effective January 1, 2008, we began estimating the fair value of our newly-issued guarantee obligations at their inception using the practical expedient provided by FIN 45, as amended by SFAS 157. Using this approach, the initial guarantee obligation is recorded at an amount equal to the fair value of the compensation received in the related guarantee transactions, including upfront delivery and other fees. As a result, we no longer record estimates of deferred gains or immediate "day one" losses on most guarantees. All unamortized amounts recorded prior to January 1, 2008 will continue to be deferred and amortized using existing amortization methods. Table 8 provides information about the components of income on guarantee obligation. Table 8 -- Income on Guarantee Obligation

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(in millions)			
Amortization income related to:				
Static effective yield	$ 679	$ 432	$ 1,940	$ 1,223
Cumulative catch-up	104	41	781	154
Total income on guarantee obligation	$ 783	$ 473	$ 2,721	$ 1,377

Amortization income increased for the three and nine months ended September 30, 2008, compared to the three and nine months ended September 30, 2007. This increase is due to (1) higher guarantee obligation balances in 2007, which included significant market risk premiums, including those that resulted in significant day one losses (i.e., where the fair value of the guarantee obligation at issuance exceeded the fair value of the guarantee and credit enhancement-related assets), (2) higher cumulative catch-up adjustments for the three and nine months ended September 30, 2008, and (3) higher average

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balances of our PCs and Structured Securities. The cumulative catch-up adjustments recognized during the nine months ended September 30, 2008 were principally due to significant declines in home prices and, to a lesser extent, increases in mortgage prepayment speeds related to pools of mortgage loans issued during 2006 and 2007. These cumulative catch-up adjustments are recorded to provide a pattern of revenue recognition that is more consistent with our economic release from risk and the timing of the recognition of losses on the pools of mortgage loans we guarantee. Derivative Overview Table 9 presents the effect of derivatives on our consolidated financial statements, including notional or contractual amounts of our derivatives and our hedge accounting classifications. Table 9 -- Summary of the Effect of Derivatives on Selected Consolidated Financial Statement Captions

	Consolidated Balance Sheets					
	September 30, 2008			December 31, 2007		
Description	Notional or Contractual Amount(1)	Fair Value (Pre-Tax)(2)	AOCI (Net of Taxes)(3)	Notional or Contractual Amount(1)	Fair Value (Pre-Tax)(2)	AOCI (Net of Taxes)(3)
	(in millions)					
Cash flow hedges -- open	--	--	--	--	--	--
No hedge designation	1,632,226	5,778	--	1,322,881	4,790	--
Subtotal	1,632,226	5,778	--	1,322,881	4,790	--
Balance related to closed cash flow hedges	--	--	(3,554)	--	--	(4,059)
Subtotal	1,632,226	5,778	(3,554)	1,322,881	4,790	(4,059)
Derivative interest receivable (payable), net		805			1,659	
Trade/settle receivable (payable), net		(6)			--	
Derivative collateral (held) posted, net		(4,896)			(6,204)	
Total	$ 1,632,226	$ 1,681	$ (3,554)	$ 1,322,881	$ 245	$ (4,059)

	Consolidated Statements of Income							
	Three Months Ended September 30,				Nine Months Ended September 30,			
	2008		2007		2008		2007	
Description	Derivative Gains (Losses)	Hedge Accounting Gains (Losses)(4)	Derivative Gains (Losses)	Hedge Accounting Gains (Losses)(4)	Derivative Gains (Losses)	Hedge Accounting Gains (Losses)(4)	Derivative Gains (Losses)	Hedge Accounting Gains (Losses)(4)
	(in millions)							
Cash flow hedges -- open(5)	--	$ (20)	--			--	$ (16)	--
No hedge designation(5)	(3,080)	--	(188)			(3,210)	--	(394)

Total	$ (3,080)	$ (20)	$ (188)	$ (3,210)	$ (16)	$ (394)

(1) Notional or contractual amounts are used to calculate the periodic settlement amounts to be received or paid and generally do not represent actual amounts to be exchanged. Notional or contractual amounts are not recorded as assets or liabilities on our consolidated balance sheets.
(2) The value of derivatives on our consolidated balance sheets is reported as derivative assets, net and derivative liability, net, and includes derivative interest receivable or (payable), net, trade/settle receivable or (payable), net and derivative cash collateral (held) or posted, net.
(3) Derivatives that meet specific criteria may be accounted for as cash flow hedges. Changes in the fair value of the effective portion of open qualifying cash flow hedges are recorded in AOCI, net of taxes. Net deferred gains and losses on closed cash flow hedges (i.e., where the derivative is either terminated or redesignated) are also included in AOCI, net of taxes, until the related forecasted transaction affects earnings or is determined to be probable of not occurring.
(4) Hedge accounting gains (losses) arise when the fair value change of a derivative does not exactly offset the fair value change of the hedged item attributable to the hedged risk, and is a component of other income in our consolidated statements of income. For further information, see "NOTE 10: DERIVATIVES" to our consolidated financial statements.
(5) For all derivatives in qualifying hedge accounting relationships, the accrual of periodic cash settlements is recorded in net interest income on our consolidated statements of income and those amounts are not included in the table. For derivatives not in qualifying hedge accounting relationships, the accrual of periodic cash settlements is recorded in derivative gains (losses) on our consolidated statements of income.

In the first quarter of 2008, we began designating certain derivative positions as cash flow hedges of changes in cash flows associated with our forecasted issuances of debt consistent with our risk management goals. In the periods presented prior to 2008, we only elected cash flow hedge accounting relationships for certain commitments to sell mortgage-related securities. We expanded this hedge accounting strategy in an effort to reduce volatility in our consolidated statements of income. For a derivative accounted for as a cash flow hedge, changes in fair value are reported in AOCI, net of taxes, on our consolidated balance sheets to the extent the hedge was effective. The ineffective portion of changes in fair value is reported as other income on our consolidated statements of income. We record changes in the fair value, including periodic settlements, of derivatives not in hedge accounting relationships as derivative gains (losses) on our consolidated statements of income. However, in conjunction with the conservatorship on September 6, 2008, we determined that we can no longer assert that the associated forecasted issuances of debt are probable of occurring and as a result, we discontinued this hedge accounting strategy. As a result of this discontinued hedge accounting strategy, we transferred $27.6 billion in notional amount and $(488) million in market value from open cash-flow hedges to closed cash-flow hedges on September 6, 2008. See "NOTE 10: DERIVATIVES" to our consolidated financial statements for additional information about our discontinuation of derivatives designated as cash-flow hedges.

Derivative Gains (Losses) Table 10 provides a summary of the notional or contractual amounts and the gains and losses related to derivatives that were not accounted for in hedge accounting relationships. Derivative gains (losses) represents the change in fair value of derivatives not accounted for in hedge accounting relationships because the derivatives did not qualify for, or we did not elect to pursue, hedge accounting, resulting in fair value changes being recorded to earnings. Derivative gains (losses) also includes the accrual of periodic settlements for derivatives that are not in hedge accounting relationships. Although derivatives are an important aspect of our management of interest-rate risk, they will generally increase the volatility of reported net income (loss), particularly when they are not accounted for in hedge accounting relationships. Table 10 -- Derivatives Not in Hedge Accounting Relationships

	Notional or Contractual Amount September 30,		Derivative Gains (Losses) Three Months Ended September 30,		Derivative Gains (Losses) Nine Months Ended September 30,	
	2008	2007	2008	2007	2008	2007
	(in millions)					
Call swaptions:						
Purchased	$ 184,022	$ 262,802	$ 1,824	$ 1,657	$ 2,522	$ (64)
Written	--	1,000	(7)	(16)	14	34
Put swaptions:						
Purchased	36,550	18,325	22	(70)	(31)	166
Written	6,000	1,000	154	27	64	(119)
Receive-fixed swaps:						
Foreign-currency denominated	13,367	22,095	228	157	(69)	(343)
U.S. dollar denominated	316,461	259,975	2,101	3,026	4,400	285
Total receive-fixed swaps	329,828	282,070	2,329	3,183	4,331	(58)
Pay-fixed swaps	452,633	380,370	(5,296)	(6,513)	(9,170)	(2,460)
Futures	245,535	109,848	(534)	105	(41)	54
Foreign-currency swaps(1)	13,688	23,842	(1,578)	1,155	(389)	1,685
Forward purchase and sale commitments	199,811	61,800	280	185	548	114
Other(2)	164,159	62,159	8	(13)	(64)	9
Subtotal	1,632,226	1,203,216	(2,798)	(300)	(2,216)	(639)
Accrual of periodic settlements:						
Receive-fixed swaps(3)			753	(66)	1,474	(161)
Pay-fixed swaps			(1,128)	182	(2,723)	485
Foreign-currency swaps			105	(5)	263	(82)
Other			(12)	1	(8)	3
Total accrual of periodic settlements			(282)	112	(994)	245
Total	$ 1,632,226	$ 1,203,216	$ (3,080)	$ (188)	$ (3,210)	$ (394)

(1) Foreign-currency swaps are defined as swaps in which the net settlement is based on one leg calculated in a foreign-currency and the other leg calculated in U.S. dollars.

(2) Consists of basis swaps, certain option-based contracts (including written options), interest-rate caps, swap guarantee derivatives and credit derivatives. Includes $27 million loss related to the Lehman bankruptcy for both the three and nine months ended September 30, 2008. For additional information, see "CREDIT RISKS -- Institutional Credit Risk -- Derivative Counterparty Credit Risk."
(3) Includes imputed interest on zero-coupon swaps.

We use receive- and pay-fixed swaps to adjust the interest-rate characteristics of our debt funding in order to more closely match changes in the interest-rate characteristics of our mortgage-related assets. During the third quarter of 2008, fair value losses on our pay-fixed swaps of $5.3 billion contributed to an overall loss recorded for derivatives. The losses were partially offset by gains on our receive-fixed swaps of $2.3 billion as longer-term swap interest rates decreased. Additionally, we use swaptions and other option-based derivatives to adjust the characteristics of our debt in response to changes in the expected lives of mortgage-related assets in our retained portfolio. The gains on our purchased call swaptions, which increased during the third quarter of 2008, compared to the third quarter of 2007, were primarily attributable to decreasing swap interest rates and an increase in implied volatility during the third quarter of 2008. During the nine months ended September 30, 2008, we recognized a larger derivative loss as compared to the nine months ended September 30, 2007. On a year-to-date basis for 2008, swap interest rates declined resulting in a loss on our pay-fixed swap positions, partially offset by gains on our receive-fixed swaps. Additionally, the decrease in swap interest rates on a year-to-date basis for 2008, combined with an increase in volatility resulted in a gain related to our purchased call swaptions for the nine months ended September 30, 2008. Effective January 1, 2008, we elected the fair value option for our foreign-currency denominated debt. As a result of this election, foreign-currency translation gains and losses and fair value adjustments related to our foreign-currency denominated debt are recognized on our consolidated statements of income as unrealized gains (losses) on foreign-currency denominated debt recorded at fair value. Prior to January 1, 2008, translation gains and losses on our foreign-currency denominated debt were recorded in foreign-currency gains (losses), net and the non-currency related changes in fair value were not recognized. We use a combination of foreign-currency swaps and foreign-currency denominated receive-fixed swaps to hedge the changes in fair value of our foreign-currency denominated debt related to fluctuations in exchange rates and

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interest rates, respectively. Derivative gains (losses) on foreign-currency swaps were $(1.6) billion and $(389) million for the three and nine months ended September 30, 2008, respectively, compared to $1.2 billion and $1.7 billion for the three and nine months ended September 30, 2007, respectively. These amounts were offset by fair value gains (losses) related to translation of $1.7 billion and $539 million for the three and nine months ended September 30, 2008, respectively, and $(1.2) billion and $(1.7) billion for the three and nine months ended September 30, 2007, respectively, on our foreign-currency denominated debt. In addition, the interest-rate component of the derivative gains (losses) of $228 million and $(69) million for the three and nine months ended September 30, 2008, respectively, on foreign-currency denominated receive-fixed swaps largely offset market value adjustments gains (losses) included in unrealized gains (losses) on foreign-currency denominated debt recorded at fair value of $(165) million and $145 million for the three and nine months ended September 30, 2008, respectively. See "Unrealized Gains (Losses) on Foreign-Currency Denominated Debt Recorded at Fair Value" and "NOTE

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES" to our consolidated financial statements for additional information about our election to adopt the fair value option for foreign-currency denominated debt. See "ITEM 13. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA -- AUDITED CONSOLIDATED FINANCIAL STATEMENTS AND ACCOMPANYING NOTES -- NOTE 11: DERIVATIVES" in our Registration Statement for additional information about our derivatives. Gains (Losses) on Investment Activity Gains (losses) on investment activity includes gains and losses on certain assets where changes in fair value are recognized through earnings, gains and losses related to sales, impairments and other valuation adjustments. Table 11 summarizes the components of gains (losses) on investment activity.

Table 11 -- Gains (Losses) on Investment Activity

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(in millions)			
Gains (losses) on trading securities(1)	$ (932)	$ 257	$ (2,240)	$ 302
Gains (losses) on sale of mortgage loans(2)	31	19	97	39
Gains (losses) on sale of available-for-sale securities	287	228	540	13
Security impairments on available-for-sale securities	(9,106)	(1)	(10,217)	(351)
Lower-of-cost-or-fair-value adjustments	(20)	(25)	(28)	(47)
Gains (losses) on mortgage loans elected at fair value	(7)	--	(7)	--
Total gains (losses) on investment activity	$ (9,747)	$ 478	$ (11,855)	$ (44)

(1) Include mark-to-fair value adjustments recorded in accordance with Emerging Issues Task Force, or EITF, 99-20, "Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests That Continue to Be Held by a Transferor in Securitized Financial Assets" on securities classified as trading of $(101) million and $(15) million for the three months ended September 30, 2008 and 2007, respectively, and $(427) million and $(18) million for the nine months ended September 30, 2008 and 2007, respectively. Prior period amounts have been revised to conform to the current period presentation.
(2) Represent gains (losses) on mortgage loans sold in connection with securitization transactions.

Gains (Losses) on Trading Securities We recognized net losses on trading securities for the three and nine months ended September 30, 2008, as compared to net gains for the three and nine months ended September 30, 2007. On January 1, 2008, we implemented fair value option accounting and transferred approximately $87 billion in securities, primarily ARMs and fixed-rate PCs, from available-for-sale securities to trading securities significantly increasing our securities classified as trading. The unpaid principal balance of our securities classified as trading was approximately $116 billion at September 30, 2008 compared to approximately $12 billion at December 31, 2007. During the third quarter of 2008, we sold agency securities classified as trading securities with unpaid principal balances of $58 billion, which generated a realized loss of $547 million. The increased balance in our trading portfolio when compared to the third quarter of 2007, combined with wider credit spreads, also contributed to the losses on trading securities for the three and nine months ended September 30, 2008. The gains recognized during the three and nine months ended September 30, 2007 were primarily the result of the effect of declining interest rates on our REMIC securities classified as trading. Gains (Losses) on Sale of Available-For-Sale Securities Net gains on the sale of available-for-sale securities increased for the third quarter of 2008, as compared to the third quarter of 2007. During the third quarter of 2008, primarily prior to conservatorship, we entered into structuring transactions and sales of seasoned securities with unpaid principal balances of $14.8 billion, primarily consisting of agency mortgage-related securities, which generated a net gain of $287 million. During the third quarter of 2007, we entered into structuring transactions and sales of seasoned securities with unpaid principal balances of $32.1 billion generating net gains of $279 million recognized in gains (losses) on investment activity because the securities sold had higher coupon rates than those available in the market at the time of sale. In addition, during the third quarter of 2007, we sold non-mortgage-related

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asset-backed securities with an unpaid principal balance of $12 billion generating net losses of $52 million to generate cash for more favorable investment opportunities. Net gains on the sale of available-for-sale securities increased for the nine months ended September 30, 2008, as compared to the nine months ended September 30, 2007. During the nine months ended September 30, 2008, we sold securities with unpaid principal balances of $35 billion, primarily consisting of agency mortgage-related securities, which generated a net gain of $538 million. These sales occurred principally during the earlier months of the first quarter and prior to conservatorship during the third quarter of 2008 when market conditions were favorable and were driven in part by our need to maintain our mandatory target capital surplus. We were not required to sell these securities. However, in an effort to improve our capital position in light of the unanticipated extraordinary market conditions that began in the latter half of 2007, we strategically selected blocks of securities to sell, the majority of which were in a gain position. These sales reduced the assets on our balance sheet, against which we were required to hold capital. In addition, the net gains on these sales increased our retained earnings, further improving our capital position. During the nine months ended September 30, 2007, we sold $63 billion of PCs and Structured Securities, which generated a net gain of $147 million. Security Impairments on Available-For-Sale Securities During the third quarter of 2008 and 2007, we recorded other-than-temporary impairments related to investments in available-for-sale securities of $9.1 billion and $1 million, respectively. Of the impairments recognized during the third quarter of 2008, $8.9 billion related to non-agency securities backed by subprime or Alt-A and other loans, including MTA loans, primarily due to the combination of a more pessimistic view of future performance due to the significant weakness of the economic environment during the third quarter of 2008, significant declines in the valuation of these securities and poor performance of the underlying collateral of these securities. Also contributing to the impairment charge was a determination that there was substantial uncertainty surrounding the ability of two monoline bond insurers to pay all future claims on securities which we previously held in an unrealized loss position. In making this determination, we considered our own analysis as well as additional qualitative factors, such as the ability of each monoline to access capital and to generate new business, pending regulatory actions, ratings agency actions, security prices and credit default swap levels traded on each monoline. We rely on monoline bond insurance, including secondary coverage, to provide credit protection on some of our securities held in our mortgage-related investment portfolio as well as our non-mortgage-related investment portfolio. Monolines are companies that provide credit insurance principally covering securitized assets in both the primary issuance and secondary markets. We also recognized impairment charges of $244 million related to our available-for-sale non-mortgage-related securities with $10.8 billion of unpaid principal balance, as management could no longer assert the positive intent to hold these securities to recovery. The decision to impair these securities is consistent with our consideration of sales of securities from the cash and investments portfolio as a contingent source of liquidity. During the nine months ended September 30, 2008 and 2007, we recorded impairments related to investments in available-for-sale securities of $10.2 billion and $351 million, respectively. Of the impairments recognized during the nine months ended September 30, 2008, $9.7 billion related to non-agency securities backed by subprime or Alt-A and other loans, including MTA loans, as discussed above. Of the remaining $534 million, the majority, $458 million, related to impairments of our available-for-sale non-mortgage-related securities during the nine months ended September 30, 2008 where we did not have the intent to hold to a forecasted recovery. During the nine months ended September 30, 2007, security impairments on available-for-sale securities included $348 million in impairments attributed to agency mortgage-related securities in an unrealized loss position that we did not have the intent to hold to a forecasted recovery. See "CONSOLIDATED BALANCE SHEET ANALYSIS -- Other-Than-Temporary Impairments" for additional information. Unrealized Gains (Losses) on Foreign-Currency Denominated Debt Recorded at Fair Value We elected the fair value option for our foreign-currency denominated debt effective January 1, 2008. Accordingly, foreign-currency exposure is now a component of unrealized gains (losses) on foreign-currency denominated debt recorded at fair value. Prior to that date, translation gains and losses on our foreign-currency denominated debt were reported in foreign-currency gains (losses), net in our consolidated statements of income. We manage the foreign-currency exposure associated with our foreign-currency denominated debt through the use of derivatives. For the three and nine months ended September 30, 2008, we recognized fair value gains of $1.5 billion and $684 million, respectively, on our foreign-currency denominated debt primarily due to the U.S. dollar strengthening relative to the Euro. See ``Derivative Gains (Losses)" for additional information about how we mitigate changes in the fair value of our foreign-currency denominated debt by using derivatives. See "Foreign-Currency Gains (Losses), Net" and "NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES" to our consolidated financial statements for additional information about our adoption of SFAS 159.

Gains (Losses) on Debt Retirement Gains on debt retirement were $36 million and $312 million during the three and nine months ended September 30, 2008, respectively, compared to gains of $91 million and $187 million during the three and nine months ended September 30, 2007, respectively. During the nine months ended September 30, 2008, we recognized gains due to the increased level of call activity, primarily involving our debt with coupon levels that increase at pre-determined intervals, which led to gains upon retirement and write-offs of previously recorded interest expense. Recoveries on Loans Impaired upon Purchase Recoveries on loans impaired upon purchase represent the recapture into income of previously recognized losses on loans purchased and provision for credit losses associated with purchases of delinquent loans from our PCs and Structured Securities in conjunction with our guarantee activities. Recoveries occur when a non-performing loan is repaid in full or when at the time of foreclosure the estimated fair value of the acquired property, less costs to sell, exceeds the carrying value of the loan. For impaired loans where the borrower has made required payments that return the loan to less than 90 days delinquent, the recovery amounts are instead accreted into interest income over time as periodic payments are received. The amount of impaired loans purchased into our retained portfolio increased significantly during 2007. However, since December 2007, when we changed our practice for optional purchases of impaired loans, the rate of increase in the carrying balances of these loans has slowed. See "CREDIT RISKS -- Mortgage Credit Risk -- Loans Purchased Under Financial Guarantees" for more information. During the three months ended September 30, 2008 and 2007, we recognized recoveries on loans impaired upon purchase of $91 million and $125 million, respectively. During the nine months ended September 30, 2008 and 2007, we recognized recoveries on loans impaired upon purchase of $438 million and $232 million, respectively. Our recoveries on impaired loans decreased during the third quarter of 2008 compared to the third quarter of 2007, due to higher severities during the third quarter of 2008 on those loans that proceeded to foreclosure, which reduced our recoveries. Recoveries on impaired loans increased during the nine months ended September 30, 2008 compared to the same period in 2007 due to the higher average balances of these loans within our retained portfolio and higher volume of these loans that proceeded to foreclosure in 2008. Foreign-Currency Gains (Losses), Net We manage the foreign-currency exposure associated with our foreign-currency denominated debt through the use of derivatives. We elected the fair value option for foreign-currency denominated debt effective January 1, 2008. Prior to this election, gains and losses associated with the foreign-currency exposure of our foreign-currency denominated debt were recorded as foreign-currency gains (losses), net in our consolidated statements of income. With the adoption of SFAS 159, foreign-currency exposure is now a component of unrealized gains (losses) on foreign-currency denominated debt recorded at fair value. Because the fair value option is prospective, prior period amounts have not been reclassified. See "Derivative Gains (Losses)" and "Unrealized Gains (Losses) on Foreign-Currency Denominated Debt Recorded at Fair Value" and "NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES" to our consolidated financial statements for additional information. For the three and nine months ended September 30, 2007, we recognized net foreign-currency translation losses primarily related to our foreign-currency denominated debt of $1.2 billion and $1.7 billion, respectively, as the U.S. dollar weakened relative to the Euro during the period. During the same period, these losses were offset by an increase of $1.2 billion and $1.7 billion, respectively, in the fair value of foreign-currency-related derivatives recorded in derivative gains (losses). Other Income Other income primarily consists of resecuritization fees, trust management income, fees associated with servicing and technology-related products, including Loan Prospector(R) , fees related to multifamily loans (including application and other fees) and various other fees received from mortgage originators and servicers. Resecuritization fees are revenues we earn primarily in connection with the issuance of Structured Securities for which we make a REMIC election, where the underlying collateral is provided by third parties. These fees are also generated in connection with the creation of interest-only and principal-only strips as well as other Structured Securities. Trust management fees represent the fees we earn as administrator, issuer and trustee, net of related expenses, which prior to December 2007, were reported as due to PC investors, a component of net interest income.

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Non-Interest Expense Table 12 summarizes the components of non-interest expense. Table 12 -- Non-Interest Expense

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(in millions)			
Administrative expenses:				
Salaries and employee benefits	$ 133	$ 216	$ 605	$ 656
Professional services	61	103	188	296
Occupancy expense	16	16	49	46
Other administrative expenses	98	93	267	275
Total administrative expenses	308	428	1,109	1,273
Provision for credit losses	5,702	1,372	9,479	2,067
REO operations expense	333	51	806	81

Losses on certain credit guarantees	2	392	17	719
Losses on loans purchased	252	649	423	1,129
Securities administrator loss on investment activity	1,082	--	1,082	--
LIHTC partnerships	121	111	346	354
Minority interests in earnings of consolidated subsidiaries	--	4	8	22
Other expenses	86	63	264	168
Total non-interest expense	$ 7,886	$ 3,070	$ 13,534	$ 5,813

Administrative Expenses Administrative expenses decreased for the three and nine months ended September 30, 2008, compared to the three and nine months ended September 30, 2007, primarily due to a reduction in our short-term performance compensation during the third quarter of 2008 as well as a decrease in our use of consultants throughout 2008. Since it is likely portions of our corporate objectives for 2008 will not be met, we partially reversed short-term performance compensation amounts during the third quarter of 2008 that had been previously accrued. As a percentage of the average total mortgage portfolio, administrative expenses declined to 5.6 basis points and 6.8 basis points for the three and nine months ended September 30, 2008, respectively, from 8.7 basis points and 8.8 basis points for the three and nine months ended September 30, 2007, respectively. Provision for Credit Losses Our credit loss reserves reflect our best estimates of incurred losses. Our reserve estimates for mortgage loan and guarantee losses are based on our projections of the results of strategic loss mitigation initiatives, including a higher rate of loan modifications for troubled borrowers, and projections of recoveries through repurchases by seller/servicers of defaulted loans due to failure to follow contractual underwriting requirements at the time of the loan origination. Our reserve estimates also reflect our best projection of mortgage loan defaults. However, the unprecedented deterioration in the national housing market and the uncertainty in other macroeconomic factors makes forecasting of default rates increasingly imprecise. The provision for credit losses increased significantly for the three and nine months ended September 30, 2008, compared to the three and nine months ended September 30, 2007, respectively, as continued weakening in the housing market affected our single-family mortgage portfolio. See "Table 1 -- Credit Statistics, Single-Family Mortgage Portfolio" for a presentation of the quarterly trend in the deterioration of our credit statistics. For the three and nine months ended September 30, 2008, we recorded additional reserves for credit losses on our single-family mortgage portfolio as a result of:

ù increased estimates of incurred losses on mortgage loans that are expected to experience higher default rates. Our estimates of incurred losses are higher for loans we purchased or guaranteed in certain years, or vintages, particularly those we purchased during 2006, 2007 and to a lesser extent 2005 and 2008. Continued deterioration of macroeconomic factors, such as decreases in home prices and rising rates of unemployment during 2008 have negatively impacted our estimates of incurred loss, especially for those mortgages we purchased during these years. Our estimates of incurred loss have also increased significantly for certain product-types, particularly Alt-A, adjustable-rate and interest-only mortgage products and for loans on properties in certain states, such as California, Florida, Nevada and Arizona;

ù an observed increase in delinquency rates and the percentage of loans that transition from delinquency to foreclosure, with more severe increases concentrated in certain regions of the U.S. as well as loans with second lien, third-party financing. For example, as of September 30, 2008, single-family mortgage loans in the state of Florida comprise 7% of our single-family mortgage portfolio; however the loans in this state make up more than 20% of the total delinquent loans in our single-family mortgage portfolio, based on unpaid principal balances. Similarly, as of September 30, 2008, approximately 14% of loans in our single-family mortgage portfolio have second lien, third-party

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financing; however we estimate that these loans comprise more than 25% of our delinquent loans, based on unpaid principal balances;

- ù increases in the estimated severity of losses on a per-property basis, net of recoveries from credit enhancements, driven in part by declines in home sales and home prices. The states with the largest declines in home prices and highest increases in severity of losses include California, Florida, Nevada, Arizona, Virginia, Georgia and Michigan;
- ù increases in the average unpaid principal balance of delinquent loans in our single-family mortgage portfolio. During the third quarter of 2008, there was a significant increase in the average size of delinquent loans, primarily attributed to our West region, which comprised approximately 30% of our total delinquent loans in the single-family mortgage portfolio; and
- ù to a lesser extent, increases in counterparty exposure related to our estimates of recoveries through repurchases by seller/servicers of defaulted loans due to failure to follow contractual underwriting requirements at origination and under separate recourse agreements. During the third quarter of 2008, several of our seller/servicers were acquired by the FDIC, declared bankruptcy or merged with other institutions. These and other events increase our counterparty exposure, or the likelihood that we may bear the risk of mortgage credit losses without the benefit of recourse to our counterparty.

We expect our provisions for credit losses to remain high for the remainder of 2008 and the extent and duration that credit losses remain high in future periods will depend on a number of factors, including changes in property values, regional economic conditions, third-party mortgage insurance coverage and recoveries and the realized rate of seller/servicer repurchases. We expect to further increase our single-family loan loss reserves in future periods as additional losses are incurred, particularly related to mortgages originated in 2006, 2007 and to a lesser extent those originated in 2005 and 2008. Loans originated during 2006 and 2007 represent approximately 35% of the unpaid principal balance of our single-family loans underlying our PCs and Structured Securities and 15% of the unpaid principal balance of single-family loans that we hold in our retained portfolio. Although the credit characteristics of loans underlying our newly-issued guarantees during the nine months ended September 30, 2008 have progressively improved, we have experienced weak credit performance to date from loans purchased in the first and second quarters of 2008. REO Operations Expense The increase in REO operations expense for the three and nine months ended September 30, 2008, as compared to the three and nine months ended September 30, 2007, was due to significant increases in the volume of our single-family property foreclosures combined with declining single-family REO property values during 2008. The decline in home prices, which has been both rapid and dramatic in certain geographical areas, combined with our higher REO inventory balance, resulted in an increase in the market-based writedowns of REO, which totaled $172 million and $404 million for the three and nine months ended September 30, 2008, respectively. REO operations expense also increased due to higher real estate taxes, maintenance costs and net losses on sales experienced during the three and nine months ended September 30, 2008 as compared to the three and nine months ended September 30, 2007. We expect REO operations expense to continue to increase in the remainder of 2008, as single-family REO volume continues to increase and home prices decline. Losses on Certain Credit Guarantees Losses on certain credit guarantees consist of losses recognized upon the issuance of PCs in guarantor swap transactions. Prior to January 1, 2008, our recognition of losses on certain guarantee contracts occurred due to any one or a combination of several factors, including long-term contract pricing for our flow business, the difference in overall transaction pricing versus pool-level accounting measurements and, less significantly, efforts to support our affordable housing mission. Upon adoption of SFAS 157, our losses on certain credit guarantees in subsequent periods, if any, will generally relate to our efforts to meet our affordable housing goals. Effective January 1, 2008, upon the adoption of SFAS 157, which amended FIN 45, we estimate the fair value of our newly-issued guarantee obligations as an amount equal to the fair value of compensation received, inclusive of all rights related to the transaction, in exchange for our guarantee. As a result, we no longer record estimates of deferred gains or immediate "day one" losses on most guarantees. All unamortized amounts recorded prior to January 1, 2008 will continue to be amortized using existing amortization methods. This change had a significant positive impact on our financial results for the three and nine months ended September 30, 2008. Losses on certain credit guarantees totaled $2 million and $17 million for the three and nine month periods ended September 30, 2008, respectively. For the three and nine months ended September 30, 2007, we recognized losses of $392 million and $719 million, respectively, on certain guarantor swap transactions entered into during the period and we deferred gains of $204 million and $854 million, respectively, on newly-issued guarantees entered into during those periods.

Losses on Loans Purchased Losses on non-performing loans purchased from the mortgage pools underlying PCs and Structured Securities occur when the acquisition basis of the purchased loan exceeds the estimated fair value of the loan on the date of purchase. Effective December 2007, we made certain operational changes for purchasing delinquent loans from PC pools, which significantly reduced the volume of our delinquent loan purchases and consequently the amount of our losses on loans purchased for the three and nine months ended September 30, 2008. We made these operational changes in order to better reflect our expectations of future credit losses and in consideration of our capital requirements. As a result of increases in delinquency rates of loans underlying our PCs and Structured Securities and our increasing efforts to reduce foreclosures, the number of loan modifications increased significantly during both the three and nine months ended September 30, 2008, as compared to the same periods in 2007. When a loan is modified, we generally exercise our repurchase option and hold the modified loan in our retained portfolio. See "Recoveries on Loans Impaired upon Purchase" and "CREDIT RISKS -- Table 46 -- Changes in Loans Purchased Under Financial Guarantees" for additional information about the impacts from non-performing loans on our financial results. During the three and nine months ended September 30, 2008, the market-based valuation of non-performing loans continued to be adversely affected by the expectation of higher default costs and reduced liquidity in the single-family mortgage market. However, our losses on loans purchased decreased 61% to $252 million during the three months ended September 30, 2008 compared to $649 million during the three months ended September 30, 2007 and decreased 63% to $423 million during the nine months ended September 30, 2008 compared to $1.1 billion during the nine months ended September 30, 2007. The decrease in losses on loans purchased during the 2008 periods compared to 2007 is attributed to the declining volume of our optional repurchases of delinquent loans underlying our guarantees. Securities Administrator Loss on Investment Activity In August 2008, acting as the security administrator for a trust which holds mortgage loan pools backing our PCs, we invested in $1.2 billion of short-term, unsecured loans which we made to Lehman on the trust's behalf. We refer to these transactions as the Lehman short-term lending transactions. These transactions were due to mature on September 15, 2008; however Lehman failed to repay these loans and the accrued interest. On September 15, 2008, Lehman filed a chapter 11 bankruptcy petition in the Bankruptcy Court for the Southern District of New York. To the extent there is a loss related to an eligible investment for the trust, we, as the administrator are responsible for making up that shortfall. During the third quarter of 2008, we recorded a $1.1 billion loss to reduce the carrying amount of this asset to our estimate of the net realizable amount on these transactions. See "Off-Balance Sheet Arrangements" for further discussion. Income Tax (Expense) Benefit For the three months ended September 30, 2008 and 2007, we reported an income tax (expense) benefit of $(8.0) billion and $954 million, respectively. For the nine months ended September 30, 2008 and 2007, we reported an income tax (expense) benefit of $(6.5) billion and $1.3 billion, respectively. Included in income tax (expense) benefit for the three and nine months ended September 30, 2008, is a non-cash charge of $(14.3) billion recorded during the third quarter of 2008 in order to establish a partial valuation allowance against our deferred tax assets. See "NOTE 12: INCOME TAXES" to our consolidated financial statements for additional information. Segment Earnings Our operations consist of three reportable segments, which are based on the type of business activities each performs -- Investments, Single-family Guarantee and Multifamily. We manage our business through these segments, subject to the conduct of our business under the direction of the Conservator, as discussed above under "EXECUTIVE SUMMARY -- Managing Our Business During Conservatorship -- Our Objectives." The activities of our business segments are described in "EXECUTIVE SUMMARY -- Segments." Certain activities that are not part of a segment are included in the All Other category; this category consists of certain unallocated corporate items, such as remediation and restructuring costs, costs related to the resolution of certain legal matters and certain income tax items. We manage and evaluate performance of the segments and All Other using a Segment Earnings approach. Segment Earnings is calculated for the segments by adjusting net income (loss) for certain investment-related activities and credit guarantee-related activities. Segment Earnings differs significantly from, and should not be used as a substitute for, net income (loss) before cumulative effect of change in accounting principle or net income (loss) as determined in accordance with GAAP. There are important limitations to using Segment Earnings as a measure of our financial performance. Among them, our regulatory capital measures are based on our GAAP results, as is the need to obtain funding under the Purchase Agreement. Segment Earnings adjusts for the effects of certain gains and losses and mark-to-fair-value items, which depending on market circumstances, can significantly affect, positively or negatively, our GAAP results and have in recent periods caused us to record significant GAAP net losses. GAAP net losses will adversely impact our GAAP stockholders' equity (deficit), as well as our need for funding under the Purchase Agreement, regardless of results reflected in Segment Earnings. Also, our definition of Segment Earnings may differ from similar measures used by other companies. However, we believe that the presentation of Segment Earnings

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highlights the results from ongoing operations and the underlying results of the segments in a manner that is useful to the way we manage and evaluate the performance of our business. See "NOTE 16: SEGMENT REPORTING" to our consolidated financial statements for more information regarding our segments and the adjustments used to calculate Segment Earnings. In managing our business, we present the operating performance of our segments using Segment Earnings. Segment Earnings presents our results on an accrual basis as the cash flows from our segments are earned over time. The objective of Segment Earnings is to present our results in a manner more consistent with our business models. The business model for our investment activity is one where we generally buy and hold our investments in mortgage-related assets for the long term, fund our investments with debt and use derivatives to minimize interest rate risk, thus generating net interest income in line with our return on equity objectives. We believe it is meaningful to measure the performance of our investment business using long-term returns, not short-term value. The business model for our credit guarantee activity is one where we are a long-term guarantor in the conforming mortgage markets, manage credit risk and generate guarantee and credit fees, net of incurred credit losses. As a result of these business models, we believe that this accrual-based metric is a meaningful way to present our results as actual cash flows are realized, net of credit losses and impairments. We believe Segment Earnings provides us with a view of our financial results that is more consistent with our business objectives and helps us better evaluate the performance of our business, both from period-to-period and over the longer term. Investments Segment Through our Investments segment, we seek to manage our mortgage-related investment portfolio to generate positive returns while maintaining a disciplined approach to interest-rate risk and capital management. We seek to accomplish this objective through opportunistic purchases, sales and restructurings of mortgage assets and repurchases of liabilities. Although we are primarily a buy-and-hold investor in mortgage assets, we may sell assets that are no longer expected to produce desired returns to reduce risk, respond to capital constraints, provide liquidity or structure certain transactions in order to improve our returns. We currently do not plan to sell assets at a loss. We estimate our expected investment returns using an OAS approach. Table 13 presents the Segment Earnings of our Investments segment. Table 13 -- Segment Earnings and Key Metrics -- Investments

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(dollars in millions)			
Segment Earnings:				
Net interest income	$ 1,343	$ 909	$ 3,123	$ 2,801
Non-interest income (loss)	(1,871)	(4)	(1,981)	50
Non-interest expense:				
Administrative expenses	(104)	(125)	(365)	(386)
Other non-interest expense	(1,089)	(7)	(1,105)	(22)
Total non-interest expense	(1,193)	(132)	(1,470)	(408)
Segment Earnings before income taxes	(1,721)	773	(328)	2,443
Income tax expense	602	(270)	115	(855)
Segment Earnings, net of taxes	(1,119)	503	(213)	1,588
Reconciliation to GAAP net loss:				
Derivative- and foreign-currency denominated debt-related adjustments	(1,282)	(1,719)	(1,935)	(3,264)
Credit guarantee-related adjustments	--	1	--	2
Investment sales, debt retirements and fair value-related adjustments	(7,710)	659	(9,281)	349
Fully taxable-equivalent adjustment	(103)	(98)	(318)	(288)
Tax-related adjustments(1)	3,246	469	4,238	1,311
Total reconciling items, net of taxes	(5,849)	(688)	(7,296)	(1,890)
GAAP net loss	$ (6,968)	$ (185)	$ (7,509)	$ (302)
Key metrics -- Investments:				
Growth:				
Purchases of securities -- Mortgage-related investment portfolio:(2)(3)				
Guaranteed PCs and Structured Securities	$ 21,938	$ 47,110	$ 134,536	$ 103,423
Non-Freddie Mac mortgage-related securities:				
Agency mortgage-related securities	12,173	5,599	46,244	10,431
Non-agency mortgage-related securities	22	10,187	1,906	62,740
Total purchases of securities -- Mortgage-related investment portfolio	$ 34,133	$ 62,896	$ 182,686	$ 176,594

Growth rate of mortgage-related investment portfolio (annualized)	(32.64)%	(0.61)%	1.07%	0.96%
Return:				
Net interest yield -- Segment Earnings basis	0.72%	0.53%	0.58%	0.53%

(1) Excludes any allocation of the non-cash charge related to the establishment of the partial valuation allowance against our deferred tax asset.
(2) Based on unpaid principal balance and excludes mortgage-related securities traded, but not yet settled.
(3) Exclude single-family mortgage loans.

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Segment Earnings for our Investments segment decreased $1.6 billion in the third quarter of 2008 compared to the third quarter of 2007. For our Investments segment, Segment Earnings non-interest income (loss) for the third quarter of 2008 includes the recognition of security impairments of $1.9 billion that reflect expected credit principal losses on our non-agency mortgage-related securities compared to security impairments of $1 million in the third quarter of 2007. Security impairments that reflect expected or realized credit principal losses are realized immediately pursuant to GAAP and in Segment Earnings. In contrast, non-credit related security impairments are not included in Segment Earnings. Segment Earnings non-interest expense for the third quarter of 2008 includes a loss of $1.1 billion related to the Lehman short-term lending transactions. Segment Earnings net interest income increased $434 million and our Segment Earnings net interest yield increased 19 basis points for the third quarter of 2008 compared to the third quarter of 2007. The increases in Segment Earnings net interest income and net interest yield were primarily driven by both fixed-rate assets purchased at wider spreads relative to our funding costs and the replacement of higher cost short- and long-term debt with lower cost debt issuances. Segment Earnings for our Investments segment decreased $1.8 billion in the nine months ended September 30, 2008 compared to the nine months ended September 30, 2007. Segment Earnings for our Investments segment includes the recognition of security impairments during the nine months ended September 30, 2008, of $2.0 billion that reflect expected credit principal losses on our non-agency mortgage-related securities compared to $2 million of security impairments recognized during the nine months ended September 30, 2007. Segment Earnings non-interest expense for the nine months ended September 30, 2008 includes a loss of $1.1 billion related to the Lehman short-term lending transactions. Segment Earnings net interest income increased $322 million and our Segment Earnings net interest yield increased 5 basis points to 58 basis points for the nine months ended September 30, 2008 compared to the nine months ended September 30, 2007. These increases were primarily due to purchases of fixed rate assets at wider spreads relative to our funding costs as well as the amortization of gains on certain futures positions that matured in March 2008 and the replacement of higher cost short- and long-term debt with lower cost debt issuances. Partially offsetting these increases in Segment Earnings net interest income were lower returns on floating rate securities. In the three and the nine months ended September 30, 2008, the annualized growth rates of our mortgage-related investment portfolio were (32.64)% and 1.07%, respectively, compared to (0.61%) and 0.96% for the three and nine months ended September 30, 2007. The unpaid principal balance of our mortgage-related investment portfolio increased from $663.2 billion at December

31, 2007 to $668.6 billion at September 30, 2008. The overall increase in the unpaid principal balance of our mortgage-related investment portfolio was primarily due to more favorable investment opportunities for agency securities, due to liquidity concerns in the market, during the latter half of the first quarter and continuing into the second quarter. Over the course of the past year, worldwide financial markets have experienced unprecedented levels of volatility. This has been particularly true over the latter half of the third quarter of 2008 as market participants struggled to digest the new government initiatives, including our conservatorship. In this environment where demand for debt instruments weakened considerably, the debt funding markets are sometimes frozen, and our ability to access both the term and callable debt markets has been limited. As a result, toward the latter part of the third quarter and continuing into the fourth quarter, we have relied increasingly on the issuance of shorter-term debt at higher interest rates. While we use interest rate derivatives to economically hedge a significant portion of our interest rate exposure, we are exposed to risks relating to both our ability to issue new debt when our outstanding debt matures and to the variability in interest costs on our new issuances of debt which directly impacts our Investments Segment earnings. We held $57.1 billion of non-Freddie Mac agency mortgage-related securities and $204.5 billion of non-agency mortgage-related securities as of September 30, 2008 compared to $47.8 billion of non-Freddie Mac agency mortgage-related securities and $233.8 billion of non-agency mortgage-related securities as of December 31, 2007. At September 30, 2008 and December 31, 2007, we held investments of $79.8 billion and $101.3 billion, respectively, of non-agency mortgage-related securities backed by subprime loans. In addition to the contractual interest payments, we receive substantial monthly remittances of principal repayments on these securities, which totaled more than $5.9 billion and $21.6 billion during the three and nine months ended September 30, 2008, respectively, representing a return on our investment in these securities. These securities include significant credit enhancement, particularly through subordination, and 80% and 100% of these securities were investment grade at September 30, 2008 and December 31, 2007, respectively. The unrealized losses, net of tax, on these securities are included in AOCI and totaled $8.8 billion and $5.6 billion at September 30, 2008 and December 31, 2007, respectively. We believe that the declines in fair values for these securities are mainly attributable to poor underlying collateral performance, decreased liquidity and larger risk premiums in the mortgage market. We also invested in non-agency mortgage-related securities backed by Alt-A and other loans in our mortgage-related investment portfolio. We have classified these securities as Alt-A if the securities were labeled as Alt-A when sold to us or if we believe the underlying collateral includes a significant amount of Alt-A loans. We have classified $46 billion and

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$51.3 billion of our single-family non-agency mortgage-related securities as Alt-A and other loans at September 30, 2008 and December 31, 2007, respectively. In addition to the contractual interest payments, we receive substantial monthly remittances of principal repayments on these securities, which totaled $1.6 billion and $5.9 billion during the three and nine months ended September 30, 2008, respectively, representing a return on our investment in these securities. We have focused our purchases on credit-enhanced, senior tranches of these securities, which provide additional protection due to subordination. 89% and 100% of these securities were investment grade at September 30, 2008 and December 31, 2007, respectively. The unrealized losses, net of tax, on these securities are included in AOCI and totaled $5.8 billion and $1.7 billion at September 30, 2008 and December 31, 2007, respectively. The declines in fair values for these securities are mainly attributable to poor underlying collateral performance, decreased liquidity and larger risk premiums in the mortgage market. See "CONSOLIDATED BALANCE SHEETS ANALYSIS -- Retained Portfolio" for additional information regarding our mortgage-related securities. The objectives set forth for us under our charter and conservatorship may negatively impact our Investments segment results. For example, the planned reduction in our retained portfolio balance to $250 billion, through successive annual 10% declines commencing in 2010, will cause a corresponding reduction in our net interest income. This may cause our Investments segment results to decline. Single-Family Guarantee Segment Through our Single-family Guarantee segment, we seek to issue guarantees that we believe offer attractive long-term returns relative to anticipated credit costs while fulfilling our mission to provide liquidity, stability and affordability in the residential mortgage market. In addition, we seek to improve our share of the total residential mortgage securitization market by enhancing customer service and increasing the volume of business with our customers.

Table 14 presents the Segment Earnings of our Single-family Guarantee segment.
Table 14 -- Segment Earnings and Key Metrics -- Single-Family Guarantee

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(in millions)			
Segment Earnings:				
Net interest income(1)	$ 52	$ 181	$ 187	$ 528
Non-interest income:				
Management and guarantee income	883	738	2,618	2,119
Other non-interest income(1)	94	27	301	77
Total non-interest income	977	765	2,919	2,196
Non-interest expense:				
Administrative expenses	(164)	(203)	(580)	(611)
Provision for credit losses	(5,899)	(1,417)	(9,878)	(2,175)
REO operations expense	(333)	(50)	(806)	(80)
Other non-interest expense	(20)	(18)	(68)	(58)
Total non-interest expense	(6,416)	(1,688)	(11,332)	(2,924)
Segment Earnings (loss) before income taxes	(5,387)	(742)	(8,226)	(200)
Income tax benefit	1,886	259	2,879	70
Segment Earnings (loss), net of taxes	(3,501)	(483)	(5,347)	(130)
Reconciliation to GAAP net loss:				
Credit guarantee-related adjustments	(1,074)	(927)	574	(597)
Tax-related adjustments(2)	375	325	(202)	208
Total reconciling items, net of taxes	(699)	(602)	372	(389)
GAAP net loss	$ (4,200)	$ (1,085)	$ (4,975)	$ (519)
Key metrics -- Single-family Guarantee:				
Balances and Growth (in billions, except rate):				
Average securitized balance of single-family credit guarantee portfolio(3)	$ 1,792	$ 1,612	$ 1,761	$ 1,552
Issuance -- Single-family credit guarantees(3)	$ 64	$ 125	$ 309	$ 357
Fixed-rate products -- Percentage of issuances(4)	88.5%	86.3%	88.3%	80.1%
Liquidation rate -- Single-family credit	12.1%	13.3%	16.8%	15.3%

guarantees (annualized rate)(5)				
Credit:				
Delinquency rate(6)	1.22%	0.51%		
Delinquency transition rate(7)	25.4%	15.1%		
REO inventory increase, net (number of units)	6,060	1,664	13,697	3,161
Single-family credit losses, in basis points (annualized)	27.9	3.0	19.4	2.2
Market:				
Single-family mortgage debt outstanding (total U.S. market, in billions)(8)	$ 11,254	$ 11,034	$ 11,254	$ 11,034
30-year fixed mortgage rate(9)	6.3%	6.6%	6.1%	6.4%

(1) In connection with the use of securitization trusts for the underlying assets of our PCs and Structured Securities in December 2007, we began recording trust management income in non-interest income. Trust management income represents the fees we earn as administrator, issuer and trustee. Previously, the benefit derived from interest earned on principal and interest cash flows between the time they were remitted to us by servicers and the date of distribution to our PCs and Structured Securities holders was recorded to net interest income.
(2) Excludes any allocation of the non-cash charge related to the establishment of the partial valuation allowance against our deferred tax asset.
(3) Based on unpaid principal balance.
(4) Excludes fixed-rate Structured Securities backed by non-Freddie Mac issued mortgage-related securities.
(5) Includes termination of long-term standby commitments.
(6) Represents the percentage of single-family loans in our credit guarantee portfolio, based on loan count, which are 90 days or more past due at period end and excluding loans underlying Structured Transactions. See "CREDIT RISKS -- Mortgage Credit Risk" for a description of our Structured Transactions.
(7) Represents the percentage of loans that have been reported as 90 days or more delinquent, which subsequently transitioned to REO within 12 months of the date of delinquency. The rate does not reflect other loss events, such as short-sales and deed-in-lieu transactions.
(8) U.S. single-family mortgage debt outstanding as of June 30, 2008 for 2008 and September 30, 2007 for 2007. Source: Federal Reserve Flow of Funds Accounts of the United States of America dated September 18, 2008.
(9) Based on Freddie Mac's Primary Mortgage Market Survey, or PMMS. Represents the national average mortgage commitment rate to a qualified borrower exclusive of the fees and points required by the lender. This commitment rate applies only to conventional financing on conforming mortgages with LTV ratios of 80% or less.

Segment Earnings (loss) for our Single-family Guarantee segment declined to a loss of $(3.5) billion for the three months ended September 30, 2008 compared to a loss of $(483) million for the three months ended September 30, 2007. Segment Earnings (loss) for our Single-family Guarantee segment declined to a loss of $(5.3) billion for the nine months ended September 30, 2008 compared to a loss of $(130) million for the nine months ended September 30, 2007. These declines reflect an increase in normal credit-related expenses due to higher delinquency rates, higher volumes of non-performing loans and foreclosures, higher severity of losses on a per-property basis and a decline in home prices and other regional economic conditions. The decline in Segment Earnings for this segment for the three and nine months ended September 30, 2008 was partially offset by an increase in Segment Earnings management and guarantee income as compared to the three and nine months ended September 30, 2007. The increase in Segment Earnings management and guarantee income for this segment for the three and nine months ended September 30, 2008 is primarily due to higher average balances of the single-family credit guarantee portfolio, an increase in the average fee rates shown in the table below and higher delivery and credit fee amortization. Amortization of upfront fees increased as a result of cumulative catch-up adjustments

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recognized during the nine months ended September 30, 2008. These cumulative catch-up adjustments result in a pattern of revenue recognition that more is consistent with our economic release from risk and the timing of the recognition of losses on pools of mortgage loans we guarantee. Table 15 below provides summary information about Segment Earnings management and guarantee income for the Single-family Guarantee segment. Segment Earnings management and guarantee income consists of contractual amounts due to us related to our management and guarantee fees as well as amortization of credit fees. Table 15 -- Segment Earnings Management and Guarantee Income -- Single-Family Guarantee

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2008		2007		2008		2007	
	Amount	Average Rate	Amount	Average Rate	Amount	Average Rate	Amount	Average Rate
	(dollars in millions, rates in basis points)							
Contractual management and guarantee fees	$ 727	16.0	$ 639	15.6	$ 2,142	16.0	$ 1,835	15.5
Amortization of upfront fees included in other liabilities	156	3.4	99	2.5	476	3.5	284	2.5
Total Segment Earnings management and guarantee income	883	19.4	738	18.1	2,618	19.5	2,119	18.0
Adjustments to reconcile to consolidated GAAP:								
Reclassification between net interest income and management and guarantee fee(1)	53		7		147		14	
Credit guarantee-related adjustments(2)	(124)		(40)		(441)		(240)	
Multifamily management and guarantee income(3)	20		13		54		44	
Management and guarantee income, GAAP	$ 832		$ 718		$ 2,378		$ 1,937	

(1) Management and guarantee fees earned on mortgage loans held in our retained

portfolio are reclassified from net interest income within the Investments segment to management and guarantee fees within the Single-family Guarantee segment. Buy-up and buy-down fees are transferred from the Single-family Guarantee segment to the Investments segment.

(2) Primarily represent credit fee amortization adjustments.

(3) Represents management and guarantee income recognized related to our Multifamily segment that is not included in our Single-family Guarantee segment.

For the three months ended September 30, 2008 and 2007, the annualized growth rates of our single-family credit guarantee portfolio were 2.2% and 18.3%, respectively. For the nine months ended September 30, 2008 and 2007, the annualized growth rates of our single-family credit guarantee portfolio were 7.1% and 17.1%, respectively. Our mortgage purchase volumes are impacted by several factors, including origination volumes, mortgage product and underwriting trends, competition, customer-specific behavior and contract terms. Single-family mortgage purchase volumes from individual customers can fluctuate significantly. Despite these fluctuations, our share of the overall single-family mortgage origination market was higher in the nine months ended September 30, 2008 as compared to recent years, as mortgage originators have generally tightened their credit standards, causing conforming mortgages to be the predominant product in the market during this period. As a result, we have seen improvements in the credit quality of mortgages delivered to us in 2008. However, our purchase volume and also our market share have significantly declined during the third quarter of 2008. During 2008, we implemented several increases in delivery fees, which are paid at the time of securitization. These increases included a 25 basis point fee assessed on all loans purchased or guaranteed through flow-business channels, as well as higher or new upfront fees for certain mortgages deemed to be higher-risk based on product type, property type, loan purpose, LTV ratio and/or borrower credit scores. Upfront fees are recognized in Segment Earnings management and guarantee fee income rather than as part of income on guarantee obligation under GAAP. Certain of our planned increases in delivery fees that were to be implemented in November 2008, including a 25 basis point increase in flow-business purchases, have been cancelled. On October 3, 2008, we announced several changes to delivery fee schedules that take effect for settlements on and after January 2, 2009, including increasing certain delivery fees based on combinations of LTV ratios, credit scores, product types and other characteristics. These increases in delivery fees will have a positive impact on our results of operations; however, the appointment of FHFA as Conservator and the Conservator's subsequent directive that we provide increased support to the mortgage market will likely affect future guarantee pricing decisions. The objectives set forth for us under our charter and conservatorship may negatively impact our Single-family Guarantee segment results. For example our objective of assisting the mortgage market may cause us to change our pricing strategy in our core mortgage loan purchase or guarantee business, which may cause our Single-Family guarantee segment results to suffer. We have also made changes to our underwriting guidelines for loans delivered to us for purchase or securitization in order to reduce our credit risk exposure for new business. These changes include reducing purchases of mortgages with LTV ratios over 95%, and limiting combinations of higher-risk characteristics in loans we purchase, including those with reduced documentation. In some cases, binding commitments under existing customer contracts may delay the effective dates of underwriting adjustments for a period of months. There has been a shift in the composition of our new issuances during 2008 to a greater proportion of higher-quality, fixed-rate mortgages and a reduction in our guarantee of interest-only and Alt-A mortgage loans. For example, Alt-A loans made up approximately 18% and 22% of our mortgage purchase volume during 2006 and 2007, respectively. Due to changes in underwriting practices and reduced originations in the market during 2008, Alt-A loan products made up approximately $25.3 billion or 8% of our mortgage purchase volume during the nine months

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ended September 30, 2008. In October 2008, we announced that we will no longer purchase mortgages originated in reliance on reduced documentation of income and assets and mortgages to borrowers with credit scores below a specified minimum delivered to us on and after February 1, 2009. Our Segment Earnings provision for credit losses for the Single-family Guarantee segment increased to $5.9 billion for the three months ended September 30, 2008, compared to $1.4 billion for the three months ended September 30, 2007. Our Segment Earnings provision for credit losses for the Single-family Guarantee segment increased to $9.9 billion for the nine months ended September 30, 2008, compared to $2.2 billion for the nine months ended September 30, 2007, due to continued credit deterioration in our single-family credit guarantee portfolio, primarily related to 2006 and 2007 loan purchases. Mortgages in our single-family credit guarantee portfolio purchased by us in 2006 and 2007 have higher delinquency rates, higher transition rates to foreclosure, as well as higher loss severities on a per-property basis than our historical experiences. Our provision for credit losses is based on our estimate of incurred losses inherent in both our credit guarantee portfolio and the mortgage loans in our retained portfolio using recent historical performance, such as trends in delinquency rates, recent charge-off experience, recoveries from credit enhancements and other loss mitigation activities. The delinquency rate on our single-family credit guarantee portfolio increased to 122 basis points as of September 30, 2008 from 65 basis points as of December 31, 2007. Increases in delinquency rates occurred in all product types for the three months ended September 30, 2008, but were most significant for interest-only, Alt-A and ARM mortgages. See "CREDIT RISKS -- Table 49 -- Single-Family Credit Loss Concentration Analysis" for additional delinquency information. We expect our delinquency rates will continue to rise in the remainder of 2008. The impact of the weak housing market was first evident during 2007 in areas of the country where unemployment rates have been relatively high, such as the North Central region. However, we have also experienced significant increases in delinquency rates and REO activity in the West, Northeast and Southeast regions during the nine months ended September 30, 2008, compared to the nine months ended September 30, 2007, particularly in the states of California, Florida, Nevada and Arizona. The West region represents approximately 30% of our REO property acquisitions during the nine months ended September 30, 2008, based on the number of units. The highest concentration in the West region is in the state of California. At September 30, 2008, our REO inventory in California represented approximately 30% of our total REO property inventory. California has accounted for an increasing amount of our credit losses and it comprised approximately 31% of our total credit losses in the nine months ended September 30, 2008. During the nine months ended September 30, 2008, our single-family credit guarantee portfolio also continued to experience increases in the rate at which loans transitioned from delinquency to foreclosure. The increase in these delinquency transition rates, compared to our historical experience, has been progressively worse for mortgage loans purchased by us during 2006 and 2007. This trend is, in part, due to the increase of non-traditional mortgage loans, such as interest-only and Alt-A mortgages, as well as an increase in estimated current LTV ratios for mortgage loans originated during those years. For the three months ended September 30, 2008, single-family charge-offs, gross, were $1.2 billion compared to $133 million for the three months ended September 30, 2007. Single-family charge-offs, gross, increased to $2.4 billion for the nine months ended September 30, 2008 as compared to $340 million for the nine months ended September 30, 2007, primarily due to the increase in the volume of REO acquisitions as well as continued deterioration in the national real estate market. In addition, there has also been an increase in loss severity, or the average charge-off, on a per property basis, during the three and nine months ended September 30, 2008 compared to the three and nine months ended September 30, 2007. Multifamily Segment Through our Multifamily segment, we seek to manage our investments in multifamily mortgage loans to generate positive returns while fulfilling our mission to provide stability and liquidity for the financing of rental housing nationwide. We also seek to issue guarantees that we believe offer attractive long-term returns relative to anticipated credit costs. Prior to 2008, we have not typically securitized multifamily mortgages, because our multifamily loans are typically large, customized, non-homogenous loans that are not as conducive to securitization as single-family loans and the market for multifamily securitizations is relatively illiquid. Accordingly, we typically hold multifamily loans for investment purposes. Beginning in 2008, we have increased our guarantee portfolio of multifamily mortgages and we expect to further increase our multifamily guarantee activity in the remainder of 2008, as market conditions permit.

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Table 16 presents the Segment Earnings of our Multifamily segment. Table 16 -- Segment Earnings and Key Metrics -- Multifamily

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(dollars in millions)			
Segment Earnings:				
Net interest income	$ 120	$ 88	$ 293	$ 305
Non-interest income:				
Management and guarantee income	20	14	54	44
Other non-interest income	16	7	31	16
Total non-interest income	36	21	85	60
Non-interest expense:				
Administrative expenses	(37)	(48)	(135)	(142)
Provision for credit losses	(14)	(16)	(30)	(20)
REO operations expense	--	(1)	--	(1)
LIHTC partnerships	(121)	(111)	(346)	(354)
Other non-interest expense	(3)	(4)	(12)	(16)
Total non-interest expense	(175)	(180)	(523)	(533)
Segment Earnings (loss) before income taxes	(19)	(71)	(145)	(168)
LIHTC partnerships tax benefit	147	129	445	402
Income tax benefit	7	25	51	58
Segment Earnings, net of taxes	135	83	351	292
Reconciliation to GAAP net income:				
Derivative-related adjustments	(10)	(6)	(24)	(14)
Credit guarantee-related adjustments	(2)	1	(6)	(1)
Investment sales, debt retirements and fair value-related adjustments	(7)	--	(7)	--
Tax-related adjustments(1)	7	1	13	5
Total reconciling items, net of taxes	(12)	(4)	(24)	(10)
GAAP net income	$ 123	$ 79	$ 327	$ 282
Key metrics -- Multifamily:				
Balances and Growth:				
Average balance of Multifamily loan portfolio(2)	$ 66,004	$ 48,663	$ 62,507	$ 47,166
Average balance of Multifamily guarantee portfolio(2)	14,087	7,698	12,878	7,838
Purchases -- Multifamily loan portfolio(2)	5,164	3,311	13,416	8,839
Purchases -- Multifamily guarantee portfolio(2)	845	194	4,332	320
Liquidation rate -- Multifamily loan portfolio (annualized rate)	4.1%	10.7%	6.1%	13.0%

Credit:		
Delinquency rate(3)	0.01%	0.06%
Allowance for loan losses	$ 87	$ 45

(1) Excludes any allocation of the non-cash charge related to the establishment of the partial valuation allowance against our deferred tax asset.
(2) Based on unpaid principal balance.
(3) Based on net carrying value of mortgages 90 days or more delinquent as well as those in the process of foreclosure and excluding Structured Transactions.

The multifamily mortgage market differs from the residential single-family market in several respects. The likelihood that a multifamily borrower will make scheduled payments on its mortgage is a function of the ability of the property to generate income sufficient to make those payments, which is affected by rent levels and the percentage of available units that are occupied. Strength in the multifamily market therefore is affected by the balance between the supply of and demand for rental housing (both multifamily and single-family), which in turn is affected by employment, the number of new units added to the rental housing supply, rates of household formation and the relative cost of owner-occupied housing alternatives. Although multifamily demand market fundamentals have been solid in much of the nation, liquidity concerns and wider credit spreads have affected institutions that participate in the multifamily market during 2008. However, we have continued to support the multifamily housing market during 2008 by making investments that we believe have attractive expected returns. The objectives set forth for us under our charter and conservatorship may negatively impact our Multifamily segment results. For example, our objective of assisting the mortgage market may cause us to change our pricing strategy in our core mortgage loan purchase or guarantee business, which may cause our Multifamily segment results to suffer. Segment Earnings for our Multifamily segment increased $52 million, or 63%, for the three months ended September 30, 2008 compared to the three months ended September 30, 2007, primarily due to higher net interest income and higher non-interest income. Net interest income increased $32 million for the three months ended September 30, 2008 compared to the three months ended September 30, 2007, driven by a 36% increase in the average balances of our Multifamily loan portfolio, partially offset by lower yield maintenance fee income on declines in loan refinancing activity. Loan purchases into the Multifamily loan portfolio were $5.2 billion for the three months ended September 30, 2008, a 56% increase compared to the three months ended September 30, 2007 as we continued to provide stability and liquidity for the financing of rental housing nationwide. Non-interest income increased $15 million due to an increase in management and

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guarantee income and, to a lesser extent, an increase in bond application fees for the three months ended September 30, 2008 compared to the three months ended September 30, 2007. Segment Earnings for our Multifamily segment increased $59 million, or 20%, for the nine months ended September 30, 2008 compared to the nine months ended September 30, 2007, primarily due to higher LIHTC partnership tax benefit, higher non-interest income and lower non-interest expense, partially offset by a decrease in net interest income. LIHTC partnership tax benefit increased $43 million for the nine months ended

September 30, 2008 compared to the nine months ended September 30, 2007 as we continued to see the benefit from new fund investments entered into during 2007. There have been no new LIHTC investments in 2008. Tax benefits from LIHTC partnerships are recognized in our Multifamily Segment Earnings apart from their use at the corporate level. Non-interest income increased $25 million for the nine months ended September 30, 2008 compared to the nine months ended September 30, 2007, due to an increase in management and guarantee income and, to a lesser extent, an increase in bond application fees. Non-interest expense decreased $10 million for the nine months ended September 30, 2008 compared to the nine months ended September 30, 2007, primarily due to lower administrative expenses and lower expenses related to LIHTC partnerships, partially offset by an increase in provision for credit losses for our Multifamily segment. Net interest income of our Multifamily segment declined $12 million for the nine months ended September 30, 2008, compared to the nine months ended September 30, 2007 due to significantly lower yield maintenance fee income on declines in loan refinancing activity. Loan purchases into the Multifamily loan portfolio were $13.4 billion for the nine months ended September 30, 2008, a 52% increase when compared to the nine months ended September 30, 2007. As part of the guarantee arrangements pertaining to multifamily housing revenue bonds, we have provided commitments to advance funds, commonly referred to as "liquidity guarantees." At September 30, 2008, we had outstanding liquidity guarantee advances of $307 million. See "OFF-BALANCE SHEET ARRANGEMENTS" for more information about our liquidity guarantees. CONSOLIDATED BALANCE SHEETS ANALYSIS The following discussion of our consolidated balance sheets should be read in conjunction with our consolidated financial statements, including the accompanying notes. Also see "CRITICAL ACCOUNTING POLICIES AND ESTIMATES" for more information concerning our more significant accounting policies and estimates applied in determining our reported financial position. Cash and Investments Portfolio We maintain a cash and investments portfolio that is important to our financial management and our ability to provide liquidity and stability to the mortgage market. Of the $68.6 billion in this portfolio as of September 30, 2008, $50.2 billion represents investments in cash and cash equivalents. At September 30, 2008, the investments in this portfolio also included $10.4 billion of non-mortgage-related securities that we could sell to provide us with an additional source of liquidity to fund our business operations. We also use this portfolio to help manage recurring cash flows and meet our other cash management needs. In addition, we use the portfolio to hold capital on a temporary basis until we can deploy it into retained portfolio investments or credit guarantee opportunities. We may also sell the securities in this portfolio to meet mortgage-funding needs, provide diverse sources of liquidity or help manage the interest-rate risk inherent in mortgage-related assets. Credit concerns and resulting liquidity issues have greatly affected the financial markets. The reduced liquidity in U.S. financial markets prompted the Federal Reserve to take several significant actions during 2008, including a series of reductions in the discount rate totaling 3.0%. The rate reductions by the Federal Reserve have had an impact on other key market rates affecting our assets and liabilities, including generally reducing the return on our cash and investments portfolio and lowering our cost of short-term debt financing. During the nine months ended September 30, 2008, we increased the balance of our cash and investments portfolio by $18 billion, primarily due to a $42 billion increase in highly liquid shorter-term cash and cash equivalent assets including deposits in financial institutions and commercial paper partially offset by a $25 billion decrease in longer-term non-mortgage-related investments including asset-backed securities. As a result of counterparty credit concerns during the third quarter, these deposits in financial institutions included substantial cash balances in accounts that did not earn a rate of return. We recognized other-than-temporary impairment charges in our cash and investments portfolio of $244 million, during the third quarter of 2008, related to our non-mortgage-related investments with $10.8 billion of unpaid principal balance, as management could no longer assert the positive intent to hold these securities to recovery. Cumulative other-than-temporary impairments taken on these securities during 2008 were $458 million. The decision to impair these securities is consistent with our consideration of sales of securities from the cash and investments portfolio as a contingent source of liquidity. We estimate that the future expected principal and interest shortfall on these securities will be significantly less than the impairment loss required to be recorded under GAAP, as we expect these shortfalls to be less than the recent fair value declines. The portion of the impairment charges associated with these expected recoveries will be accreted back through net interest income in future periods. As a result of the other-than-temporary impairment charges recorded this quarter, there are no remaining net unrealized losses in our non-mortgage-related investments portfolio.

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Retained Portfolio We are primarily a buy-and-hold investor in mortgage assets. We invest principally in mortgage loans and mortgage-related securities, which consist of securities issued by us, Fannie Mae, Ginnie Mae and other financial institutions. We refer to these investments that are recorded on our consolidated balance sheet as our retained portfolio. On October 9, 2008, FHFA announced that the Director of FHFA has suspended the capital classifications of Freddie Mac during the conservatorship, in light of the Purchase Agreement, and that existing statutory and FHFA-directed regulatory capital requirements will not be binding during the conservatorship. However, under the Purchase Agreement our retained portfolio may not exceed $850 billion as of December 31, 2009 and then must decline by 10% per year thereafter until it reaches $250 billion.

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Table 17 provides detail regarding the mortgage loans and mortgage-related securities in our retained portfolio. Table 17 -- Characteristics of Mortgage Loans and Mortgage-Related Securities in our Retained Portfolio

	September 30, 2008			December 31, 2007		
	Fixed Rate	Variable Rate	Total	Fixed Rate	Variable Rate	Total
			(in millions)			
Mortgage loans:						
Single-family(1)						
Conventional:(2)						
Amortizing	$ 28,696	$ 806	$ 29,502	$ 20,461	$ 1,266	$ 21,727
Interest-only	412	780	1,192	246	1,434	1,680
Total conventional	29,108	1,586	30,694	20,707	2,700	23,407
RHS/FHA/VA	1,312	--	1,312	1,182	--	1,182
Total single-family	30,420	1,586	32,006	21,889	2,700	24,589
Multifamily(3)	63,077	5,229	68,306	53,114	4,455	57,569
Total mortgage loans	93,497	6,815	100,312	75,003	7,155	82,158
PCs and Structured Securities:(1)(4)						
Single-family	277,927	94,426	372,353	269,896	84,415	354,311
Multifamily	267	2,326	2,593	2,522	137	2,659
Total PCs and Structured Securities	278,194	96,752	374,946	272,418	84,552	356,970
Non-Freddie Mac						

mortgage-related securities:(1)						
Agency mortgage-related securities:(5)						
Fannie Mae:						
Single-family	21,633	34,105	55,738	23,140	23,043	46,183
Multifamily	652	124	776	759	163	922
Ginnie Mae:						
Single-family	412	157	569	468	181	649
Multifamily	25	--	25	82	--	82
Total agency mortgage-related securities	22,722	34,386	57,108	24,449	23,387	47,836
Non-agency mortgage-related securities:						
Single-family:						
Subprime(6)	451	79,303	79,754	498	100,827	101,325
Alt-A and other(7)	3,365	42,627	45,992	3,762	47,551	51,313
Commercial mortgage-backed securities	25,155	39,196	64,351	25,709	39,095	64,804
Obligations of states and political subdivisions(8)	13,011	45	13,056	14,870	65	14,935
Manufactured housing(9)	1,165	192	1,357	1,250	222	1,472
Total non-agency mortgage-related securities(10)	43,147	161,363	204,510	46,089	187,760	233,849
Total unpaid principal balance of retained portfolio	$ 437,560	$ 299,316	736,876	$ 417,959	$ 302,854	720,813
Premiums, discounts, deferred fees, impairments of unpaid principal balances and other basis adjustments			(8,654)			(655)
Net unrealized losses on mortgage-related securities, pre-tax			(33,145)			(10,116)
Allowance for loan losses on mortgage loans held-for-investment(11)			(459)			(256)
Total retained portfolio per consolidated balance sheets			$ 694,618			$ 709,786

(1) Variable-rate single-family mortgage loans and mortgage-related securities include those with a contractual coupon rate that, prior to contractual maturity, is either scheduled to change or is subject to change based on changes in the composition of the underlying collateral. Single-family mortgage loans also include mortgages with balloon/reset provisions.
(2) See "CREDIT RISKS -- Mortgage Credit Risk" for information on Alt-A and subprime loans, which are a component of our single-family conventional mortgage loans.
(3) Variable-rate multifamily mortgage loans include only those loans that, as of the reporting date, have a contractual coupon rate that is subject to change.
(4) For our PCs and Structured Securities, we are subject to the credit risk associated with the underlying mortgage loan collateral.
(5) Agency mortgage-related securities are generally not separately rated by

nationally recognized statistical rating organizations, but are viewed as having a level of credit quality at least equivalent to non-agency mortgage-related securities AAA-rated or equivalent.

(6) Single-family non-agency mortgage-related securities backed by subprime residential loans include significant credit enhancements, particularly through subordination. For information about how these securities are rated, see "Table 18 -- Investments in Available-for-Sale Non-Agency Mortgage-Related Securities backed by Subprime Loans, Alt-A, MTA and Other Loans in our Retained Portfolio," "Table 24 -- Ratings of Available-For-Sale Non-Agency Mortgage-Related Securities backed by Subprime Loans at September 30, 2008" and "Table 25 -- Ratings of Available-For-Sale Non-Agency Mortgage-Related Securities backed by Subprime Loans at September 30, 2008 and November 10, 2008."

(7) Single-family non-agency mortgage-related securities backed by Alt-A and other mortgage loans include significant credit enhancements, particularly through subordination. For information about how these securities are rated, see "Table 18 -- Investments in Available-For-Sale Non-Agency Mortgage-Related Securities backed by Subprime Loans, Alt-A, MTA and Other Loans in our Retained Portfolio," "Table 26 -- Ratings of Available-For-Sale Non-Agency Mortgage-Related Securities backed by Alt-A and Other Loans at September 30, 2008" and "Table 27 -- Ratings of Available-For-Sale Non-Agency Mortgage-Related Securities backed by Alt-A and Other Loans at September 30, 2008 and November 10, 2008."

(8) Consist of mortgage revenue bonds. Approximately 61% and 67% of these securities held at September 30, 2008 and December 31, 2007, respectively, were AAA-rated as of those dates, based on the lowest rating available.

(9) At September 30, 2008 and December 31, 2007, 32% and 34%, respectively, of mortgage-related securities backed by manufactured housing bonds were rated BBBW22; or above, based on the lowest rating available. For the same dates, 91% and 93% of manufactured housing bonds had credit enhancements, respectively, including primary monoline insurance that covered 23% of the manufactured housing bonds. At September 30, 2008 and December 31, 2007, we had secondary insurance on 60% and 72% of these bonds that were not covered by the primary monoline insurance, respectively. Approximately 3% and 28% of these mortgage-related securities were backed by manufactured housing bonds AAA-rated at September 30, 2008 and December 31, 2007, respectively, based on the lowest rating available.

(10) Credit ratings for most non-agency mortgage-related securities are designated by no fewer than two nationally recognized statistical rating organizations. Approximately 66% and 96% of total non-agency mortgage-related securities held at September 30, 2008 and December 31, 2007, respectively, were AAA-rated as of those dates, based on the lowest rating available.

(11) See "CREDIT RISKS -- Credit Loss Performance -- Loan Loss Reserves" for information about our allowance for loan losses on mortgage loans held-for-investment.

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The unpaid principal balance of our retained portfolio increased by $16.1 billion to $736.9 billion at September 30, 2008 compared to December 31, 2007. The unpaid principal balance of the mortgage-related securities held in our retained portfolio decreased by $2.1 billion during the nine months ended September 30, 2008, while the balance of mortgage loans increased by $18.2 billion over the same period. Although our PCs and Structured Securities and agency mortgage-related securities balances increased $27.2 billion during this period, this was more than offset by the decrease in the unpaid principal balance of our non-agency mortgage-related securities. Non-agency mortgage-related securities decreased $29.3 billion primarily due to principal repayments on securities backed by subprime and Alt-A loans. Included in our retained portfolio are mortgage loans with higher risk characteristics and mortgage-related securities backed by subprime loans and Alt-A and other loans. Included in our Alt-A loans are MTA loans. Single-Family Mortgage Loans Held in Our Retained Portfolio We do not generally classify our investments in single-family mortgage loans within our retained portfolio as either prime or subprime; however, we recognize that there are mortgage loans in our retained portfolio with higher risk characteristics. For example, we estimate that there are $1.4 billion and $1.3 billion at September 30, 2008 and December 31, 2007, respectively, of loans with original LTV ratios greater than 90% and credit scores, based on the rating system scale developed by Fair, Isaac and Co., Inc., or FICO, less than 620 at the time of loan origination. See "Credit Risks -- Mortgage Credit Risk" for further information. Non-Agency Mortgage-Related Securities Backed by Subprime Loans Participants in the mortgage market often characterize single-family loans based upon their overall credit quality at the time of origination, generally considering them to be prime or subprime. There is no universally accepted definition of subprime. The subprime segment of the mortgage market primarily serves borrowers with poorer credit payment histories and such loans typically have a mix of credit characteristics that indicate a higher likelihood of default and higher loss severities than prime loans. Such characteristics might include a combination of high LTV ratios, low credit scores or originations using lower underwriting standards such as limited or no documentation of a borrower's income. At September 30, 2008 and December 31, 2007, we held investments of $79.8 billion and $101.3 billion, respectively, of non-agency mortgage-related securities backed by subprime loans in our retained portfolio. In addition to the contractual interest payments, we receive substantial monthly remittances of principal repayments on these securities, which totaled approximately $5.9 billion and $21.6 billion during the three and nine months ended September 30, 2008, respectively, representing a return of our investment in these securities. These securities include significant credit enhancement, particularly through subordination, and 80% and 100% of these securities were investment grade at September 30, 2008 and December 31, 2007, respectively. Of the securities rated below investment grade by at least one rating agency, 67% are rated as investment grade by at least one other rating agency. We recognized impairment losses on these securities of $1.7 billion for the three months ended September 30, 2008. The unrealized losses, net of tax, on these securities are included in AOCI and totaled $8.8 billion and $5.6 billion at September 30, 2008 and December 31, 2007, respectively. We believe that the declines in fair values for these securities are mainly attributable to decreased liquidity and larger risk premiums in the mortgage market. Non-Agency Mortgage-Related Securities Backed by Alt-A and Other Loans Many mortgage market participants classify single-family loans with credit characteristics that range between their prime and subprime categories as Alt-A. Although there is no universally accepted definition of Alt-A, industry participants have used this classification principally to describe loans for which the underwriting process has been streamlined in order to reduce the documentation requirements of the borrower or allow alternative documentation. We have classified these securities as Alt-A if the securities were labeled as Alt-A when sold to us or if we believe the underlying collateral includes a significant amount of Alt-A loans. We have classified $46.0 billion and $51.3 billion of our single-family non-agency mortgage-related securities as Alt-A and other at September 30, 2008 and December 31, 2007, respectively. Of these securities $20.0 billion and $21.3 billion are backed by MTA loans at September 30, 2008 and December 31, 2007, respectively. The MTA adjustable-rate loans that back these securities allow the borrower to select from a choice of payments, including options that result in negative amortization. The payment options are usually indexed to the moving average one-year Constant Maturity Treasury rate. The credit characteristics of these securities are similar to our other securities backed by Alt-A loans; however there is significant uncertainty related to future borrower behavior when payments recast. In addition to the contractual interest payments, we receive substantial monthly remittances of principal repayments on these Alt-A and other securities, which totaled $1.6 billion and $5.9 billion during the three and nine months ended September 30, 2008, respectively, representing a return of our investment in these securities. We focused our purchases on credit-enhanced, senior tranches of these securities, which provide additional protection due to subordination. Of these securities, 89% and 100% were investment grade at September 30, 2008 and December 31, 2007, respectively. We

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recognized impairment losses on these securities of $7.1 billion for the three months ended September 30, 2008. The unrealized losses, net of tax, on these securities are included in AOCI and totaled $5.8 billion and $1.7 billion at September 30, 2008 and December 31, 2007, respectively. We believe the declines in fair values for these securities are mainly attributable to decreased liquidity and larger risk premiums in the mortgage market. Table 18 provides an analysis of investments in available-for-sale non-agency mortgage-related securities backed by subprime loans and Alt-A, MTA and other loans in our retained portfolio at September 30, 2008. Table 18 -- Investments in Available-For-Sale Non-Agency Mortgage-Related Securities backed by Subprime Loans, Alt-A, MTA and Other Loans in our Retained Portfolio

As of September 30, 2008

Non-agency mortgage-related securities backed by:	Unpaid Principal Balance	Amortized Cost	Gross Unrealized Losses	Collateral Delinquency(1)	Original % AAA(2)	September 30, 2008 % AAA	Current % AAA(3)	Current Investment Grade(4)
	(dollars in millions)							
Subprime loans:								
First lien	$ 78,906	$ 76,986	$ (13,475)	35%	100%	48%	37%	74%
Second lien	836	500	(80)	11%	100%	--	--%	12%
Total non-agency mortgage-related securities, backed by subprime loans	$ 79,742	$ 77,486	$ (13,555)	34%	100%	47%	36%	73%
Alt-A and other loans:								
Alt-A	$ 21,743	$ 19,867	$ (4,055)	14%	100%	75%	64%	83%
MTA	19,996	15,072	(3,355)	24%	100%	59%	54%	80%
Other(5)	4,253	3,736	(1,446)		100%	20%	20%	89%
Total non-agency mortgage-related securities, backed by Alt-A, MTA and other loans	$ 45,992	$ 38,675	$ (8,856)		100%	63%	55%	82%

(1) Determined based on loans that are 60 days or more past due that underlie the securities and based on servicing data reported for September 30, 2008.
(2) Reflects the composition of the portfolio that was AAA-rated as of the date of our acquisition of the security, based on the lowest rating available.
(3) Reflects the AAA-rated composition of the securities as of November 10, 2008, based on the lowest rating available.

(4) Reflects the composition of these securities with credit ratings BBB- or above as of November 10, 2008, based on unpaid principal balance and the lowest rating available.
(5) Includes securities backed by FHA/VA mortgages, home-equity lines of credit and other residential loans.

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Table 19 summarizes amortized cost, estimated fair values and corresponding gross unrealized gains and gross unrealized losses for available-for-sale securities and estimated fair values for trading securities by major security type held in our retained portfolio. Table 19 -- Available-for-Sale Securities and Trading Securities in our Retained Portfolio

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(in millions)		
September 30, 2008				
Retained portfolio:				
Available-for-sale mortgage-related securities:				
Freddie Mac	$ 277,099	$ 1,632	$ (3,977)	$ 274,754
Subprime	77,486	3	(13,555)	63,934
Commercial mortgage-backed securities	64,383	1	(7,339)	57,045
Alt-A and other	38,675	7	(8,856)	29,826
Fannie Mae	40,194	243	(471)	39,966
Obligations of states and political subdivisions	13,072	8	(1,635)	11,445
Manufactured housing	1,030	73	(58)	1,045
Ginnie Mae	381	18	(1)	398
Total available-for-sale mortgage-related securities	$ 512,320	$ 1,985	$ (35,892)	$ 478,413
Trading mortgage-related securities:				
Freddie Mac				$ 100,484
Fannie Mae				17,267
Ginnie Mae				197
Other				54
Total trading mortgage-related securities				$ 118,002
December 31, 2007				
Retained portfolio:				
Available-for-sale mortgage-related securities:				
Freddie Mac	$ 346,569	$ 2,981	$ (2,583)	$ 346,967
Subprime	101,278	12	(8,584)	92,706
Commercial mortgage-backed securities	64,965	515	(681)	64,799
Alt-A and other	51,456	15	(2,543)	48,928
Fannie Mae	45,688	513	(344)	45,857
Obligations of states and political subdivisions	14,783	146	(351)	14,578
Manufactured housing	1,149	131	(12)	1,268
Ginnie Mae	545	19	(2)	562

Total available-for-sale mortgage-related securities	$ 626,433	$ 4,332	$ (15,100)	$ 615,665
Trading mortgage-related securities:				
Freddie Mac				$ 12,216
Fannie Mae				1,697
Ginnie Mae				175
Other				1
Total trading mortgage-related securities				$ 14,089
September 30, 2007				
Retained portfolio:				
Available-for-sale mortgage-related securities:				
Freddie Mac	$ 345,724	$ 1,597	$ (4,879)	$ 342,442
Subprime	104,932	4	(1,827)	103,109
Commercial mortgage-backed securities	62,189	228	(1,140)	61,277
Alt-A and other	52,916	18	(1,166)	51,768
Fannie Mae	46,046	313	(552)	45,807
Obligations of states and political subdivisions	14,548	166	(237)	14,477
Manufactured housing	1,061	140	--	1,201
Ginnie Mae	581	16	(6)	591
Total available-for-sale mortgage-related securities	$ 627,997	$ 2,482	$ (9,807)	$ 620,672
Trading mortgage-related securities:				
Freddie Mac				$ 11,713
Fannie Mae				1,713
Ginnie Mae				184
Other				1
Total trading mortgage-related securities				$ 13,611

At September 30, 2008, our gross unrealized losses on available-for-sale mortgage-related securities were $35.9 billion. The main components of these losses are gross unrealized losses of $29.8 billion related to non-agency mortgage-related securities backed by subprime, Alt-A and other loans and commercial mortgage-backed securities. We believe that these unrealized losses on non-agency mortgage-related securities at September 30, 2008, were principally a result of decreased liquidity and larger risk premiums in the non-agency mortgage market. All securities in an unrealized loss position are

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evaluated to determine if the impairment is other-than-temporary. The evaluation of these securities considers all available information, including analyses based on default, prepayment and borrower behavior assumptions.
Other-Than-Temporary Impairments Of our $204.5 billion in non-agency mortgage-related securities in our available-for-sale portfolio at September 30, 2008, we have identified securities backed by subprime and Alt-A and other loans, including MTA loans, with $21.7 billion of unpaid principal balance that are probable of incurring a contractual principal or interest loss due to significant recent and sustained deterioration in the performance of the underlying collateral of these securities, considerably more pessimistic expectations around future performance due to the unprecedented deterioration in economic conditions since the second quarter, and decreased confidence in the credit enhancements related to two primary monoline insurers where we have determined that it is both probable a principal and interest shortfall will occur on the insured securities and that in such a case, there is substantial

uncertainty surrounding the insurer's ability to pay all future claims. As such, we recognized impairment losses on these securities of $8.9 billion during the third quarter of 2008, which were determined to be other-than-temporary. The recent deterioration has not impacted our ability and intent to hold these securities. We estimate that the future expected principal and interest shortfall on these securities will be significantly less than the impairment loss required to be recorded under GAAP. The portion of the impairment charges associated with these expected recoveries will be accreted back through net interest income in future periods. The deterioration in the mortgage market and resulting illiquidity has caused the government to take unprecedented action during the third quarter of 2008 to intervene. The decline in mortgage credit performance has been most severe for subprime loans and Alt-A and other loans, including MTA loans, and for the institutions holding those assets. Many of the same global economic factors impacting the performance of our guarantee portfolio led to a considerably more pessimistic outlook for the performance of our mortgage-related securities in our retained portfolio. Rising unemployment, accelerating house price declines, tight credit conditions, volatility in mortgage and LIBOR rates, and weakening consumer confidence not only contributed to poor performance during the quarter but significantly impacted our expectations regarding future performance, both of which are critical in assessing other-than-temporary impairments. Furthermore, the subprime loans and Alt-A and other loans backing our securities have significantly greater concentrations in the states that are undergoing the greatest stress, such as California, Florida, Arizona and Nevada. During the third quarter of 2008, delinquencies increased at an accelerating pace while severities and loss rates also deteriorated. For example, delinquencies on 2006 and 2007 MTA loans, which accounted for the largest share of our impairments, increased by 30% and 41%, respectively, during the quarter, exclusive of defaulted loans leaving the pools. Additionally, there were significant negative ratings actions and sustained categorical asset price declines most notably in the securities backed by Alt-A loans including MTA loans in our portfolio. The decline in current and expected mortgage credit performance has also impacted the financial strength of certain monolines, resulting in us concluding that we could not rely on the insurance protection provided by two of these companies. The combination of all of these factors not only had a material, negative impact on our view of expected performance, but also significantly reduced the likelihood of more favorable outcomes, resulting in a substantial increase in other-than temporary impairments. While it is possible that under certain conditions, defaults and severity of losses on our remaining available-for-sale securities for which we have not recorded an impairment charge could exceed our subordination and credit enhancement levels and a principal or interest loss could occur, we do not believe that those conditions were probable at September 30, 2008. Based on our ability and intent to hold our remaining available-for-sale securities for a sufficient time to recover all unrealized losses and our consideration of all available information, we have concluded that the reduction in fair value of these securities was temporary at September 30, 2008. These assessments require significant judgment and are subject to change as the performance of the individual securities changes, mortgage conditions evolve and our assessments of future performance are updated. Furthermore, different market participants could arrive at materially different conclusions regarding the likelihood of various default and severity outcomes and these differences tend to be magnified for nontraditional products such as MTA loans. The evaluation of unrealized losses on our available-for-sale portfolio for other-than-temporary impairment contemplates numerous factors. We perform an evaluation on a security-by-security basis considering all available information. Important factors include the length of time and extent to which the fair value of the security has been less than book value; the impact of changes in credit ratings (i.e., rating agency downgrades); our intent and ability to retain the security in order to allow for a recovery in fair value; and an analysis of the performance of the underlying collateral relative to its credit enhancements using techniques that require assumptions about future default, prepayment and borrower behavior. Implicit in this analysis is information relevant to expected cash flows (such as collateral performance and characteristics) that also underlies the other impairment factors mentioned above, and we qualitatively consider all available information when assessing whether an impairment is other-than-temporary. The relative importance of this information varies based on the facts and circumstances surrounding each security, as well as the economic environment at the time of assessment. Based on the results of this

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evaluation, if it is determined that the impairment is other-than-temporary, the carrying value of the security is written down to fair value, and a loss is recognized through earnings. We consider all available information in determining the recovery period and anticipated holding periods for our available-for-sale securities. Because we are a portfolio investor, we generally hold available-for-sale securities in our retained portfolio to maturity. An important underlying factor we consider in determining the period to recover unrealized losses on our available-for-sale securities is the estimated life of the security. Since our available-for-sale securities are prepayable, the average life is far shorter than the contractual maturity. We have concluded that the unrealized losses included in Table 19 are temporary since we have the ability and intent to hold the securities to recovery. These conclusions are based on the following analyses, which are conducted on a quarterly basis and are subject to change as new information regarding delinquencies, severities, timing of losses, prepayment rates and other factors becomes available. Freddie Mac and Fannie Mae Securities These securities generally fit into one of two categories: Unseasoned Securities -- These securities may be utilized for resecuritization transactions. We frequently resecuritize agency securities, typically unseasoned pass-through securities. In these resecuritization transactions, we typically retain an interest representing a majority of the cash flows, but consider the resecuritization to be a sale of all of the securities for purposes of assessing if an impairment is other-than-temporary. As these securities have generally been recently acquired, they generally have coupon rates and prices close to par, so any decline in the fair value of these agency securities is relatively small. This means that the decline could be recovered easily, and we expect that the recovery period would be in the near term. Notwithstanding this, we recognize other-than-temporary impairments on any of these securities that are likely to be sold. This population is identified based on our expectations of resecuritization volume and our eligible collateral that is on hand. If any of the securities identified as likely to be sold are in a loss position, other-than-temporary impairment is recorded because management cannot assert that it has the intent to hold such securities to recovery. Any additional losses realized upon sale result from further declines in fair value subsequent to the balance sheet date. For securities that are not likely to be sold, we expect to recover any unrealized losses by holding them to maturity. Seasoned Securities -- These securities are not usually utilized for resecuritization transactions. We hold the seasoned agency securities that are in an unrealized loss position at least to recovery and typically to maturity. As the principal and interest on these securities are guaranteed and we have the ability and intent to hold these securities, any unrealized loss will be recovered. The unrealized losses on agency securities are primarily a result of movements in interest rates. Non-Agency Mortgage-Related Securities We believe the unrealized losses on our non-agency mortgage-related securities are primarily a result of decreased liquidity and larger risk premiums. With the exception of the other-than-temporarily impaired securities discussed previously, we have not identified any securities that were probable of incurring a contractual principal or interest loss at September 30, 2008. As such, and based on our ability and intent to hold these securities for a period of time sufficient to recover all unrealized losses, we have concluded that the impairment of these securities was temporary. Our review of the securities backed by subprime and Alt-A and other loans includes analyses of the individual securities based on underlying collateral performance, including the collectibility of amounts that would be recovered from primary monoline insurers. In the case of monoline insurers, we also consider certain qualitative factors such as the availability of capital, generation of new business, pending regulatory action, ratings, security prices and credit default swap levels traded on the insurers. In order to determine whether securities are other-than-temporarily impaired, these analyses use assumptions about the losses likely to result from the underlying collateral that are currently more than 60 days delinquent and then evaluate what percentage of the remaining collateral (that are current or less than 60 days delinquent) would have to default to create a loss. In making these determinations, we consider loan level information including estimated LTV ratios, FICO scores, geographic concentrations and other loan level characteristics. We also consider the differences between the loan level characteristics of the performing and non-performing loan populations. The future default rate, severity and prepayment assumptions required to realize a loss are evaluated for probability of occurring. If these assumptions are probable, considering all other factors, the impairment is judged to be other than temporary. We perform a stress test based on the key assumptions in the above analyses to determine whether we would receive our contractual payments on these securities in adverse credit environments. These tests simulate the distribution of cash flows from the underlying loans to the securities that we hold considering different default rate and severity assumptions. In evaluating each scenario, we use numerous assumptions (in addition to the default rate and severity assumptions), including, but not limited to the timing of losses, prepayment rates, the collectibility of excess interest and interest rates that could materially impact the results. These tests are performed on a security-by-security basis for all of our securities backed by subprime and Alt-A and other loans, including MTA loans.

In evaluating our non-agency mortgage-related securities backed by subprime and Alt-A and other loans, including MTA loans, for other-than-temporary impairment, we noted and specifically considered that the percentage of securities that were AAA-rated and the percentage that were investment grade had decreased since acquisition and had decreased between the latest balance sheet date and the release of these financial statements. We expect this trend to continue for the remainder of 2008. Although the ratings have declined, the ratings themselves have not been determinative that a loss is probable. According to Standard & Poor's, or S&P, a security may withstand up to 115% of S&P's base case loss assumptions and still receive a BB, or below investment grade, rating. While we consider credit ratings in our analysis, we believe that our detailed security-by-security analyses provide a more consistent view of the ultimate collectibility of contractual amounts due to us. As such, we have other-than-temporarily impaired securities with current ratings ranging from CCC to AAA and have determined that other securities within the same ratings were not other-than-temporarily impaired. However, we carefully consider individual ratings, especially those below investment grade. See Tables 24 through 27 for the ratings of our non-agency mortgage-related securities backed by subprime and Alt-A and other loans including MTA loans. Furthermore, we considered significant declines in fair value since June 30, 2008 to assess if they were indicative of potential future cash shortfalls. In this assessment, we generally placed greater emphasis on categorical pricing information than on individual prices. We use multiple pricing services to price the majority of our non-agency mortgage-related securities. We observed significant dispersion in prices obtained from different sources. However, we carefully consider individual and sustained price declines, placing greater weight when dispersion is lower and less weight when dispersion is higher. Where dispersion is higher, other factors previously mentioned, received greater weight. We have identified 105 uninsured securities with $19.7 billion of unpaid principal balance that we have judged probable of incurring a contractual principal or interest loss due to poor performance of the underlying collateral and more pessimistic expectations regarding future performance of these securities. In addition, we have identified 19 securities with $2.0 billion of unpaid principal balance with credit enhancements that included monoline insurance where we have determined that it is not probable that the monoline insurers will have the ability to pay all future claims should a principal or interest shortfall occur and that absent such coverage a principal loss is likely to occur. As such, we recognized impairment losses on these securities of $8.9 billion, which were determined to be other-than-temporary during the third quarter of 2008. Our analysis is conducted on a quarterly basis and is subject to change as new information regarding delinquencies, severities, loss timing, prepayments and other factors becomes available. Our non-agency mortgage-related securities have not yet experienced significant cumulative losses or declines in our credit enhancement levels on most of our holdings. While it is possible that, under certain conditions (especially given current economic conditions), defaults and loss severities on the remaining securities could reach or even exceed the levels used for our stress test scenarios and a principal or interest loss could occur on certain individual securities where the impairment was judged to be temporary, we do not believe that those conditions are probable as of September 30, 2008. Additionally, for the securities where we determined that the impairment was other-than-temporary, we estimate that the future expected principal and interest shortfall will be significantly less than the impairment loss required to be recorded under GAAP, as we expect these shortfalls to be less than the recent fair value declines. For some of these securities it is possible that we may not realize any loss. Hypothetical stress test scenarios on our investments in non-agency mortgage-related securities backed by first lien subprime loans For our non-agency mortgage-related securities backed by first lien subprime loans, we use several default rate and severity stress test scenarios, including those disclosed in "Table 20 -- Investments in Available-For-Sale Non-Agency Mortgage-Related Securities Backed by First Lien Subprime Loans." This table is designed to give insight into potential economic losses under hypothetical scenarios. We divided the portfolio into delinquency quartiles and ran the most stressful default rates on the quartiles with the highest levels of current delinquencies. Given the combination of the significant deterioration in the economic outlook and the poor performance of the underlying collateral, we have increased the default and severity assumptions used in our hypothetical stress tests. For our non-agency mortgage-related securities backed by subprime loans except those that were determined to be other-than-temporarily impaired, we currently believe that the stress and default and severity assumptions that would indicate a potential loss are more severe than what we currently believe are probable. Our most severe default rate for our worst quartiles and severity assumptions for all quartiles are 80% and 70%, respectively, for these securities. As disclosed on Table 20, even in our most severe stress test scenarios, our potential losses are only 9% of our total non-agency mortgage-related securities backed by first lien subprime loans. However, current mortgage market conditions are unprecedented and actual default and severity experience could differ materially from our expectations. Furthermore, different market participants could arrive at different conclusions regarding the likelihood of various default and severity outcomes. Current collateral delinquency rates presented in Table 20 averaged 35% for first lien subprime loans.

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Table 20 provides the summary results of the default rate and severity stress test scenarios for our investments in available-for-sale non-agency mortgage-related securities backed by first lien subprime loans at September 30, 2008. In addition to the stress tests scenarios, Table 20 also displays underlying collateral performance and credit enhancement statistics, by vintage and quartile of delinquency. Within each of these quartiles, there is a distribution of both credit enhancement levels and delinquency performance, and individual security performance will differ from the quartile as a whole. Furthermore, some individual securities with lower subordination could have higher delinquencies. The projected economic losses presented in each stress test scenario represent the cash losses we may experience given the related assumptions. However, these amounts do not represent the other-than-temporary impairment charge that would result under the given scenario. Any other-than-temporary impairment charges would vary depending on the fair value of the security at that point in time. Table 20 -- Investments in Available-For-Sale Non-Agency Mortgage-Related Securities Backed by First Lien Subprime Loans

			September 30, 2008								
			Underlying Collateral Performance	Credit Enhancements Statistics							
		Unpaid			Minimum		Stress Test Scenarios(4)				
	Delinquency	Principal	Collateral	Average Credit	Current	Default	Severity		Default	Severity	
Acquisition Date	Quartile	Balance	Delinquency(1)	Enhancement(2)	Subordination(3)	Rate	55	70	Rate	55	70
					(dollars in millions)						
2004 & Prior	1	$ 321	12%	51%	33%	40%	--	--	50%	--	$ 11
2004 & Prior	2	303	18	57	22	45	--	--	55	--	--
2004 & Prior	3	320	21	56	18	50	--	1	60	1	2
2004 & Prior	4	326	30	64	23	55	--	2	65	1	8
2004 & Prior subtotal		$ 1,270	20	57	18		--	$ 3		$ 2	$ 21
2005	1	$ 3,563	25	54	34	50	--	--	55	--	--
2005	2	3,420	33	58	38	55	--	--	60	--	--
2005	3	3,491	38	56	30	60	--	2	65	--	8
2005	4	3,482	45	52	23	65	1	12	70	3	29
2005 subtotal		$ 13,956	35	55	23		$ 1	$ 14		$ 3	$ 37
2006	1	$ 7,585	32	30	19	60	$ 14	$ 299	65	$ 96	$ 577
2006	2	7,811	38	33	20	65	17	258	70	83	576
2006	3	7,655	42	29	17	70	156	733	75	317	1,086
2006	4	7,714	50	32	16	75	194	1,019	80	430	1,451
2006 subtotal		$ 30,765	41	31	16		$ 381	$ 2,309		$ 926	$ 3,690
2007	1	$ 7,424	18	31	22	55	--	$ 68	60	$ 11	$ 270
2007	2	7,434	27	27	20	60	30	387	65	123	784
2007	3	7,601	33	29	17	65	43	556	70	154	944
2007	4	7,449	40	27	19	70	161	1,041	75	460	1,501
2007 subtotal		$ 29,908	30	29	17		$ 234	$ 2,052		$ 748	$ 3,499
Total uninsured non-agency mortgage-related securities, backed by first lien subprime loans		$ 75,899	35	35	16		$ 616	$ 4,378		$ 1,679	$ 7,247

Non-agency mortgage-related securities, backed by first lien subprime loans with monoline bond insurance:	
Non-investment grade monoline -- no other-than-temporary impairments to date	$ 2,594
Non-investment grade -- monoline -- other-than-temporary	413

impairments taken	
Subtotal non-agency mortgage-related securities, backed by first lien subprime loans with monoline bond insurance(5)	$ 3,007
Total non-agency mortgage-related securities, backed by first lien subprime loans	$ 78,906

(1) Determined based on loans that are 60 days or more past due that underlie the securities. Collateral delinquency percentages are calculated based on information available from third-party financial data providers.
(2) Consists of subordination, financial guarantees and other credit enhancements. Does not include the benefit of excess interest.
(3) Reflects the current credit enhancement of the lowest security in each quartile.
(4) Reflects the present value of projected economic losses based on the disclosed hypothetical cumulative default and loss severity rates against the outstanding collateral balance.
(5) Represents the amount of unpaid principal balance covered by monoline insurance coverage. This amount does not represent the maximum amount of losses we could recover, as the monoline insurance also covers interest.

Hypothetical stress test scenarios on our investments in non-agency mortgage-related securities backed by Alt-A loans For our non-agency mortgage-related securities backed by Alt-A loans, we use several default rate and severity stress test scenarios, including those disclosed in "Table 21 -- Investments in Non-Agency Mortgage-Related Securities backed by Alt-A Loans." This table is designed to give insight into potential economic losses under hypothetical scenarios. We divided the portfolio into delinquency quartiles and ran the most stressful default rates on the cohorts with the highest levels of current delinquencies. Given the combination of the significant deterioration in the economic outlook and the poor performance of the underlying collateral, we have increased the default and severity assumptions used in our hypothetical stress tests. For our non-agency mortgage-related securities backed by Alt-A loans except those that were determined to be

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other-than-temporarily impaired, we currently believe that the stress and default and severity assumptions that would indicate a potential loss are more severe than what we currently believe are probable. Our most severe default rate for our worst quartiles is 65%. Our most severe severity assumptions for our non-agency mortgage-related securities backed by non-MTA and MTA Alt-A loans are 55% and 60%, respectively. As disclosed in Table 21, even in our most severe stress test scenarios, our potential losses are only 10% of our total non-agency mortgage-related securities backed by Alt-A loans. However, current mortgage market conditions are unprecedented and actual default and severity experience for Alt-A loans could differ materially from our expectations. Furthermore, different market participants could arrive at materially different conclusions regarding the likelihood of various default and severity outcomes and these differences tend to be magnified for nontraditional products such as Alt-A MTA loans. Current collateral delinquency rates presented in Table 21 averaged 19%. Table 21 provides the summary results of the default rate and severity stress test scenarios for our investments in non-agency mortgage-related securities backed by Alt-A loans as of September 30, 2008, including securities backed by Alt-A MTA loans. In addition to the stress test scenarios, Table 21 also displays underlying collateral performance and credit enhancement statistics, by vintage and quartile of delinquency. Within each of these quartiles, there is a distribution of both credit enhancement levels and delinquency performance, and individual security performance will differ from the quartile as a whole. Furthermore, some individual securities with lower subordination could have higher delinquencies. The projected economic losses presented in each stress test scenario represent the cash losses we may experience given the related assumptions. However, these amounts do not represent the other-than-temporary impairment charge that would result under the given scenario. Any other-than-temporary impairment charges would vary depending on the fair value of the security at that point in time. Table 21 -- Investments in Non-Agency Mortgage-Related Securities backed by Alt-A Loans

September 30, 2008

Underlying Collateral Performance

Issuance Date	Delinquency Quartile	Unpaid Principal Balance	Collateral Delinquency(1)	Average Credit Enhancement(2)	Minimum Current Subordination(3)	Stress Test Scenarios(4) Default Rate	Severity 45%	Severity 55%	Default Rate	Severity 45%	Severity 55%
				(dollars in millions)							
Non-agency mortgage-related securities, backed by uninsured non-MTA Alt-A loans:											
2004 & Prior	1	$ 1,285	2%	10%	6%	15%	$ 3	$ 7	20%	$ 11	$ 23
2004 & Prior	2	1,218	4	14	8	23	--	8	28	8	26
2004 & Prior	3	1,338	7	16	11	30	9	32	35	26	56
2004 & Prior	4	1,273	13	24	13	40	16	43	45	31	64
2004 & Prior subtotal		$ 5,114	7	16	6		$ 28	$ 90		$ 76	$ 169
2005	1	$ 2,199	3	8	5	15	$ 12	$ 32	20	$ 45	$ 80
2005	2	2,279	8	12	6	30	69	127	35	112	186
2005	3	2,435	13	15	8	40	87	142	45	118	194
2005	4	2,023	23	22	11	50	58	94	55	76	118
2005 subtotal		$ 8,936	12	14	5		$ 226	$ 395		$ 351	$ 578
2006	1	$ 1,077	4	11	5	30	$ 59	$ 88	35	$ 81	$ 116
2006	2	1,090	12	15	5	40	154	227	45	198	282
2006	3	1,197	26	15	7	40	22	45	55	79	130
2006	4	1,035	40	13	8	50	5	30	60	44	110
2006 subtotal		$ 4,399	20	13	5		$ 240	$ 390		$ 402	$ 638
2007	1	$ 813	19	7	5	30	$ 26	$ 40	40	$ 54	$ 85
2007	2	562	24	11	9	40	8	22	50	36	50
2007	3	722	28	13	6	40	7	28	55	54	89
2007	4	635	34	14	6	50	13	31	60	37	71
2007 subtotal		$ 2,732	26	11	5		$ 54	$ 121		$ 181	$ 295
Uninsured non-agency mortgage-related securities, backed by non-MTA Alt-A loans subtotal		$ 21,181	14	14	5		$ 548	$ 996		$ 1,010	$ 1,680
Non-agency mortgage-related securities, backed by non-MTA Alt-A loans with monoline bond insurance:											
Monoline -- no			$ 562								

other-than-temporary impairments to date	
Subtotal non-agency mortgage-related securities, backed by non-MTA Alt-A loans with monoline bond insurance(5)	$ 562
Non-agency mortgage-related securities, backed by non-MTA Alt-A loans subtotal	$ 21,743

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						September 30, 2008					
						Underlying Collateral Performance					
						Stress Test Scenarios(4)					
Issuance Date	Delinquency Quartile	Unpaid Principal Balance	Collateral Delinquency(1)	Average Credit Enhancement(2)	Minimum Current Subordination(3)	Default Rate	Severity 50%	60%	Default Rate	Severity 50%	60%
					(dollars in millions)						
Non-agency mortgage-related securities, backed by uninsured MTA Alt-A loans:											
2005 & Prior	1	$ 1,093	19%	27%	19%	45%	$ 7	$ 39	55%	$ 52	$ 126
2005 & Prior	2	959	23	28	19	50	26	61	60	67	122
2005 & Prior	3	994	25	26	19	55	57	106	60	82	141
2005 & Prior	4	986	34	30	27	60	37	92	65	64	127
2005 & Prior subtotal		$ 4,032	25	28	19		$ 127	$ 298		$ 265	$ 516
2006	1	$ 1,884	22	16	8	45	$ 68	$ 138	55	$ 163	$ 261
2006	2	2,861	24	14	10	50	156	300	60	330	515
2006	3	2,188	28	22	11	55	73	159	60	123	228
2006	4	2,375	31	25	13	60	168	293	65	233	379
2006 subtotal		$ 9,308	26	19	8		$ 465	$ 890		$ 849	$ 1,383
2007	1	$ 1,443	10	24	14	40	$ 2	$ 15	50	$ 26	$ 68
2007	2	1,537	17	19	7	45	43	75	55	92	163
2007	3	1,522	21	12	8	50	73	148	60	166	259
2007	4	1,403	26	34	10	55	35	74	65	80	135
2007 subtotal		$ 5,905	19	22	7		$ 153	$ 312		$ 364	$ 625
Uninsured non-agency mortgage-related securities, backed by MTA Alt-A loans subtotal		$ 19,245	24	22	7		$ 745	$ 1,500		$ 1,478	$ 2,524
Non-agency mortgage-related securities, backed by MTA Alt-A loans with monoline bond insurance:											
Monoline -- no other-than-temporary		$ 415									

impairments to date	
Monoline -- other-than-temporary impairments taken	336
Subtotal non-agency mortgage-related securities, backed by MTA Alt-A loans with monoline bond insurance(5)	$ 751
Non-agency mortgage-related securities, backed by MTA Alt-A loans subtotal	$ 19,996
Total non-agency mortgage-related securities, backed by Alt-A loans	$ 41,739

(1) Determined based on loans that are 60 days or more past due that underlie the securities. Collateral delinquency percentages are calculated based on information available from third-party financial data providers.
(2) Consists of subordination, financial guarantees and other credit enhancements. Does not include the benefit of excess interest.
(3) Reflects the current credit enhancement of the lowest security in each quartile.
(4) Reflects the present value of projected economic losses based on the disclosed hypothetical cumulative default and loss severity rates against the outstanding collateral balance.
(5) Represents the amount of unpaid principal balance covered by monoline insurance coverage. This amount does not represent the maximum amount of losses we could recover, as the monoline insurance also covers interest.

Commercial mortgage-backed securities We perform an analysis of the underlying collateral on a security-by-security basis to determine whether we will receive all of the contractual payments due to us. We believe the declines in fair value are attributable to the deterioration of liquidity and larger risk premiums in the commercial mortgage-backed securities market consistent with the broader credit markets and not to the performance of the underlying collateral supporting the securities. Virtually all of these securities are currently AAA-rated and the underlying collateral continues to have positive delinquency trends and positive delinquency to credit enhancement relationships. Since we generally hold these securities to maturity, we have concluded that we have the ability and intent to hold these securities to a recovery of the unrealized losses. Obligations of states and political subdivisions These investments consist of mortgage revenue bonds. Approximately 61% and 67% of these securities held at September 30, 2008 and December 31, 2007, respectively, were AAA-rated as of those dates, based on the lowest rating available. The unrealized losses on obligations of states and political subdivisions are primarily a result of movements in interest rates. We have concluded that the impairment of these securities is temporary based on our ability and intent to hold these securities to recovery, the extent and duration of the decline in fair value relative to the amortized cost as well as a lack of any other facts or circumstances to suggest that the decline was other-than-temporary. The issuer guarantees related to these securities have led us to conclude that any credit risk is minimal.

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Table 22 summarizes our other-than-temporary impairments recorded by security type and the duration of the unrealized loss prior to impairment of less than 12 months and 12 months or greater. Table 22 -- Other-than-Temporary Impairments on Mortgage-Related Securities Recorded by Gross Unrealized Loss Position

	Three Months Ended September 30, 2008			2007		
	Gross Unrealized Loss Position					
	Less than 12 months	12 months or greater	Total	Less than 12 months	12 months or greater	Total
	(in millions)					
Mortgage-related securities:						
Subprime(1)	--	$ (1,745)	$ (1,745)	--	--	--
Alt-A and other(1)	(288)	(6,823)	(7,111)	--	--	--
Manufactured Housing(1)	(5)	--	(5)	(1)	--	(1)
Total other-than-temporary impairments	$ (293)	$ (8,568)	$ (8,861)	$ (1)	--	$ (1)

	Nine Months Ended September 30, 2008			2007		
	Gross Unrealized Loss Position					
	Less than 12 months	12 months or greater	Total	Less than 12 months	12 months or greater	Total
	(in millions)					
Mortgage-related securities:						
Subprime(1)	$ (167)	$ (2,100)	$ (2,267)	$ (1)	--	$ (1)
Alt-A and other(1)	(462)	(6,954)	(7,416)	--	--	--
Freddie Mac	--	--	--	(17)	(319)	(336)
Fannie Mae	--	--	--	--	(12)	(12)
Obligations of state and political subdivisions(1)	(58)	(10)	(68)	--	--	--
Manufactured Housing(1)	(8)	--	(8)	(2)	--	(2)
Total other-than-temporary impairments	$ (695)	$ (9,064)	$ (9,759)	$ (20)	$ (331)	$ (351)

(1) Represent securities of private-label or non-agency issuers.

During the third quarter of 2008 and 2007, we recorded impairments related to investments in mortgage-related securities of $8.9 billion and $1 million, respectively. The impairments recognized during the third quarter of 2008 related to non-agency securities backed by subprime or Alt-A and other loans, including MTA loans, primarily due to the combination of a more pessimistic view of future performance due to the economic environment and poor performance of the collateral underlying these securities. Securities backed by MTA loans accounted for $11.5 billion of the $21.7 billion of impaired unpaid principal balance and $4.9 billion of other-than-temporary impairment expense. Delinquencies on 2006 and 2007 vintage MTA loans increased 30% and 41%, respectively, during the third quarter of 2008. Securities backed by MTA loans experienced severe and sustained price declines, with prices for this category, on average, falling by approximately 18% in the third quarter of 2008, which was considerably greater than the decline experienced during the second quarter and considerably more than other major sectors of the residential mortgage-related securities market. The sector was also hit by substantial downgrades during the quarter with only 59% of the population rated AAA, versus 96% at the end of the second quarter. Due to the combination of these factors, coupled with the deterioration in economic conditions especially in California, Florida, Arizona and Nevada where we have high concentrations of MTA loans, our expectations of future performance deteriorated materially. While there is significant uncertainty around the future performance of these loans, our assessment of the probability of more favorable outcomes has declined significantly from the second quarter. The remaining securities backed by Alt-A loans, excluding MTA and other loans, accounted for $4.5 billion of impaired unpaid principal balance and $1.7 billion of other-than-temporary impairment expense with most (79%) coming from the 2006 and 2007 vintages. The loans backing these securities also saw significant increases in delinquencies, material price declines, ratings actions, and unfavorable expectations around future performance. Securities backed by 2006 and 2007 subprime loans accounted for the 4.9 billion of impaired unpaid principal balance and $1.745 billion of other-than temporary impairment expense. As with the other asset classes, a key determinant in our conclusion that impairments were other-than temporary was the considerable deterioration of economic conditions and the housing market during and subsequent to the third quarter which adversely impacted our view of future performance. Additionally, delinquencies on the 2006 and 2007 subprime loans backing these securities increased by 11% and 20%, respectively. Additionally, credit enhancements related to primary monoline bond insurance provided by two monoline insurers on individual securities in an unrealized loss position for which we have determined that it is both probable a principal and interest shortfall will occur on the insured securities and that in such a case there is substantial uncertainty surrounding the insurer's ability to pay all future claims also contributed to certain of these impairments. In making this determination, we considered our own analysis and additional qualitative factors, such as the ability of each monoline to access capital and to generate new business, pending regulatory actions, ratings agency actions, security prices and credit default swap levels traded on each monoline.

During the nine months ended September 30, 2008 and 2007, we recorded impairments related to investments in mortgage-related securities of $9.8 billion and $351 million, respectively. Of the $9.8 billion in impairments recognized during the nine months ended September 30, 2008, $9.7 billion related to non-agency securities backed by subprime or Alt-A and other loans as discussed above. Of the remaining $76 million of impairments, $68 million related to obligations of states and political subdivisions for which we did not have the intent to hold to a forecasted recovery. During the nine months ended September 30, 2007, security impairments on available-for-sale securities included $348 million attributed to agency mortgage-related securities in an unrealized loss position that we did not have the intent to hold to a forecasted recovery. Of the $348 million, $331 million related to securities where the duration of the unrealized loss prior to impairment was greater than 12 months. We rely on monoline bond insurance to provide credit protection on some of our securities held in our mortgage-related investment portfolio as well as our non-mortgage-related investment portfolio. See "CREDIT RISKS -- Institutional Credit Risk -- Mortgage and Bond Insurers" and "NOTE 15: CONCENTRATION OF CREDIT AND OTHER RISKS -- Mortgage Lenders and Insurers" to our consolidated financial statements for additional information regarding our credit risks to our counterparties and how we manage them. Table 23 shows our non-agency mortgage-related securities covered by monoline bond insurance at September 30, 2008. Table 23 -- Non-Agency Mortgage-Related Securities Covered by Monoline Bond Insurance at September 30, 2008

	Financial Guaranty Insurance Company		Syncora Guarantee Inc.		AMBAC Assurance Corporation		Financial Security Assurance Inc.		MBIA Insurance Corp.		Total	
	Unpaid principal balance	Unrealized losses(1)	Unpaid principal balance	Unrealized losses(1)	Unpaid principal balance	Unrealized losses(1)	Unpaid principal balance	Unrealized losses(1)	Unpaid principal balance	Unrealized losses(1)	Unpaid principal balance	Unrealized losses(1)
	(in millions)											
First lien subprime	$ 1,352	$ 226	$ 238	--	$ 863	$ 246	$ 525	$ 64	$ 28	$ 2	$ 3,006	$ 538
Second lien subprime	379	--	79	--	70	32	--	--	26	11	554	43
Alt-A and other	1,139	173	845	205	1,838	777	746	271	669	322	5,237	1,748
Manufactured Housing	--	--	--	--	119	12	--	--	194	26	313	38
Total	$ 2,870	$ 399	$ 1,162	$ 205	$ 2,890	$ 1,067	$ 1,271	$ 335	$ 917	$ 361	$ 9,110	$ 2,367

(1) Represent the amount of unrealized losses at September 30, 2008 on the securities with monoline insurance.

Included in Table 23 is $2.0 billion of unpaid principal balance that was impaired due to our determination that it was both probable that a principal and interest shortfall would occur on the insured securities and that in such a case there is substantial uncertainty surrounding two monoline insurers ability to pay all future claims, as previously discussed. For the remaining securities covered by the insurers that may not have the ability to pay future claims we do not currently believe that it is probable that a principal or interest shortfall will occur on these securities. This assessment requires significant judgment and is subject to change as our assessments of future performance are updated. See "CREDIT RISKS -- Institutional Credit Risk -- Mortgage and Bond Insurers" for a discussion of our expectations regarding the claims paying abilities of these insurers and "CREDIT RISKS -- Table 38 -- Monoline Bond Insurance by Counterparty" for the ratings of these insurers as of November 10, 2008. Table 24 shows the ratings of available-for-sale non-agency mortgage-related securities backed by subprime loans held at September 30, 2008 based on their ratings as of September 30, 2008. Tables 24, 25, 26 and 28 used the lowest rating available for each security. Table 24 -- Ratings of Available-For-Sale Non-Agency Mortgage-Related Securities backed by Subprime Loans at September 30, 2008

Credit Rating as of September 30, 2008	Unpaid Principal Balance	Amortized Cost	Gross Unrealized Losses	Monoline Insurance Coverage(1)
	(in millions)			
Investment grade:				
AAA-rated	$ 37,787	$ 37,708	$ (5,376)	$ 532
Other investment grade	25,918	25,614	(5,133)	1,694
Below investment grade	16,037	14,164	(3,046)	1,334
	$ 79,742	$ 77,486	$ (13,555)	$ 3,560

(1) Represents the amount of unpaid principal balance covered by monoline insurance coverage. This amount does not represent the maximum amount of

losses we could recover, as the monoline insurance also covers interest.

Table 25 shows the percentage of unpaid principal balance of non-agency mortgage-related securities at September 30, 2008 based on the ratings of available-for-sale non-agency mortgage-related securities backed by subprime loans as of September 30 and November 10, 2008. We estimate that the gross unrealized losses on these securities have not changed significantly and we continue to receive substantial monthly remittances of principal repayments on these securities.

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Table 25 -- Ratings of Available-For-Sale Non-Agency Mortgage-Related Securities backed by Subprime Loans at September 30, 2008 and November 10, 2008

	Credit Ratings as of	
Percentage of Unpaid Principal Balance at September 30, 2008	September 30, 2008	November 10, 2008
Investment grade:		
AAA-rated	47%	36%
Other investment grade	33	37
Below investment grade	20	27
	100%	100%

Table 26 shows the ratings of available-for-sale non-agency mortgage-related securities backed by Alt-A and other loans held at September 30, 2008 based on their ratings as of September 30, 2008. Table 26 -- Ratings of Available-for-Sale Non-Agency Mortgage-Related Securities backed by Alt-A and Other Loans at September 30, 2008

Credit Rating as of September 30, 2008	Unpaid Principal Balance	Amortized Cost	Gross Unrealized Losses	Monoline Insurance Coverage(1)
		(in millions)		
Investment grade:				
AAA-rated	$ 29,085	$ 27,209	$ (7,098)	$ 1,103
Other investment grade	11,932	8,453	(1,464)	3,100
Below investment grade	4,975	3,013	(294)	1,034
	$ 45,992	$ 38,675	$ (8,856)	$ 5,237

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

Table 27 shows the percentage of unpaid principal balance at September 30, 2008 based on the rating of available-for-sale non-agency mortgage-related securities backed by Alt-A and other loans as of September 30 and November 10, 2008. Table 27 -- Ratings of Available-for-Sale Non-Agency Mortgage-Related Securities backed by Alt-A and Other Loans at September 30, 2008 and November 10, 2008

Percentage of Unpaid Principal Balance at September 30, 2008	Credit Rating as of September 30, 2008	November 10, 2008
Investment grade:		
AAA-rated	63%	55%
Other investment grade	26	27
Below investment grade	11	18
	100%	100%

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Derivative Assets and Liabilities, Net at Fair Value Table 28 shows the notional or contractual amounts and fair value for each derivative type and the maturity profile of the derivative positions. The fair values of the derivative positions are presented on a product-by-product basis, without netting by counterparty. Table 28 -- Derivative Fair Values and Maturities

	September 30, 2008					
			Fair Value(1)			
	Notional or Contractual Amount	Total Fair Value(2)	Less than 1 Year	1 to 3 Years	Greater than 3 and up to 5 Years	In Excess of 5 Years
	(dollars in millions)					
Interest-rate swaps:						
Receive-fixed:						
Swaps	$ 287,167	$ 1,172	$ (8)	$ 431	$ (330)	$ 1,079
Weighted-average fixed rate(3)			4.29%	3.71%	3.99%	4.75%
Forward-starting swaps(4)	42,661	510	--	11	(15)	514
Weighted-average fixed rate(3)			--	3.57%	4.47%	4.98%
Total receive-fixed	329,828	1,682	(8)	442	(345)	1,593
Basis (floating to floating)	82,205	(76)	17	(89)	--	(4)
Pay-fixed:						
Swaps	302,102	(5,087)	(97)	(530)	(640)	(3,820)
Weighted-average fixed rate(3)			5.08%	3.67%	4.41%	4.83%
Forward-starting swaps(4)	150,531	(4,488)	--	11	(29)	(4,470)
Weighted-average fixed rate(3)			--	3.40%	4.40%	5.09%
Total pay-fixed	452,633	(9,575)	(97)	(519)	(669)	(8,290)
Total interest-rate swaps	864,666	(7,969)	(88)	(166)	(1,014)	(6,701)
Option-based:						
Call swaptions						

Purchased	184,022	7,173	552	1,841	1,487	3,293
Put swaptions						
Purchased	36,550	1,388	71	577	278	462
Written	6,000	(134)	--	(69)	(65)	--
Other option-based derivatives(5)	66,956	1,210	(12)	(5)	(7)	1,234
Total option-based	293,528	9,637	611	2,344	1,693	4,989
Futures	245,535	(96)	(82)	(14)	--	--
Foreign-currency swaps	13,688	3,210	296	1,610	1,002	302
Forward purchase and sale commitments	199,811	984	984	--	--	--
Swap guarantee derivatives	2,838	(10)	--	--	--	(10)
Subtotal	1,620,066	5,756	$ 1,721	$ 3,774	$ 1,681	$ (1,420)
Credit derivatives	12,160	22				
Total	$ 1,632,226	$ 5,778				

(1) Fair value is categorized based on the period from September 30, 2008 until the contractual maturity of the derivative.
(2) The value of derivatives on our consolidated balance sheets is reported as derivative assets, net and derivative liability, net, and includes derivative interest receivable or (payable), net, trade/settle receivable or (payable), net and derivative cash collateral (held) or posted, net. Refer to "CONSOLIDATED RESULTS OF OPERATIONS -- Table 9 -- Summary of the Effect of Derivatives on Selected Consolidated Financial Statement Captions" for reconciliation of fair value to the amounts presented on our consolidated balance sheets as of September 30, 2008.
(3) Represents the notional weighted average rate for the fixed leg of the swaps.
(4) Represents interest-rate swap agreements that are scheduled to begin on future dates ranging from less than one year to ten years.
(5) Primarily represents purchased interest rate caps and floors, as well as written options, including guarantees of stated final maturity of issued Structured Securities and written call options on PCs we issued.

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Table 29 summarizes the changes in derivative fair values. Table 29 -- Changes in Derivative Fair Values

	Nine Months Ended September 30,(1) 2008	2007
	(in millions)	
Beginning balance -- net asset (liability)	$ 4,790	$ 7,720
Net change in:		
Forward purchase and sale commitments	657	179

Credit derivatives	12	3
Swap guarantee derivatives	(6)	--
Other derivatives:(2)		
Changes in fair value	(3,015)	(754)
Fair value of new contracts entered into during the period(3)	3,258	878
Contracts realized or otherwise settled during the period	82	(1,089)
Ending balance -- net asset (liability)	$ 5,778	$ 6,937

(1) The value of derivatives on our consolidated balance sheets is reported as derivative assets, net and derivative liability, net, and includes derivative interest receivable (payable), net, trade/settle receivable (payable), net and derivative cash collateral (held) posted, net. Refer to "CONSOLIDATED RESULTS OF OPERATIONS -- Table 9 -- Summary of the Effect of Derivatives on Selected Consolidated Financial Statement Captions" for reconciliation of fair value to the amounts presented on our consolidated balance sheets as of September 30, 2008 and January 1, 2008. Fair value excludes derivative interest receivable, net of $1.8 billion, trade/settle receivable or (payable), net of $-- billion and derivative cash collateral held, net of $8.2 billion at September 30, 2007. Fair value excludes derivative interest receivable, net of $2.3 billion, trade/settle receivable or (payable), net of $-- billion and derivative cash collateral held, net of $9.5 billion at January 1, 2007.
(2) Includes fair value changes for interest-rate swaps, option-based derivatives, futures, foreign-currency swaps and interest-rate caps.
(3) Consists primarily of cash premiums paid or received on options.

Table 30 provides information on our outstanding written and purchased swaption and option premiums at September 30, 2008 and December 31, 2007, based on the original premium receipts or payments. Table 30 -- Outstanding Written and Purchased Swaption and Option Premiums

	Original Premium Amount (Paid) Received	Original Weighted Average Life to Expiration	Remaining Weighted Average Life
	(dollars in millions)		
Purchased:(1)			
At September 30, 2008	$ (6,608)	8.0 years	6.6 years
At December 31, 2007	$ (5,478)	7.8 years	6.0 years
Written:(2)			
At September 30, 2008	$ 205	2.6 years	2.1 years
At December 31, 2007	$ 87	3.0 years	2.6 years

(1) Purchased options exclude callable swaps.
(2) Excludes written options on guarantees of stated final maturity of Structured Securities.

Guarantee Asset See "CONSOLIDATED RESULTS OF OPERATIONS -- Non-Interest Income -- Gains (Losses) on Guarantee Asset" for a description of, and an attribution of other changes in, the guarantee asset. Table 31 summarizes the changes in the guarantee asset balance. Table 31 -- Changes in Guarantee Asset

Nine Months Ended September 30,

	2008	2007
	(in millions)	
Beginning balance	$ 9,591	$ 7,389
Additions	2,177	2,646
Other(1)	(87)	--
Components of fair value gains (losses):		
Return of investment on guarantee asset	(1,382)	(1,266)
Changes in fair value of management and guarantee fees	(620)	1,098
Gains (losses) on guarantee asset	(2,002)	(168)
Ending balance	$ 9,679	$ 9,867

(1) Represents a reduction in our guarantee asset associated with the extinguishment of our previously issued long-term credit guarantees upon conversion into either PCs or Structured Transactions within the same month.

The decrease in additions to our guarantee asset during the nine months ended September 30, 2008 compared to the nine months ended September 30, 2007 is primarily due to a decrease in our overall issuance volume of our guaranteed securities. Our issuance volume decreased during the nine months ended September 30, 2008 as the housing market has slowed, particularly in the third quarter of 2008.

Losses on guarantee asset increased for the nine months ended September 30, 2008 compared to the nine months ended September 30, 2007. The increased losses are due to a greater decline in market valuations for interest-only mortgage securities, which we use to value our guarantee asset in part due a larger decrease in interest rates during the nine months ended September 30, 2008 compared to the same period in 2007. Real Estate Owned, Net We acquire residential properties in satisfaction of borrower defaults on mortgage loans that we own or for which we have issued our financial guarantees. The balance of our REO, net increased substantially to $3.2 billion at September 30, 2008 from $1.7 billion at December 31, 2007. The increase was driven by a 95% increase of our single-family property inventory during the nine months ended September 30, 2008, with the most significant amount of acquisitions in the states of California, Arizona, Florida, Michigan, Virginia, Georgia and Nevada. REO acquisitions in these states generally have higher average property values due to home price appreciation prior to the more recent decreases in home prices. See "CREDIT RISKS -- Credit Performance" for additional information. Deferred Tax Assets Deferred tax assets and liabilities are recognized based upon the expected future tax consequences of existing temporary differences between the financial reporting and the tax reporting basis of assets and liabilities using enacted statutory tax rates. Valuation allowances are recorded to reduce net deferred tax assets when it is more likely than not that a tax benefit will not be realized. The realization of our net deferred tax assets is dependent upon the generation of sufficient taxable income or upon our intent and ability to hold available-for-sale debt securities until the recovery of any temporary unrealized losses. On a quarterly basis, our management determines whether a valuation allowance is necessary. In so doing, our management considers all evidence currently available, both positive and negative, in determining whether, based on the weight of that evidence, the net deferred tax asset will be realized and whether a valuation allowance is necessary. Based upon a thorough evaluation of all available evidence as of

September 30, 2008, we determined that it was more likely than not that a portion of our deferred tax assets would not be realized due to our inability to generate sufficient taxable income. This determination was as a result of the events and developments that occurred during the third quarter of 2008 related to the conservatorship of the company, other recent events in the market, and related difficulty in forecasting future profit levels on a continuing basis. As a result, in the third quarter of 2008, we recorded a $14.1 billion partial valuation allowance against our net deferred tax assets of $25.9 billion. After the valuation allowance, we had a net deferred tax asset of $11.9 billion representing the tax effect of unrealized losses on our available-for-sale debt securities, which management believes is more likely than not of being realized because of our intent and ability to hold these securities until the unrealized losses are recovered. For additional information, see "NOTE 12: INCOME TAXES -- Deferred Tax Asset" to our consolidated financial statements and "CRITICAL ACCOUNTING POLICIES AND ESTIMATES -- Realizability of Net Deferred Tax Asset". Guarantee Obligation See "CONSOLIDATED RESULTS OF OPERATIONS -- Non-Interest Income -- Income on Guarantee Obligation" for a description of the components of the guarantee obligation. Table 32 summarizes the changes in the guarantee obligation balance. Table 32 -- Changes in Guarantee Obligation

	Nine Months Ended September 30,	
	2008	2007
	(in millions)	
Beginning balance	$ 13,712	$ 9,482
Transfer-out to the loan loss reserve(1)	(15)	(1)
Deferred guarantee income of newly-issued guarantees	3,025	3,784
Other(2)	(127)	--
Amortization income:		
Static effective yield	(1,940)	(1,223)
Cumulative catch-up	(781)	(154)
Income on guarantee obligation	(2,721)	(1,377)
Ending balance	$ 13,874	$ 11,888

(1) Represents portions of the guarantee obligation that correspond to incurred credit losses reclassified to reserve for guarantee losses on PCs.
(2) Represents a reduction in our guarantee obligation associated with the extinguishment of our previously issued long-term credit guarantees upon conversion into either PCs or Structured Transactions within the same month.

The primary drivers affecting our guarantee obligation balances are our credit guarantee business volumes, fair values of performance obligations on new guarantees and liquidation rates on the existing portfolio. On January 1, 2008, we adopted SFAS 157, which amended FIN 45. Upon implementation of SFAS 157, we changed the manner in which we measure the guarantee obligation we record for all of our newly-issued guarantees. Effective January 1, 2008, the fair value of the

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guarantee obligation for all newly-issued guarantee contracts is measured as being equal to the total compensation received for providing the guarantee, as a practical expedient. Therefore, we no longer recognize losses or defer gains at the inception for most of our guarantee contracts. However, guarantee obligations created before January 1, 2008 were not affected by the adoption of SFAS 157 and will continue to be subsequently amortized into earnings using a static effective yield method. For further information regarding accounting and measurement of our guarantee obligation, see "NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- Change in Accounting Principles" in the notes to our consolidated financial statements. This change had a significant positive impact on our financial results for the three and nine months ended September 30, 2008. Deferred guarantee income of newly-issued guarantees decreased for the nine months ended September 30, 2008, compared to the nine months ended September 30, 2007. The decrease was primarily a result of our change in approach to determining fair value at initial issuance of our guarantees discussed above, coupled with the lower volume of guarantee issuances during the nine months ended September 30, 2008 as compared to the nine months ended September 30, 2007. We issued $314 billion and $357 billion of our PCs and Structured Securities during the nine months ended September 30, 2008 and 2007, respectively. See "CONSOLIDATED RESULTS OF OPERATIONS -- Non-Interest Income -- Income on Guarantee Obligation" for a discussion of amortization income related to our guarantee obligation. Total Stockholders' Equity (Deficit) Total stockholders' equity (deficit) at September 30, 2008 reflects the following actions as a result of the Purchase Agreement:

ù Preferred stock increased by $1 billion reflecting the issuance of senior preferred stock to Treasury.
ù We issued a warrant to Treasury with an estimated value of $2.3 billion for the purchase of our common stock representing 79.9% of our common stock outstanding on a fully diluted basis at the time of exercise at a price of $0.00001 per share.

We issued the senior preferred stock and the warrant to Treasury in consideration for the commitment set forth in the Purchase Agreement, and for no other consideration. As a result, the issuance of the senior preferred stock and warrant to Treasury had no impact on total stockholders' equity (deficit) as the offset was to additional paid-in capital. The first dividend on the senior preferred stock will be payable on December 31, 2008. If we choose not to pay this dividend in cash, the amount of the dividend payable will be added to the aggregate liquidation preference of the senior preferred stock.

ù Without the consent of Treasury, we are restricted from making payments to purchase or redeem our common or preferred stock as well as paying any dividends, including preferred dividends, other than dividends on the senior preferred stock. We did not declare common or preferred dividends during the third quarter of 2008.

Total stockholders' equity (deficit) also reflects the following actions of the Director of FHFA, as Conservator:

ù The elimination of the par value of our common stock which resulted in the reclassification of $152 million from common stock to additional paid-in-capital on our consolidated balance sheet as of September 30, 2008.
ù An increase in the number of common shares available for issuance to four billion shares as of September 30, 2008.

See "EXECUTIVE SUMMARY" for additional information regarding our Purchase Agreement with Treasury and actions taken by FHFA, as Conservator. Total stockholders' equity (deficit) decreased $40.5 billion during the nine months ended September 30, 2008. This decrease was primarily a result of a net loss of $26.3 billion during the nine months ended September 30, 2008, a $14.5 billion net decrease in AOCI, and $0.8 billion of common and preferred stock dividends declared prior to conservatorship, which was partially offset by an increase of $1.0 billion to our beginning retained earnings as a result of the adoption of SFAS 159. The balance of AOCI at September 30, 2008 was a net loss of approximately $25.6 billion, net of taxes, compared to a net loss of $11.1 billion, net of taxes, at December 31, 2007. The increase in the net loss in AOCI was primarily attributable to unrealized losses on our non-agency single-family mortgage-related securities backed by subprime loans as well as Alt-A and other loans, and commercial mortgage-backed securities with changes in net unrealized losses, net of taxes, recorded in AOCI of $12.0 billion for the nine months ended September 30, 2008. In addition, we reclassified a net gain of $0.9 billion, net of taxes, from AOCI to retained earnings in adopting SFAS 159 that was partially offset by the reclassification from AOCI to earnings of deferred losses related to closed cash flow hedges. See "Retained Portfolio -- Non-agency Mortgage-related Securities Backed by Subprime Loans" and "Retained Portfolio -- Non-agency Mortgage-related Securities Backed by Alt-A and Other Loans" for more information regarding mortgage-related securities backed by subprime loans as well as Alt-A and other loans. FHFA has directed us to focus our risk and capital management activities on maintaining a positive balance of GAAP stockholders' equity in order to reduce the likelihood that we will need to make a draw on the Purchase Agreement. At September 30, 2008, our liabilities exceeded our assets under GAAP by $(13.7) billion while our stockholders' equity (deficit) totaled $(13.8) billion. The Director of FHFA has submitted a request under the Purchase Agreement in the amount

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of $13.8 billion to Treasury. We expect to receive such funds by November 29, 2008. If the Director of FHFA were to determine in writing that our assets are, and have been for a period of 60 days, less than our obligations to creditors and others, FHFA would be required to place us into receivership. As a result of this draw, the aggregate liquidation preference of the senior preferred stock will increase to $14.8 billion, and our annual aggregate dividend payment to Treasury, at the 10% dividend rate, would increase to $1.5 billion. If we are unable to pay such dividend in cash in any quarter, the unpaid amount will be added to the aggregate liquidation preference of the senior preferred stock and the dividend rate on the unpaid liquidation preference will increase to 12% per year.

CONSOLIDATED FAIR VALUE BALANCE SHEETS ANALYSIS

Our consolidated fair value balance sheets include the estimated fair values of financial instruments recorded on our consolidated balance sheets prepared in conformity with GAAP, as well as off-balance sheet financial instruments that represent our assets or liabilities that are not recorded on our GAAP consolidated balance sheets. See "NOTE 14: FAIR VALUE DISCLOSURES -- Table 14.4 -- Consolidated Fair Value Balance Sheets" to our consolidated financial statements for our fair value balance sheets. These off-balance sheet items predominantly consist of: (a) the unrecognized guarantee asset and guarantee obligation associated with our PCs issued through our guarantor swap program prior to the implementation of FIN 45 in 2003; (b) certain commitments to purchase mortgage loans; and (c) certain credit enhancements on manufactured housing asset-backed securities. The fair value balance sheets also include certain assets and liabilities that are not financial instruments (such as property and equipment and REO, which are included in other assets) at their carrying value in conformity with GAAP. During the nine months ended September 30, 2008, our fair value results as presented in our consolidated fair value balance sheets were affected by several improvements in our approach for estimating the fair value of certain financial instruments. See "CRITICAL ACCOUNTING POLICIES AND ESTIMATES" as well as "NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES" and "NOTE 14: FAIR VALUE DISCLOSURES" to our consolidated financial statements for more information on fair values. We use a number of financial models in the preparation of our consolidated fair value balance sheets. See "ITEM 4T. CONTROLS AND PROCEDURES" in this Form 10-Q and "ITEM 1A. RISK FACTORS" and "ITEM 2. FINANCIAL INFORMATION -- ANNUAL MD&A -- QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK -- Interest-Rate Risk and Other Market Risks" in our Registration Statement for information concerning the risks associated with our use of these models. Table 33 shows our summary of change in the fair value of net assets. Table 33 -- Summary of Change in the Fair Value of Net Assets

	Nine Months Ended September 30,	
	2008	2007
	(in billions)	
Beginning balance	$ 12.6	$ 31.8
Changes in fair value of net assets, before capital transactions	(54.1)	(7.7)
Capital transactions:		
Dividends, share repurchases and issuances, net	(0.9)	(0.3)
Ending balance	$ (42.4)	$ 23.8

Discussion of Fair Value Results During the nine months ended September 30, 2008, the fair value of net assets, before capital transactions, decreased by $54.1 billion, compared to a $7.7 billion decrease during the nine months ended September 30, 2007. See "NOTE 14: FAIR VALUE DISCLOSURES" to our consolidated financial statements for information regarding the impact of changes in our approach for estimating the fair value of certain financial instruments. The payment of common stock and preferred stock dividends, net of reissuance of treasury stock, for the nine months ended September 30, 2008 reduced total fair value by $0.9 billion. The fair value of net assets as of September 30, 2008 was $(42.4) billion, compared to $12.6 billion as of December 31, 2007. Included in the reduction of the fair value of net assets is $19.4 billion related to our partial valuation allowance against our deferred tax asset for the nine months ended September 30, 2008. Our attribution of changes in the fair value of net assets relies on models, assumptions and other measurement techniques that evolve over time. The following attribution of changes in fair value reflects our current estimate of the items presented (on a pre-tax basis) and excludes the effect of returns on capital and administrative expenses. During the nine months ended September 30, 2008, our investment activities decreased fair value by approximately $28.7 billion. This estimate includes declines in fair value of approximately $32.2 billion attributable to net mortgage-to-debt OAS widening. Of this amount, a reduction of approximately $28.2 billion related to the impact of the net mortgage-to-debt OAS widening on our portfolio of non-agency, single-family mortgage-related asset-backed securities with a limited, but increasing amount attributable to the risk of future losses, as well as a decrease in negative fair value of $11.9 billion from our preferred stock. The reduction in fair value was partially offset by our higher core spread income. Core spread income on

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our retained portfolio is a fair value estimate of the net current period accrual of income from the spread between mortgage-related investments and debt, calculated on an option-adjusted basis. Our investment activities decreased fair value by approximately $6.3 billion during the nine months ended September 30, 2007. This estimate includes declines in fair value of approximately $9.7 billion attributable to net mortgage- to-debt OAS widening. Of this amount, approximately $3.7 billion was related to the impact of the net mortgage-to-debt OAS widening on our portfolio of non-agency mortgage-related securities. The impact of mortgage-to-debt OAS widening during the last nine months of 2007 and the nine months ended September 30, 2008 and the resulting fair value losses increases the likelihood that, in future periods, we will be able to recognize core spread income at net mortgage-to-debt OAS of approximately 190 to 210 basis points in the long run, as compared to approximately 60 to 70 basis points estimated for the nine months ended September 30, 2007. As market conditions change, our estimate of expected fair value gains from OAS may also change, leading to significantly different fair value results. During the nine months ended September 30, 2008, our credit guarantee activities, including our single-family whole loan credit exposure, decreased fair value by an estimated $17.3 billion. This estimate includes an increase in the single-family guarantee obligation of approximately $16.2 billion, primarily due to a declining credit environment. This increase in the single-family guarantee obligation includes a reduction of $7.1 billion in the fair value of our guarantee obligation recorded on January 1, 2008, as a result of our adoption of SFAS 157. Our credit guarantee activities decreased fair value by an estimated $5.8 billion during the nine months ended September 30, 2007. This estimate includes an increase in the single-family guarantee obligation of approximately $10.2 billion, primarily attributable to the market's pricing of mortgage credit. This increase in the single-family guarantee obligation was partially offset by a fair value increase in the single-family guarantee asset of approximately $2.5 billion and the receipt of cash primarily related to management and guarantee fees and other up-front fees related to new business. LIQUIDITY AND CAPITAL RESOURCES Our business activities require that we maintain adequate liquidity to fund our operations, which may include the need to make payments upon the maturity, redemption or repurchase of our debt securities; purchase mortgage loans, mortgage-related securities and other investments; make payments of principal and interest on our debt securities and on our PCs and Structured Securities; make net payments on derivative instruments; and pay dividends on our senior preferred stock. See "RISK MANAGEMENT AND DISCLOSURE COMMITMENTS" for a discussion of our agreement with FHFA to maintain and periodically test a liquidity management and contingency plan. Pursuant to this agreement, FHFA periodically assesses the size of our liquidity portfolio. We fund our cash requirements primarily by issuing short-term and long-term debt. Other sources of cash include:

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

The Reform Act provides the Secretary of the Treasury with temporary authority, until December 31, 2009, to purchase any obligations and other securities we issue under certain circumstances. On September 7, 2008, we entered into the Purchase Agreement with Treasury. As consideration for Treasury's entry into the Purchase Agreement and for no additional consideration, we have issued senior preferred stock with an initial aggregate liquidation preference of $1 billion to Treasury, together with a warrant for the purchase of common stock representing 79.9% of our common stock outstanding on a fully diluted basis, determined as of the exercise date. The senior preferred stock is senior to all other existing or future issues of preferred stock, common stock or other capital stock of Freddie Mac, and will pay quarterly cumulative dividends at a rate of 10% per year, or 12% if, in any quarter, the dividends are not paid in cash, until all accrued dividends have been paid in cash. The warrant is not transferable and is exercisable in whole or in part at any time through September 7, 2028 at a price of $0.00001 per share. The issuance of the senior preferred stock and warrant to Treasury had no impact on total stockholders' equity (deficit) as the initial commitment was recorded in additional paid-in capital and had no impact on our cash flows. The Purchase Agreement provides that, if FHFA determines that our liabilities exceed our assets under GAAP, Treasury will contribute funds in an amount equal to the difference between such liabilities and assets; a higher amount may be drawn if Treasury and Freddie Mac mutually agree that the draw should be increased beyond the level by which liabilities exceed assets under GAAP. The maximum aggregate amount of funding that may be contributed under the Purchase Agreement is $100 billion. An amount equal to each such contribution will be added to the aggregate liquidation preference of the senior preferred stock.

In an effort to conserve capital, on September 7, 2008, FHFA, as Conservator, announced the elimination of dividends on our common stock and preferred stock, excluding dividends paid on the senior preferred stock issued to Treasury under the Purchase Agreement. On September 18, 2008, we entered into a Lending Agreement with Treasury under which we may, in accordance with our charter, as amended by the Reform Act, borrow from and pledge collateral to Treasury. The Lending Agreement does not specify the maturities or interest rate of loans that may be made by Treasury under the credit facility. In a Fact Sheet regarding the credit facility published by Treasury on September 7, 2008, Treasury indicated that loans made pursuant to the credit facility will be for short-term durations and would in general be expected to be for less than one month but no shorter than one week. The Fact Sheet further indicated that the interest rate on loans made pursuant to the credit facility ordinarily will be based on the daily LIBOR fixed for a similar term of the loan plus 50 basis points. Given that the interest rate we are likely to be charged under the credit facility will be significantly higher than the rates we have historically achieved through the sale of unsecured debt, use of the facility in significant amounts could have a material adverse impact on our financial results. The Lending Agreement shall terminate on December 31, 2009, but shall remain in effect as to any loan outstanding on that date. On September 19, 2008, FHFA, as Conservator, advised us of FHFA's determination that no further common or preferred stock dividends should be paid by our real estate investment trust, or REIT, subsidiaries, Home Ownership Funding Corporation and Home Ownership Funding Corporation II. Since we are the majority owner of both the common and preferred shares of these two REITs, this action has eliminated our access through such dividend payments to the cash flows of the REITs. On October 9, 2008, FHFA announced that it was suspending capital classification of Freddie Mac during conservatorship in light of the Purchase Agreement. FHFA will continue to closely monitor capital levels, but the existing statutory and FHFA-directed regulatory capital requirements will not be binding during conservatorship. FHFA will publish relevant capital figures (minimum capital requirement, core capital and GAAP net worth) but does not intend to publish our critical capital, risk-based capital or subordinated debt levels during conservatorship. FHFA has directed us to focus our risk and capital management activities on maintaining a positive balance of GAAP stockholders' equity in order to reduce the likelihood that we will need to make a draw on the Purchase Agreement with Treasury. At September 30, 2008, our liabilities exceeded our assets under GAAP by $(13.7) billion while our stockholders' equity (deficit) totaled $(13.8) billion. The Director of FHFA has submitted a request under the Purchase Agreement in the amount of $13.8 billion to Treasury. We expect to receive such funds by November 29, 2008. If the Director of FHFA were to determine in writing that our assets are, and have been for a period of 60 days, less than our obligations to creditors and others, FHFA would be required to place us into receivership. As a result of this draw, the aggregate liquidation preference of the senior preferred stock will increase to $14.8 billion, and our annual aggregate dividend payment to Treasury, at the 10% dividend rate, would increase to $1.5 billion. If we are unable to pay such dividend in cash in any quarter, the unpaid amount will be added to the aggregate liquidation preference of the senior preferred stock and the dividend rate on the unpaid liquidation preference will increase to 12% per year. On October 3, 2008, the U.S. Congress passed EESA, which among other actions, gave further authority to Treasury to purchase or guarantee financial assets from financial institutions in the public market. Subsequently, Treasury has taken several unprecedented steps to bolster liquidity and confidence in the U.S. financial markets. On October 14, 2008, Treasury announced a plan under EESA to increase capital in U.S. banks under which: (a) Treasury would invest $250 billion in senior preferred stock in financial institutions, (b) FDIC would expand insurance of deposits in FDIC-insured institutions, with delayed increases in the related FDIC insurance premiums and provide a 100% guarantee for newly issued senior unsecured debt of FDIC-insured institutions, and (c) the Federal Reserve would expand its Commercial Paper Funding Program, or CPFF, to provide a backstop to the market by funding commercial paper issuances of 3-month maturities from high-quality issuers. These actions are designed to improve the liquidity and stability of U.S. financial institutions, including our seller/servicers and institutional counterparties. See "Debt Securities" for a discussion of how we have been directly affected by the disruption in corporate credit markets. In addition, the Reform Act that became effective on July 30, 2008, requires us to set aside in each fiscal year, an amount equal to 4.2 basis points for each dollar of the unpaid principal balance of total new business purchases, and allocate or transfer such amount to HUD to (i) fund a Housing Trust Fund established and managed by HUD and (ii) to a Capital Magnet Fund established and managed by Treasury. The amount of our first contribution has not yet been determined. FHFA has the authority to suspend our allocation upon finding that the payment would contribute to our financial instability, cause us to be classified as undercapitalized or prevent us from successfully completing a capital restoration plan. We have been advised by FHFA that FHFA has temporarily suspended the requirement to set aside or allocate funds for the Housing Trust Fund and the Capital Magnet Fund.

Debt Securities Table 34 summarizes the par value of the debt securities we issued, based on settlement dates, during the three and nine months ended September 30, 2008 and 2007. We seek to maintain a variety of consistent, active funding programs that promote high-quality coverage by market makers and reach a broad group of institutional and retail investors. By diversifying our investor base and the types of debt securities we offer, we believe we enhance our ability to maintain continuous access to the debt markets under a variety of market conditions. We repurchase or call our outstanding debt securities from time to time to help support the liquidity and predictability of the market for our debt securities and to manage our mix of liabilities funding our assets. Over the course of the past year, worldwide financial markets have experienced almost unprecedented levels of volatility. This has been particularly true over the latter half of the third quarter of 2008 as market participants struggled to digest the new government initiatives, including our conservatorship. In this environment where demand for debt instruments weakened considerably, the debt funding markets are sometimes frozen, and our ability to access both the term and callable debt markets has been limited, we have relied increasingly on the issuance of shorter-term debt at higher interest rates. While we use interest rate derivatives to economically hedge a significant portion of our interest rate exposure, we are exposed to risks relating to both our ability to issue new debt when our outstanding debt matures and to the variability in interest costs on our new issuances of debt. The Purchase Agreement provides that, without the prior consent of Treasury, we shall not increase our indebtedness to more than 110% of our indebtedness as of June 30, 2008 or become liable for any subordinated indebtedness. The Purchase

Agreement defines indebtedness as follows:

(a) all obligations for money borrowed;
(b) all obligations evidenced by bonds, debentures, notes or similar instruments;
(c) all obligations under conditional sale or other title retention agreements relating to property or assets purchased;
(d) all obligations issued or assumed as the deferred purchase price of property or services, other than trade accounts payable;
(e) all capital lease obligations;
(f) obligations, whether contingent or liquidated, in respect of letters of credit (including standby and commercial), bankers' acceptances and similar instruments; and
(g) any obligation, contingent or otherwise, guaranteeing or having the economic effect of guaranteeing any indebtedness of the types set forth in items (a) through (f) payable by us other than mortgage guarantee obligations.

Based on our interpretation of this definition, we estimate that the balance of our indebtedness at September 30, 2008 did not exceed 110% of the balance of indebtedness at June 30, 2008. Table 34 -- Debt Security Issuances by Product, at Par Value(1)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(in millions)			
Short-term debt:				
Reference Bills(R) securities and discount notes	$ 153,553	$ 134,369	$ 538,468	$ 392,861
Medium-term notes -- callable	1,125	775	11,255	2,975
Medium-term notes -- non-callable	--	100	4,500	202
Total short-term debt	154,678	135,244	554,223	396,038
Long-term debt:				
Medium-term notes -- callable(2)	13,444	16,394	137,552	89,734
Medium-term notes -- non-callable	1,701	3,271	39,743	24,486
U.S. dollar Reference Notes(R) securities -- non-callable	11,000	11,000	43,000	40,000
Total long-term debt	26,145	30,665	220,295	154,220
Total debt securities issued	$ 180,823	$ 165,909	$ 774,518	$ 550,258

(1) Exclude securities sold under agreements to repurchase and federal funds purchased, lines of credit and securities sold but not yet purchased.
(2) For the third quarter of 2008 and 2007, includes $2.3 billion and $145 million accounted for as debt exchanges, respectively. For the nine months ended September 30, 2008 and 2007, includes $9.5 billion and $145 million accounted for as debt exchanges, respectively.

Subordinated Debt During the third quarter of 2008, we did not call or issue any Freddie SUBS(R) securities. At both September 30, 2008 and December 31, 2007, the balance of our subordinated debt outstanding was $4.5 billion. Our subordinated debt in the form of Freddie SUBS(R) securities is a component of our risk management and disclosure commitments with FHFA. See "RISK MANAGEMENT AND DISCLOSURE COMMITMENTS" for a discussion of changes affecting our subordinated debt as a result of our placement in conservatorship and the Purchase Agreement, and the Conservator's suspension of certain

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requirements relating to Freddie Mac subordinated debt. Under the Purchase Agreement, we may not issue subordinated debt without Treasury's consent. Credit Ratings Table 35 indicates our credit ratings as of November 10, 2008. After FHFA placed us into conservatorship and announced the elimination of our preferred stock dividends in September 2008, our preferred stock ratings were changed by three nationally recognized statistical rating organizations. Table 35 -- Freddie Mac Credit Ratings

	Nationally Recognized Statistical Rating Organization		
	Standard & Poor's	Moody's	Fitch
Senior long-term debt(1)	AAA	Aaa	AAA
Short-term debt(2)	A-1+	P-1	F1+
Subordinated debt(3)	A	Aa2	AA-
Preferred stock(4)	C	Ca	C/RR6

(1) Consists of medium-term notes, U.S. dollar Reference Notes(R) securities and €Reference Notes(R) securities.
(2) Consists of Reference Bills(R) securities and discount notes.
(3) Consists of Freddie SUBS(R) securities only.
(4) Does not include senior preferred stock issued to Treasury.

A security rating is not a recommendation to buy, sell or hold securities. It may be subject to revision or withdrawal at any time by the assigning rating organization. Each rating should be evaluated independently of any other rating. Equity Securities See "PART II -- ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS" for information about issuances of our equity securities in the third quarter of 2008. The Purchase Agreement provides that, without the prior consent of Treasury, we cannot issue capital stock of any kind other than the senior preferred stock, the warrant issued to Treasury or any shares of common stock issued pursuant to the warrant or binding agreements in effect on the date of the Purchase Agreement. Cash and Investments Portfolio We maintain a cash and investments portfolio that is important to our financial management and our ability to provide liquidity and stability to the mortgage market. At September 30, 2008, the investments in this portfolio consisted of liquid non-mortgage-related securities that we could sell to provide us with an additional source of liquidity to fund our business operations. We also use this portfolio to help manage recurring cash flows and meet our other cash management needs. In addition, we use the portfolio to hold capital on a temporary basis until we can deploy it into retained portfolio investments or credit guarantee opportunities. We may also sell the securities in this portfolio to meet mortgage-funding needs, provide diverse sources of liquidity or help manage the interest-rate risk inherent in mortgage-related assets. Credit concerns and resulting liquidity issues have greatly affected the financial markets. The reduced liquidity in U.S. financial markets prompted the Federal Reserve to take several significant actions during 2008, including a series of reductions in the discount rate totaling 3.0%. The rate reductions by the Federal Reserve have had an impact on other key market rates affecting our assets and liabilities, including generally reducing the return on our cash and investments portfolio and lowering our cost of short-term debt financing.

During the nine months ended September 30, 2008, we increased the balance of our cash and investments portfolio by $18 billion, primarily represented by a $42 billion increase in highly liquid shorter-term cash and cash equivalent assets including deposits in financial institutions and commercial paper partially offset by a $25 billion decrease in longer-term non-mortgage-related investments including asset-backed securities. As a result of counterparty credit concerns during the third quarter, these deposits in financial institutions included substantial cash balances in accounts that did not earn a rate of return. Retained Portfolio Historically, our retained portfolio assets have been a significant capital resource and a potential source of funding, if needed. However, during the nine months ended September 30, 2008, the market for non-agency securities backed by subprime and Alt-A mortgages continued to experience a significant reduction in liquidity and wider spreads, as investor demand for these assets decreased. During the nine months ended September 30, 2008, the percentages of our non-agency securities backed by subprime mortgages that were AAA-rated and the total rated as investment grade, based on the lowest rating available, decreased from 96% to 47% and from 100% to 80%, respectively. In addition, during the nine months ended September 30, 2008, the percentages of our non-agency securities backed by Alt-A and other mortgages that were AAA-rated and the total rated as investment grade, based on the lowest rating available, decreased from 100% to 63% and from 100% to 89%, respectively. We expect these trends to continue in the near future. These market conditions limit the availability of these assets as a significant source of funds; however, we do continue to receive substantial monthly remittances from the underlying collateral. In addition, we have the ability and intent to hold these securities until recovery

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and, other than certain mortgage-related securities primarily backed by subprime loans and Alt-A and other loans where we have already realized other-than-temporary impairments, we do not currently expect the cash flows from these securities to negatively impact our liquidity. See "CONSOLIDATED BALANCE SHEETS ANALYSIS -- Retained Portfolio" for more information. On September 19, 2008, the Director of FHFA announced that FHFA had directed us to provide additional funding to the mortgage markets through the purchase of mortgage-backed securities. This directive, however, does not supersede the restrictions on the size of our retained portfolio under the Purchase Agreement. Under the Purchase Agreement, our retained portfolio as of December 31, 2009 may not exceed $850 billion, and must decline by 10% per year thereafter until it reaches $250 billion. Cash Flows Our cash and cash equivalents increased $41.6 billion to $50.2 billion during the nine months ended September 30, 2008 resulting primarily from the redesignation of commercial paper. Beginning in first quarter of 2008, all investments in commercial paper with maturities of less than three months were entered into for working capital purposes. Consequently, commercial paper was reclassified from investments to cash and cash equivalents. Cash flows used for operating activities during the nine months ended September 30, 2008 were $7.6 billion, which primarily reflected a reduction in cash as a result of increases in purchases of held-for-sale mortgage loans. Cash flows provided by investing activities for the nine months ended September 30, 2008 were $3.2 billion, primarily due to net cash proceeds from our available-for-sale securities partially offset by net increases in our trading securities in our investment portfolio. Cash flows provided by financing activities for the nine months ended September 30, 2008 were $46.0 billion, largely attributable to proceeds from the issuance of debt securities, net of repayments. SFAS 159 requires the classification of trading securities cash flows based on the purpose for which the securities were acquired. Upon adoption of SFAS 159, effective January 1, 2008, we classified our trading securities cash flows as investing activities because we intend to hold these securities for investment purposes. Prior to our adoption of SFAS 159, we classified cash flows on all trading securities as operating activities. As a result, the operating and investing activities on our consolidated statements of cash flows have been impacted by this change. Our cash and cash equivalents increased $868 million to $12.2 billion during the nine months ended September 30, 2007. Cash flows used for operating activities during the nine months ended September 30, 2007 were $714 million, which primarily reflected a net increase in our held-for-sale mortgages and trading securities. Cash flows provided by investing activities for the nine months ended September 30, 2007 were $22.8 billion, primarily due to the net proceeds on our available-for-sale securities. Cash flows used for financing activities for the nine months ended September 30, 2007 were $21.2 billion, largely attributable to the net repayments of our short-term and long-term debt. Capital Adequacy The conservatorship resulted in changes to the assessment of our capital adequacy and our management of capital. On October 9, 2008, FHFA announced that it was suspending capital classification of us during conservatorship in light of the Purchase Agreement. Concurrent with this announcement, FHFA classified us as undercapitalized as of June 30, 2008 based on discretionary authority provided by statute. FHFA noted that although our capital calculations as of June 30, 2008 reflected that we met the statutory and FHFA-directed requirements for capital, the continued market downturn in July and August of 2008 raised significant questions about the sufficiency of our capital. Factors cited by FHFA leading to the downgrade in our capital classification and the need for conservatorship included (a) our accelerated safety and soundness weaknesses, especially with regard to our credit risk, earnings outlook and capitalization, (b) continued and substantial deterioration in equity, debt and mortgage-related securities market conditions, (c) our current and projected financial performance, (d) our inability to raise capital or issue debt according to normal practices and prices, (e) our critical importance in supporting the U.S. residential mortgage markets and (f) concerns over the proportion of intangible assets as part of our core capital. FHFA will continue to closely monitor our capital levels, but the existing statutory and FHFA-directed regulatory capital requirements will not be binding during conservatorship. We will continue to provide our regular submissions to FHFA on both minimum and risk-based capital. FHFA will publish relevant capital figures (minimum capital requirement, core capital, and GAAP net worth) but does not intend to publish our critical capital, risk-based capital or subordinated debt levels during conservatorship. Additionally, FHFA announced it will engage in rule-making to revise our minimum capital and risk-based capital requirements. See "NOTE 9: REGULATORY CAPITAL" to our consolidated financial statements for our minimum capital requirement, core capital and GAAP net worth results as of September 30, 2008. FHFA has directed us to focus our risk and capital management on maintaining a positive balance of GAAP stockholders' equity while returning to long-term profitability. FHFA is directing us to manage to a positive stockholders' equity position in order to reduce the likelihood that we will need to make a draw on the Purchase Agreement with Treasury. The Purchase Agreement provides that, if FHFA determines as of quarter end that our liabilities have exceeded our assets

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under GAAP, Treasury will contribute funds to us in an amount equal to the difference between such liabilities and assets; a higher amount may be drawn if Treasury and Freddie Mac mutually agree that the draw should be increased beyond the level by which liabilities exceed assets under GAAP. The maximum aggregate amount that may be funded under the Purchase Agreement is $100 billion. At September 30, 2008, our liabilities exceeded our assets under GAAP by $(13.7) billion while our stockholders' equity (deficit) totaled ($13.8) billion. The Director of FHFA has submitted a request under the Purchase Agreement in the amount of $13.8 billion to Treasury. If the Director of FHFA were to determine in writing that our assets are, and have been for a period of 60 days, less than our obligations to creditors and others, FHFA would be required to place us into receivership. If this were to occur, we would be required to obtain funding from Treasury pursuant to its commitment under the Purchase Agreement in order to avoid a mandatory trigger of receivership under the Reform Act. The Purchase Agreement places several restrictions on our business activities, which, in turn, affect our management of capital. For instance, our retained portfolio may not exceed $850 billion as of December 31, 2009 and must then decline by 10% per year until it reaches $250 billion. We are also unable to issue capital stock of any kind without Treasury's prior approval, other than in connection with the common stock warrant issued to Treasury under the Purchase Agreement or binding agreements in effect on the date of the Purchase Agreement. In addition, on September 7, 2008, the Director of FHFA announced the elimination of dividends on our common and preferred stock, excluding the senior preferred stock, which will accrue quarterly cumulative dividends at a rate of 10% per year or 12% in any quarter in which dividends are not paid in cash until all dividend accruals have been paid in cash. See "EXECUTIVE SUMMARY -- Legislative and Regulatory Matters" for additional information regarding covenants under the Purchase Agreement. A variety of factors could materially affect the level and volatility of our GAAP stockholders' equity in future periods, requiring us to make additional draws under the Purchase Agreement. Key factors include continued deterioration in the housing market, which could increase credit expenses; adverse changes in interest rates, the yield curve, implied volatility or OAS, which could increase realized and unrealized mark-to-market losses recorded in earnings or AOCI; dividend obligations under the Purchase Agreement; establishment of a valuation allowance for our remaining deferred tax assets; changes in accounting practices or standards; or changes in business practices resulting from legislative and regulatory developments or mission fulfillment activities or as directed by the Conservator. At September 30, 2008, our remaining deferred tax assets, which could be subject to a valuation allowance in future periods, totaled $11.9 billion. In addition, during October 2008 mortgage spreads widened significantly, resulting in additional mark-to-market losses included in stockholders' equity (deficit). As a result of the factors described above, it is difficult for us to manage our stockholders' equity (deficit). Thus, it may be difficult for us to meet the objective of managing to a positive stockholders' equity (deficit). If we need additional draws under the Purchase Agreement, this would result in a considerably higher dividend obligation for us. Higher dividends combined with potentially substantial commitment fees payable to Treasury starting in 2010 and limited flexibility to pay down capital draws will have a significant adverse impact on our future financial position and net worth. For additional information concerning the potential impact of the Purchase Agreement, including taking additional large draws, see "RISK FACTORS." Liquidity Since early July 2008, we have experienced significant deterioration in our access to the unsecured medium- and long-term debt markets, and in the yields on our debt as compared to relevant market benchmarks. Consistent demand for our debt securities has decreased for our term debt and callable debt, and the spreads we must pay on our new issuances of short-term debt securities increased. There are many factors contributing to the reduced demand for our debt securities, including continued severe market disruptions, market concerns about our capital position and the future of our business (including its future profitability, future structure, regulatory actions and agency status) and the extent of U.S. government support for our debt securities. In addition, the various U.S. government programs are still being digested by market participants creating uncertainty as to whether competing obligations of other companies are more attractive investments than our debt securities. As noted above, due to our limited ability to issue long-term debt, we have relied increasingly on short-term debt to fund our purchases of mortgage assets and to refinance maturing debt. As a result, we are required to refinance our debt on a more frequent basis, exposing us to an increased risk of insufficient demand, increasing interest rates and adverse credit market conditions. It is unclear when these market conditions will reverse allowing us access to the longer term debt markets. For information on the risks posed by our current market challenges see "Part II -- Item 1A -- Risk Factors." CREDIT RISKS Our total mortgage portfolio is subject primarily to two types of credit risk: institutional credit risk and mortgage credit risk. Our cash and investments portfolio is primarily subject to institutional credit risk. Institutional credit risk is the risk that a counterparty that has entered into a business contract or arrangement with us will fail to meet its obligations. Mortgage credit risk is the risk that a borrower will fail to make timely payments on a mortgage or security we own or guarantee. We

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are exposed to mortgage credit risk on our total mortgage portfolio because we either hold the mortgage assets or have guaranteed mortgages in connection with the issuance of a PC, Structured Security or other borrower performance commitment. Mortgage and credit market conditions deteriorated in the second half of 2007 and have continued to deteriorate throughout 2008, especially in the third quarter. Factors negatively affecting the mortgage and credit markets in recent months include:

ù lower levels of liquidity in institutional credit markets;
ù wider credit spreads;
ù rating agency downgrades of mortgage-related securities or counterparties;
ù increases in unemployment;
ù declines in home prices nationally;
ù higher incidence of institutional insolvencies; and
ù higher levels of foreclosures and delinquencies, particularly with respect to non-traditional and subprime mortgage loans.

Institutional Credit Risk Our primary institutional credit risk exposure arises from agreements with:

ù derivative and lending counterparties;
ù mortgage seller/servicers;
ù mortgage insurers;
ù issuers, guarantors or third-party providers of credit enhancements (including bond insurers); and
ù mortgage investors.

A significant failure to perform by a major entity in one of these categories could have a material adverse effect on our retained portfolio, cash and investments portfolio or credit guarantee activities. The recent challenging market conditions have adversely affected, and are expected to continue to adversely affect, the liquidity and financial condition of a number of our counterparties. Many of our counterparties have experienced ratings downgrades or liquidity constraints and other counterparties may also experience these concerns. The weakened financial condition and liquidity position of some of our counterparties may adversely affect their ability to perform their obligations to us, or the quality of the services that they provide to us. Consolidation in the industry could further increase our exposure to individual counterparties or to the overall market. In addition, any efforts we take to reduce exposure to financially weakened counterparties could result in increased exposure among a smaller number of institutions. As discussed herein, we recognized losses during the three and nine months ended September 30, 2008 as a result of institutional counterparties that have failed to pay us or for which we have substantial uncertainty regarding their ability to perform on their obligations to us. The failure of any other of our primary counterparties to meet their obligations to us could have additional material adverse effects on our results of operations and financial condition. Investments in our retained portfolio expose us to institutional credit risk on non-Freddie Mac mortgage-related securities to the extent that servicers, issuers, guarantors or third parties providing credit enhancements become insolvent or do not perform. Our non-Freddie Mac mortgage-related securities portfolio consists of both agency and non-agency mortgage-related securities. Agency securities present minimal institutional credit risk due to the prevailing view that these securities have a credit quality at least equivalent to non-agency securities rated AAA (based on S&P or equivalent rating scale of other nationally recognized statistical rating organizations). We seek to manage institutional credit risk on non-Freddie Mac mortgage-related securities by only purchasing securities that meet our investment guidelines and performing ongoing analysis to evaluate the creditworthiness of the issuers and servicers of these securities and the bond insurers that guarantee them. See "CONSOLIDATED BALANCE SHEETS ANALYSIS -- Table 17 -- Characteristics of Mortgage Loans and Mortgage-Related Securities in our Retained Portfolio" for more information on non-Freddie Mac securities within our retained portfolio. Institutional credit risk also arises from the potential insolvency or non-performance of issuers or guarantors of investments held in our cash and investments portfolio. Instruments in this portfolio are investment grade at the time of purchase and primarily short-term in nature, thereby substantially mitigating institutional credit risk in this portfolio. We regularly evaluate these investments to determine if any impairment in fair value requires an impairment loss recognition in earnings, warrants divestiture or requires a combination of both. During the third quarter of 2008, we recorded a loss of $1.1 billion on investment transactions related to the Lehman short-term lending transactions. In addition, we had trading relationships or otherwise conducted business with Lehman and several of it affiliates. We are currently evaluating other sources of exposure and potential claims that we may have with

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respect to Lehman and its affiliates. See "Derivative Counterparty Credit Risk" and "Our Customers -- Mortgage Seller/Servicers" for additional information about our exposure to Lehman and its affiliates. Derivative Counterparty Credit Risk Table 36 summarizes our exposure to counterparty credit risk in our derivatives, which represents the net positive fair value of derivative contracts, related accrued interest and collateral held by us from our counterparties, after netting by counterparty as applicable (i.e., net amounts due to us under derivative contracts). Table 36 -- Derivative Counterparty Credit Exposure

	September 30, 2008					
Rating(1)	Number of Counterparties(2)	Notional or Contractual Amount	Total Exposure at Fair Value(3)	Exposure, Net of Collateral(4)	Weighted Average Contractual Maturity (in years)	Collateral Posting Threshold
	(dollars in millions)					
AAA	1	$ 750	--	--	6.3	Mutually agreed upon

AA+	1	23,354	370	64	4.6	$10 million or less
AA	7	561,879	2,588	843	6.3	$10 million or less
AA-	8	413,118	2,494	226	5.2	$10 million or less
A+	4	59,365	10	--	5.8	$1 million or less
A	3	87,300	943	--	5.7	$1 million or less
Subtotal(5)	24	1,145,766	6,405	1,133	5.8	
Other derivatives(6)		283,811	--	--		
Forward purchase and sale commitments		199,811	1,797	1,797		
Swap guarantee derivatives		2,838	--	--		
Total derivatives		$ 1,632,226	$ 8,202	$ 2,930		

	December 31, 2007					
Rating(1)	Number of Counterparties(2)	Notional or Contractual Amount	Total Exposure at Fair Value(3)	Exposure, Net of Collateral(4)	Weighted Average Contractual Maturity (in years)	Collateral Posting Threshold
		(dollars in millions)				
AAA	2	$ 1,173	$ 174	$ 174	3.4	Mutually agreed upon
AA+	3	181,439	941	--	4.4	$10 million or less
AA	9	465,563	1,324	38	5.3	$10 million or less
AA-	6	160,678	2,230	29	5.8	$10 million or less
A+	5	170,330	1,696	5	6.1	$1 million or less
A	2	35,391	239	18	5.7	$1 million or less
Subtotal(5)	27	1,014,574	6,604	264	5.4	
Other derivatives(6)		234,343	--	--		
Forward purchase and sale commitments		72,662	465	465		
Swap guarantee derivatives		1,302	--	--		
Total derivatives		$ 1,322,881	$ 7,069	$ 729		

(1) We use the lower of S&P and Moody's ratings to manage collateral requirements. In this table, the rating of the legal entity is stated in

terms of the S&P equivalent.
(2) Based on legal entities. Affiliated legal entities are reported separately.
(3) For each counterparty, this amount includes derivatives with a net positive fair value (recorded as derivative assets, net), including the related accrued interest receivable/payable (net) and trade/settle fees.
(4) Total Exposure at Fair Value less collateral held as determined at the counterparty level.
(5) Consists of over-the-counter, or OTC, derivative agreements for interest-rate swaps, option-based derivatives (excluding certain written options), foreign-currency swaps and purchased interest-rate caps. Certain prior period written options within subtotal that were previously reported as a component of other derivatives have been reclassified to conform to the current period presentation.
(6) Consists primarily of exchange-traded contracts, certain written options and certain credit derivatives. Written options do not present counterparty credit exposure, because we receive a one-time up-front premium in exchange for giving the holder the right to execute a contract under specified terms, which generally puts us in a liability position.

As indicated in Table 36, approximately 82% of our counterparty credit exposure for OTC interest-rate swaps, certain option-based derivatives and foreign-currency swaps was collateralized at September 30, 2008. An entity affiliated with Lehman was our counterparty in certain derivative transactions. Upon Lehman's bankruptcy filing, we terminated the transactions and requested payment of the settlement amount, which the entity failed to pay. We then exercised our right to seize collateral previously posted by the entity in connection with the transactions. The collateral was insufficient to cover the settlement amount, leaving a shortfall of approximately $30 million. During the third quarter of 2008, we recorded a $27 million reduction to our derivative assets which represents an estimate of the probable loss on this transaction. The increase in our exposure at September 30, 2008 was due to interest rate movements on September 30, 2008. We request and post collateral on the subsequent business day based upon the prior day's ending derivative position by counterparty. Therefore there is always a one business day lag from our exposure to when the collateral is posted to us. Our derivative counterparties posted the necessary collateral on October 1, 2008 mitigating our period end exposure.

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Additionally, as indicated in Table 36, the total exposure to our forward purchase and sale commitments of $1.8 billion at September 30, 2008 was uncollateralized. Because the typical maturity of our forward purchase and sale commitments is less than 60 days and they are generally settled through a clearinghouse, we do not require master netting and collateral agreements for the counterparties of these commitments. However, we monitor the credit fundamentals of the counterparties to our forward purchase and sale commitments on an ongoing basis to ensure that they continue to meet our internal risk-management standards. Our Customers -- Mortgage Seller/Servicers We acquire a significant portion of our mortgage loans from several large lenders. These lenders, or seller/servicers, are among the largest mortgage loan originators in the U.S. We are exposed to institutional credit risk arising from the insolvency or non-performance by our mortgage seller/servicers, including non-performance of their repurchase obligations arising from the representations and warranties made to us for loans they underwrote and sold to us. The credit risk associated with servicing relates to whether we could transfer the applicable servicing rights to a successor servicer and recover amounts owed to us by the defaulting servicer in the event the defaulting

servicer does not fulfill its responsibilities. We believe that the value of those servicing rights generally would provide us with significant protection against our exposure to a seller/servicer's failure to perform its repurchase obligations. We have contingency procedures in place that are intended to provide for a timely transfer of current servicing information in the event one of our major counterparties is no longer able to fulfill its servicing responsibilities. However, due to the significant size of the mortgage-servicing portfolios of some of our major customers relative to the servicing capacity of the market, the failure of one of our major servicers could adversely affect our ability to conduct operations in a timely manner.
In July 2008, Bank of America Corporation completed its acquisition of Countrywide Financial Corp., and together these companies' subsidiaries accounted for 23% of our mortgage guarantee issuance volume during the nine months ended September 30, 2008. Due to the strain on the mortgage finance industry during the third quarter of 2008, several more of our significant seller/servicers have been adversely affected and have undergone dramatic changes in their ownership or financial condition. GMAC Mortgage, LLC, a subsidiary of Residential Capital LLC, or ResCap, is one of our seller/servicers and comprised approximately 3.5% of our mortgage purchase volume for the nine months ended September 30, 2008. ResCap has recently made several announcements about its weakened financial condition and concern regarding its ability to continue operations in the short-term. In September 2008, Washington Mutual Bank, which accounted for 7% of our single-family mortgage purchase volume during the nine months ended September 30, 2008, was closed by the Office of Thrift Supervision and the FDIC was named receiver and all of its deposits, assets and certain liabilities of its banking operations were acquired by JPMorgan Chase Bank, NA. JPMorgan Chase has asserted that, as successor servicer of mortgages for us and formerly serviced by Washington Mutual, JPMorgan Chase will not be responsible for Washington Mutual's existing and future obligations to repurchase mortgages sold to us by Washington Mutual and later found to be inconsistent with representations and warranties made at the time of sale. We have informed JPMorgan Chase that we are unwilling to consent to it being successor servicer unless it assumes the Washington Mutual repurchase obligations. Chase Home Finance LLC, a subsidiary of JPMorgan Chase, is also a significant seller/servicer and provided 9% of our single-family mortgage purchase volume during the nine months ended September 30, 2008. In addition, Wachovia Corporation, the parent of our customers Wachovia Bank, N.A. and Wachovia Mortgage, FSB, which together accounted for 2% of our single-family mortgage purchase volume during the nine months ended September 30, 2008, agreed to be acquired by Wells Fargo & Company in September 2008. Wells Fargo Bank, N.A., a subsidiary of Wells Fargo & Company, is also one of our significant seller/servicers and accounted for 20% of our single-family mortgage purchase volume during the nine months ended September 30, 2008. Although there are some unresolved issues with our servicing arrangements, we are monitoring these developments and are working to ensure that our servicing agreements, in accordance with their terms, will not be adversely affected. Similarly, in cases where we have mortgage purchase commitments, or "flow" contracts in place with both of the merged parties, the agreements continue until their stated expiration date. See "NOTE 15: CONCENTRATION OF CREDIT AND OTHER RISKS" to our consolidated financial statements for additional information on our mortgage seller/servicers and our mortgage credit risks.
Under our agreements with our mortgage seller/servicers, we have the right to request that the seller/servicers repurchase mortgages sold to us if those mortgages do not comply with those agreements. As a result, our seller/servicers repurchase mortgages sold to us, or indemnify us against losses on those mortgages, whether we subsequently securitized the loans or held them in our retained portfolio. During the nine months ended September 30, 2008 and 2007, the aggregate unpaid principal balance of single-family mortgages repurchased by our seller/servicers (without regard to year of original purchase) was approximately $1.2 billion and $442 million, respectively. When a seller/servicer repurchases a mortgage that is securitized by us, our related guarantee asset and obligation are extinguished similar to any other form of liquidation event for our PCs. However, when we exercise our recourse provisions due to misrepresentation by the seller for loans that have already been repurchased by us under our performance guarantee, we remove the carrying value of our related mortgage asset and recognize recoveries on loans

impaired upon purchase.

Lehman services single-family loans for us. We have potential exposure to Lehman for servicing-related obligations due to us, including mortgage repurchase obligations, which is currently estimated to be approximately $558 million. In July 2008, IndyMac Bancorp, Inc. announced that the FDIC had been made a conservator of the bank, and we also have potential exposure to IndyMac for servicing-related obligations, including repurchase obligations, which we currently estimate to be $726 million. Our estimate of probable losses for exposure to seller/servicers for their repurchase obligations to us is considered as part of our estimate for our provision for credit losses as of September 30, 2008. The estimates of potential exposure are higher than our estimates for probable loss as we consider the range of possible outcomes as well as the passage of time, which can change the indicators of incurred, or probable losses. Our current estimates of potential exposure to Lehman and IndyMac have increased since September 30, 2008. We also consider the estimated value of related mortgage servicing rights in determining our estimates of probable loss, which reduce our potential exposures. We believe we have adequately provided for these exposures in our loan loss reserves at September 30, 2008; however, our actual losses may exceed our estimates. Mortgage and Bond Insurers We have institutional credit risk relating to the potential insolvency or non-performance of mortgage and bond insurers that insure mortgages and securities we purchase or guarantee. We manage this risk by establishing eligibility standards for mortgage insurers and by regularly monitoring our exposure to individual mortgage and bond insurers. Our monitoring includes regularly performing analyses of the estimated financial capacity of these insurers under different adverse economic conditions. We also monitor the insurers' credit ratings, as provided by nationally recognized statistical rating organizations, and we periodically review the methods used by those organizations. Recently, many of our large insurers have been downgraded by nationally recognized statistical rating organizations. We periodically perform on-site reviews of mortgage insurers to monitor compliance with our eligibility requirements and to evaluate their management and control practices. In addition, state insurance authorities regulate insurers. Although we monitor the financial strength of our mortgage and bond insurers, we also place emphasis on the analysis of ratings agencies to evaluate claims paying ability and the capital strength of the firms. As a guarantor, we remain responsible for the payment of principal and interest if a mortgage insurer fails to meet its obligations to reimburse us for claims. If any of our mortgage insurers that provides credit enhancement fails to fulfill its obligation, the result could be increased credit-related costs and a possible reduction in the fair values associated with our PCs or Structured Securities. Table 37 presents our exposure to mortgage insurers, excluding bond insurance, as of September 30, 2008. Table 37 -- Mortgage Insurance by Counterparty

			September 30, 2008		
Counterparty Name	S&P Credit Rating(1)	S&P Credit Rating Outlook(1)	Primary Insurance(2)	Pool Insurance(2)	Maximum Exposure(3)
			(dollars in billions)		
Mortgage Guaranty Insurance Corp. (MGIC)	A	Negative	$ 60	$ 53	$ 16
Radian Guaranty	BBB+	Negative	41	25	12

Inc.					
Genworth Mortgage Insurance Corporation	AAW22;	Negative	42	1	11
PMI Mortgage Insurance Co. (PMI)	AW22;	Negative	31	4	8
United Guaranty Residential Insurance Co. (UGRI)	AW22;	Negative	32	1	8
Republic Mortgage Insurance (RMIC)	A+	Negative	27	5	7
Others(4)	--	--	18	5	4
Total			$ 251	$ 94	$ 66

(1) Latest rating available as of November 10, 2008.
(2) Represents the amount of unpaid principal balance at the end of the period for single-family mortgages in our retained portfolio and backing our issued PCs and Structured Securities covered by the respective insurance type.
(3) Represents the remaining contractual limit for reimbursement of losses of principal incurred on the aggregate policies of both primary and pool insurance. These amounts are based on our gross coverage without regard to netting of coverage that may exist on some of the related mortgages for double-coverage under both types of insurance.
(4) No remaining counterparty represents greater than 10% of our total maximum exposure.

For our exposure to mortgage insurers, we evaluate the recovery from these insurance policies for mortgage loans in our retained portfolio as well as loans underlying our PCs and Structured Securities as part of the estimate of our provision for credit losses. To date, downgrades of insurer financial strength ratings and our evaluation of remediation plans provided by our mortgage insurance counterparties have not significantly affected our provision for credit loss; however, we have reflected expectations of unrecoverable claims in our fair value estimates of our guarantee obligation during the nine months ended September 30, 2008. We received proceeds of $418 million and $220 million during the nine months ended September 30, 2008 and 2007, respectively, from our primary and pool mortgage insurance policies for recovery of losses on our single-family loans. We also received proceeds of $13 million and $57 million for the nine months ended September 30, 2008 and 2007, respectively, from mortgage insurers on sales of single-family properties previously covered by insurance on the related foreclosed loans. We had outstanding receivables from mortgage insurers, net of associated reserves, of $617 million and $233 million as of

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September 30, 2008 and December 31, 2007, respectively, related to amounts claimed on foreclosed properties. Based upon currently available information, we expect that most of our mortgage insurance counterparties possess adequate financial strength and capital to meet their obligations to us for the near term. On June 19, 2008, Triad Guaranty Insurance Corporation, or Triad, which is included in "Others" in Table 37 above, announced that it would cease issuing new insurance business effective July 15, 2008. We informed our customers that mortgages with commitments of insurance from Triad dated after July 14, 2008 are not eligible for sale to us. For an insurer to be designated by us as Freddie Mac-approved insurer, the company must be rated by at least two of the following three rating agencies -- S&P, Moody's, and Fitch, and must not receive a rating less than AAW22; /Aa3 by any listed rating agency. We reviewed the remediation plans for returning to AA-rated status provided by each of MGIC, Radian Guaranty Inc. and PMI after their downgrades below AA. We have determined, based on those plans, to continue to treat their eligibility as if they were a Freddie Mac-approved insurer. RMIC has submitted a remediation plan, which we are evaluating. On September 15, 2008, UGRI, a subsidiary of American International Group, Inc., was downgraded below the AA-category by one rating agency and has submitted a remediation plan, which we are evaluating. We principally have exposure to monoline bond insurers when we purchase a security with insurance owned by the trust issuing the security, referred to as primary monoline insurance. For this type of exposure, our potential losses are reflected through declines in the fair value of the security. We evaluate the recovery from these insurance policies as part of our impairment analysis for securities within our retained portfolio. We recognized significant impairment losses during the second and third quarters of 2008 on certain of these securities covered by our monoline bond insurers. See "CONSOLIDATED BALANCE SHEET ANALYSIS -- Retained Portfolio" for more information on our impairment analysis of securities covered by monoline bond insurance. We also have exposure to monolines when we purchase additional credit protection (i.e., insurance) directly from the monolines to mitigate a portion of the credit risk on certain of our non-agency mortgage-related securities in our retained portfolio. Table 38 presents our coverage amounts of monoline bond insurance, including primary and secondary coverage, for securities held in our retained portfolio and non-mortgage-related investments in our cash and investments portfolio, on a combined basis. Table 38 -- Monoline Bond Insurance by Counterparty

			September 30, 2008	
Counterparty Name	S&P Credit Rating(1)	S&P Credit Rating Outlook(1)	Coverage Outstanding(2)	Percent of Total
			(dollars in billions)	
Ambac Assurance Corporation	AA	Negative	$ 6	36%
FGIC	BB	Credit watch negative	4	20
MBIA Insurance Corp.	AA	Negative	4	21
Financial Security Assurance Inc.	AAA	Credit watch negative	3	15
Others(3)	--	--	1	8
Total			$ 18	100%

(1) Latest rating available as of November 10, 2008.
(2) Represents the contractual limit for reimbursement of losses incurred on non-agency mortgage-related securities held in our retained portfolio and non-mortgage securities in our cash and investment portfolio.
(3) No remaining counterparty represents greater than 10% of our total coverage outstanding.

In accordance with our risk management policies we will continue to actively monitor the financial strength of our mortgage and bond insurers in this challenging market environment. In the event one or more of our mortgage or bond insurers were to become insolvent it is possible that we would not collect all of our claims from the affected insurer and it may impact our ability to recover certain unrealized losses on our retained portfolio or recoveries associated with credit losses in our guaranteed PCs and Structured Securities. To date, no mortgage or bond insurer has failed to meet its obligations to us. Mortgage Credit Risk Mortgage credit risk is primarily influenced by the credit profile of the borrower on the mortgage, the features of the mortgage itself, the type of property securing the mortgage and the general economic environment. To manage our mortgage credit risk, we focus on three key areas: underwriting requirements and quality control standards; portfolio diversification; and portfolio management activities, including loss mitigation and the use of credit enhancements. All mortgages that we purchase for our retained portfolio or that we guarantee have an inherent risk of default. We seek to manage the underlying risk by adequately pricing for the risk we assume using our underwriting and quality control processes. Our underwriting process evaluates mortgage loans using several critical risk characteristics, such as credit score, LTV ratio and occupancy type. Mortgage Market Background We have been affected by deteriorating conditions in the single-family housing and mortgage markets during 2007 and 2008. We believe these conditions have, in part, been exacerbated by changes in underwriting standards by financial

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institutions that resulted in originations of mortgage loans in recent years to less credit-worthy borrowers than in the past. Financial institutions significantly increased mortgage lending and securitization of both subprime and Alt-A mortgage products, and these loans comprised a much larger amount of origination and securitization issuance volumes during 2006 and 2007. The exposure to mortgage credit risk for a number of financial institutions also increased with the expanding use of leverage as well as mortgage credit and derivative products. We believe these products, such as credit default swaps, or CDS, and collateralized debt obligations, or CDO, obscure the distribution of risk among market participants. Moreover, the complexity of such instruments made the overall risk exposure of the financial institutions using them less transparent. We believe concerns about counterparties with significant exposures associated with these instruments further reduced transaction volumes and new issuances of non-agency mortgage-related securities during 2008. The table below illustrates the size of mortgage origination and securitization activities in the market during these years relative to our own market participation. We have not presented CDS or CDO market statistics, since there is no reliable data that illustrates these exposures and we have not significantly participated in the market for these products. See "Table 36 -- Derivative Counterparty Credit Exposure" and "ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK" for additional information on credit guarantee derivatives. Table 39 -- Mortgage Market Share Comparison

	Nine Months Ended September 30, 2008	Full-year 2007	Full-year 2006
	(in billions)		
Market Data -- all market participants:			
Total mortgage originations(1)	$ 1,235	$ 2,430	$ 2,980
Non-agency security issuance(2)			
Backed-by subprime mortgage loans(3)	$ 2	$ 219	$ 483
Backed-by other mortgage loans(4)	9	430	585
Total	$ 11	$ 649	$ 1,068
Freddie Mac Data:			
Purchases of single-family loans and non-agency securities for our total mortgage portfolio:			
Single-family mortgage loan purchases(5)	$ 310	$ 466	$ 351

Private-label mortgage-related security purchases(6)	2	74	117

(1) Source: Inside Mortgage Finance estimates of originations of single-family first- and second liens dated October 31, 2008.
(2) Source: Inside Mortgage Finance estimates dated October 31, 2008. Based on unpaid principal balance of securities issued.
(3) Consists of loans categorized as subprime based solely on the credit score of the borrower at the time of origination.
(4) Includes securities backed by loans above the conforming loan limits, Alt-A loans, and home equity second liens.
(5) Consists of purchases of mortgage loans for our retained portfolio as well as those loans that back our PC's and Structured Securities. See "Table 54 -- Total Mortgage Portfolio Activity Detail" for further information.
(6) Excludes our purchases of securities used for issuance of guarantees in our Structured Transactions.

As shown above, single-family mortgage loan purchases for our total mortgage portfolio comprised approximately 12%, 19% and 25% of total mortgage originations during full-year 2006, full-year 2007, and the nine months ended September 30, 2008, respectively. The composition of private-label, or non-agency, mortgage security issuance backed by subprime mortgages, increased significantly in the market during 2006 and 2007. As shown above, our purchases of non-agency mortgage-related securities for our retained portfolio represented approximately 11% of the total issuance of these securities in the market during both 2006 and 2007, respectively. During the nine months ended September 30, 2008, the market for new issuances of non-agency mortgage securities has been nearly non-existent. As a result of greater variability in underwriting standards during 2006 and 2007, the deterioration in mortgage performance has also varied considerably across different market segments. Our credit exposure in our single-family mortgage portfolio, which is made up of the mortgage loans that we own or have guaranteed, is primarily in conforming prime and Alt-A mortgage loans. Our single-family mortgage portfolio is generally subject to more consistent underwriting standards and thus, our portfolio has performed better relative to most market participants and market segments. Several macro-economic factors have also deteriorated during 2008, which has affected the performance of all types of mortgage loans. Consequently both prime and non-prime borrowers have been affected by the compounding pressures on household wealth caused by declines in home values, significant declines in the stock market, rising rates of unemployment and increasing food and energy prices. Table 40 shows the performance of our single-family mortgage portfolio during 2008 as compared to industry averages.

Table 40 -- Mortgage Performance Comparison

	As of				
	09/30/2008	06/30/2008	03/31/2008	12/31/2007	09/30/2007
Delinquency rate:					
Freddie Mac's single-family mortgage portfolio(1)	1.22%	0.93%	0.77%	0.65%	0.51%

Industry -- prime loans(2)	N/A	2.35	1.99	1.67	1.31
Industry -- subprime loans(2)	N/A	17.85	16.42	14.44	11.38

	For the Three Months Ended				
	09/30/2008	06/30/2008	03/31/2008	12/31/2007	09/30/2007
Foreclosures starts ratio(3):					
Freddie Mac's single-family mortgage portfolio(1)	0.36%	0.31%	0.30%	0.24%	0.18%
Industry -- prime loans(2)	N/A	0.67	0.54	0.41	0.37
Industry -- subprime loans(2)	N/A	4.70	4.06	3.44	3.12

(1) Excludes our Structured Transactions and mortgages covered under long-term standby commitment agreements and is based on the number of loans 90 days or more past due, as well as those in the process of foreclosure. See "CREDIT RISKS -- Credit Performance -- Delinquencies" for further information on the delinquency rates of our single-family mortgage portfolio excluding Structured Transactions.
(2) Source: Mortgage Bankers Association's National Delinquency Survey representing the total of first lien single-family loans in the survey categorized as prime or subprime, respectively. Excludes FHA and VA loans. Data was not yet available for the third quarter of 2008.
(3) Represents the ratio of the number of loans that entered the foreclosure process during the respective quarter divided by the number of loans in the portfolio at the end of the quarter.

Underwriting and quality control standards We use a process of delegated underwriting for the single-family mortgages we purchase or securitize. In this process, we provide originators with a series of mortgage underwriting standards and unless we waive these standards, the originators represent and warrant to us that the mortgages sold to us meet these requirements. We subsequently review a sample of these loans and, if we determine that any loan is not in compliance with our contractual standards, we may require the seller/servicer to repurchase that mortgage or make us whole in the event of a default. In response to the changes in the residential mortgage market during the last year, we made changes to our underwriting guidelines in 2008, with which our single-family seller/servicers must comply for loans delivered to us for purchase or securitization. These changes will result in significantly reducing purchases of mortgages with LTV ratios over 95%, and limiting combinations of higher-risk characteristics in loans we purchase, including those with reduced documentation. We announced additional changes to our guidelines in October 2008 that are effective for our purchases on or after January 2, 2009. We have also reduced maximum LTV ratios for certain cash-out refinance and investment property mortgages to 90% or less, depending on the number of units in the property and the presence of secondary financing. In some cases, binding commitments under existing customer contracts may delay the effective dates of certain underwriting adjustments. While the impact of these changes has yet to be fully realized, we expect that they will improve the credit profile of the mortgages that are delivered to us going forward. In response to market needs, the Economic Stimulus Act of 2008 temporarily increased the conforming loan limit in certain high-cost areas for single-family mortgages originated from July 1, 2007 through December 31, 2008. The new loan limits are applicable to high cost areas only and are the higher of the 2008 conforming loan limit ($417,000) or 125% of the HUD determined area median house price, not to exceed $729,750, for a 1-unit property. We have specified certain credit requirements for loans we will accept in this category, including but not limited to; (a) limitations in certain volatile home price markets, (b) required borrower documentation of income and assets, (c) limits on cash-out refinancing amounts and (d) a maximum original LTV ratio of 90%. We began purchasing and securitizing conforming-jumbo mortgages in April 2008. Our purchases of these loans into our total mortgage portfolio for the three months ended September 30, 2008 have totaled $207 million in unpaid principal balance. We have experienced increased competition in the mortgage finance market with respect to this product. Given market conditions and competition especially from FHA, we do not anticipate purchasing significant amounts of conforming jumbo product in 2008. The Reform Act, which was passed in July 2008, allows increases in our single-family conforming loan limits, beginning January 1, 2009 based on changes in the new housing price index established by FHFA. Consistent with existing guidance, any decreases in this index would be accumulated and would offset any future increases in the housing price index so that loan limits do not decrease from year-to-year. In high-cost areas -- where 115% of the median home price exceeds the otherwise applicable conforming loan limit -- the Reform Act increases the loan limits to the lesser of (i) 115% of the median house price or (ii) 150% of the conforming loan limit, currently $625,500. The high-cost provisions on loan limits become effective January 1, 2009 when the temporary authority for purchases of high-cost loans granted by the Economic Stimulus Act of 2008 expires. In November 2008, FHFA announced that the conforming loan limit for the GSEs will remain at the current level of $417,000 for 2009 with higher limits in certain cities and counties.

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Table 41 provides characteristics of our single-family mortgage loans purchased during the three and nine months ended September 30, 2008 and 2007, and of our single-family mortgage portfolio at September 30, 2008 and December 31, 2007.
Table 41 -- Characteristics of Single-Family Mortgage Portfolio(1)

	Purchases During the Three Months Ended September 30,		Purchases During the Nine Months Ended September 30,		Portfolio at	
					September 30,	December 31,
	2008	2007	2008	2007	2008	2007
Original LTV Ratio Range(2)						
œ 60%	24%	20%	24%	19%	22%	22%
> 60% - 70%	14	13	16	14	16	16
> 70% - 80%	41	45	40	51	46	47
> 80% - 90%	12	9	11	7	8	8
> 90% - 100%	9	13	9	9	8	7
Total	100%	100%	100%	100%	100%	100%
Weighted average original LTV ratio	72%	73%	71%	73%	72%	71%
Estimated Current LTV Ratio Range(3)						
œ 60%					36%	41%
> 60% - 70%					14	15
> 70% - 80%					19	19
> 80% - 90%					14	15
> 90% - 100%					8	7
> 100%					9	3

Total					100%	100%
Weighted average estimated current LTV ratio					68%	63%
Credit Score(4)						
^3 740	56%	43%	53%	42%	46%	45%
700 - 739	22	22	22	23	23	23
660 - 699	14	18	15	19	17	18
620 - 659	6	11	7	10	9	9
< 620	2	6	3	6	4	4
Not available	--	--	--	--	1	1
Total	100%	100%	100%	100%	100%	100%
Weighted average credit score	738	719	733	719	724	723
Loan Purpose						
Purchase	55%	48%	39%	46%	40%	40%
Cash-out refinance	25	27	32	32	30	30
Other refinance	20	25	29	22	30	30
Total	100%	100%	100%	100%	100%	100%
Property Type						
1 unit	97%	97%	97%	97%	97%	97%
2-4 units	3	3	3	3	3	3
Total	100%	100%	100%	100%	100%	100%
Occupancy Type						
Primary residence	88%	90%	89%	90%	91%	91%
Second/vacation home	6	5	5	5	5	5
Investment	6	5	6	5	4	4
Total	100%	100%	100%	100%	100%	100%

(1) Purchases and ending balances are based on the unpaid principal balance of the single-family mortgage portfolio excluding Structured Securities backed by Ginnie Mae certificates and certain Structured Transactions. Structured Transactions with ending balances of $3 billion at September 30, 2008 and $6 billion at December 31, 2007 are excluded since these securities are backed by non-Freddie Mac issued securities for which the loan characteristics data was not available.
(2) Original LTV ratios are calculated as the amount of the mortgage we guarantee including the credit-enhanced portion, divided by the lesser of the appraised value of the property at time of mortgage origination or the mortgage borrower's purchase price. Second liens not owned or guaranteed by us are excluded from the LTV ratio calculation.
(3) Current market values are estimated by adjusting the value of the property at origination based on changes in the market value of homes since origination. Estimated current LTV ratio range is not applicable to purchases we made during 2008, includes the credit-enhanced portion of the loan and excludes any secondary financing by third parties. Including secondary financing, the total LTV ratios above 90% were 14% at both September 30, 2008 and December 31, 2007, respectively.
(4) Credit score data is as of mortgage loan origination and is based on FICO scores.

Our charter requires that single-family mortgages with LTV ratios above 80% at the time of purchase be covered by one or more of the following: (a) mortgage insurance for mortgage amounts above the 80% threshold; (b) a seller's agreement to repurchase or replace any mortgage upon default; or (c) retention by the seller of at least a 10% participation interest in the mortgages. In addition, we employ other types of credit enhancements, including pool insurance, indemnification agreements, collateral pledged by lenders and subordinated security structures. As shown in the table above, the percentage of borrowers

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with estimated current LTV ratios greater than 100% has increased from 3% at December 31, 2007 to 9% of our single-family mortgage portfolio as of September 30, 2008. As estimated current LTVs increase, the borrower's equity in the home decreases, which negatively affects the borrower's ability to refinance or to sell the property and purchase a less expensive home or move to a rental property. For borrowers with estimated current LTV greater than 100%, the borrower has negative equity and thus is also more likely to default than other borrowers, regardless of his or her financial condition. For the approximately 31% and 25% of single-family mortgage loans with greater than 80% estimated current LTV ratios, the borrowers had a weighted average credit score at origination of 711 and 708 at September 30, 2008 and December 31, 2007, respectively. Portfolio Product Diversification Product mix affects the credit risk profile of single-family loans within our total mortgage portfolio. In general, 15-year amortizing fixed-rate mortgages exhibit the lowest default rate among the types of mortgage loans we securitize and purchase, due to the accelerated rate of principal amortization on these mortgages and the credit profiles of borrowers who seek and qualify for them. Conversely, interest-only and certain adjustable-rate mortgages typically default at a higher rate than fixed-rate mortgages, although default rates for different types of ARMs may vary. The primary mortgage products comprising the single-family mortgage loans in our retained portfolio and our issued PCs and Structured Securities portfolio are conventional first lien, fixed-rate mortgage loans. Single-family amortizing long-term fixed-rate mortgages comprised approximately 81% of single-family mortgage loans in our retained portfolio and loans underlying our issued PCs and Structured Securities at both September 30, 2008 and December 31, 2007. We did not purchase any second lien mortgage loans for our retained portfolio during the nine months ended September 30, 2008 and 2007 and these loans constituted less than 0.1% of those underlying our PCs and Structured Securities portfolio as of September 30, 2008. However, during the past several years, there was a rapid proliferation of mortgage products designed to address a variety of borrower and lender needs, including issues of affordability, and reduced income documentation requirements. While features of these products have been on the market for some time, their prevalence in our total mortgage portfolio increased through mid-2007 before beginning to decline as the market began producing a greater proportion of fixed-rate, amortizing mortgage products. See "ITEM 1. BUSINESS -- REGULATION AND SUPERVISION -- Office of Federal Housing Enterprise Oversight -- Guidance on Non-traditional Mortgage Product Risks and Subprime Lending" and "ITEM 1A. RISK FACTORS -- Legal and Regulatory Risks" in our Registration Statement for more information on these products. Structured Transactions We also issue certain Structured Securities to third parties in exchange for non-Freddie Mac mortgage-related securities. The non-Freddie Mac mortgage-related securities use collateral transferred to trusts that were specifically created for the purpose of issuing the securities. We refer to this type of Structured Security as a Structured Transaction. Structured Transactions can generally be segregated into two different types. In the first type, we purchase only the senior tranches from a non-Freddie Mac senior-subordinated securitization, place these senior tranches into a securitization trust, provide a guarantee of the principal and interest of the senior tranches, and issue the Structured Transaction. For other Structured Transactions, we purchase non-Freddie Mac single-class, or pass-through, securities, place them in a securitization trust, guarantee the principal and interest, and issue the Structured Transaction. In the first type of Structured Transaction, the senior tranches we purchase as collateral for the Structured Transactions benefit from credit protections from the related subordinated tranches, which we do not purchase. Additionally, there are other credit enhancements and structural features retained by the seller, such as excess interest or overcollateralization, which provide credit protection to our interests, and reduce the likelihood that we will have to perform under our guarantee. Structured Transactions backed by pass-through securities do not benefit from structural or other credit enhancement protections. In exchange for providing our guarantee on Structured Transactions, we may receive a management and guarantee fee. Higher Risk Combinations Combining certain loan characteristics often can indicate a higher degree of credit risk. For example, single-family mortgages with both high LTV ratios and borrowers who have lower credit scores typically experience higher rates of delinquency, default and credit losses. However, our participation in these categories generally helps us meet our affordable housing goals. As of September 30, 2008, approximately 1% of mortgage loans in our single-family mortgage portfolio were made to borrowers with credit scores below 620 and had first lien, original LTV ratios, greater than 90% at the time of mortgage origination. In addition, as of September 30, 2008, 4% of Alt-A single-family loans we own or have guaranteed were made to borrowers with credit scores below 620 at mortgage origination. In prior years, as home prices increased, many borrowers used second liens at the time of purchase to reduce the LTV ratio on first lien mortgages. Including this secondary financing by third parties, we estimate that the percentage of first lien loans we own or have guaranteed that have total original LTV ratios above 90% was approximately 14% at both September 30, 2008 and December 31, 2007.

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Subprime Loans Participants in the mortgage market often characterize single-family loans based upon their overall credit quality at the time of origination, generally considering them to be prime or subprime. There is no universally accepted definition of subprime. The subprime segment of the mortgage market primarily serves borrowers with poorer credit payment histories and such loans typically have a mix of credit characteristics that indicate a higher likelihood of default and higher loss severities than prime loans. Such characteristics might include a combination of high LTV ratios, low credit scores or originations using lower underwriting standards such as limited or no documentation of a borrower's income. The subprime market helps certain borrowers by broadening the availability of mortgage credit. While we have not historically characterized the single-family loans underlying our PCs and Structured Securities as either prime or subprime, we do monitor the amount of loans we have guaranteed with characteristics that indicate a higher degree of credit risk (see "Higher Risk Combinations" for further information). In addition, we estimate that approximately $6 billion of security collateral underlying our Structured Transactions at both September 30, 2008 and December 31, 2007 were classified as subprime, based on our classification that they are also higher-risk loan types. We categorize non-agency securities as subprime generally if they were labeled as such at the time we purchase them. At September 30, 2008 and December 31, 2007, we held investments of approximately $80 billion and $101 billion, respectively, of non-agency mortgage-related securities backed by subprime loans. These securities include significant credit enhancement, particularly through subordination, and 80% and 100% of these securities were investment grade at September 30, 2008 and December 31, 2007, respectively. During 2008, the credit characteristics of these securities have experienced significant and rapid declines accelerating in the third quarter of 2008. See "CONSOLIDATED BALANCE SHEET ANALYSIS -- Retained Portfolio" for further discussion and our evaluation of these securities for impairment. On July 8, 2008, the American Securitization Forum, or ASF, working with various constituency groups as well as representatives of U.S. federal government agencies, updated the Streamlined Foreclosure and Loss Avoidance Framework for Securitized Subprime ARM Loans, or the ASF Framework, which the ASF originally issued in 2007. The ASF Framework provides guidance for servicers to streamline borrower evaluation procedures and to facilitate the use of foreclosure and loss prevention efforts in an attempt to reduce the number of U.S. subprime residential mortgage borrowers who might default during

2008 because the borrowers cannot afford the increased payments after the interest rate is reset, or adjusted, on their mortgage loans. The ASF Framework is focused on subprime, first-lien ARMs that have an initial fixed interest rate period of 36 months or less, are included in securitized pools, were originated between January 1, 2005 and July 31, 2007, and have an initial interest rate reset date between January 1, 2008 and July 31, 2010 (defined as "Subprime ARM Loans" within the ASF Framework). Under the ASF Framework, Subprime ARM Loans are divided into the following segments:

ù Segment 1 -- those where the borrowers are expected to refinance their loans if they are unable or unwilling to meet their reset payment obligations;
ù Segment 2 -- those where the borrowers are unlikely to be able to refinance into any readily available mortgage product. Criteria to categorize these loans include a credit score less than 660 and other criteria that would otherwise make the loan FHA ineligible.
ù Segment 3 -- those where the borrowers are unlikely to be able to refinance into any readily available mortgage product and the servicer is expected to pursue available loss mitigation actions.

As of September 30, 2008, approximately $18 million of mortgage loans that back our PCs and Structured Securities meet the qualifications of segment 2, Subprime ARM Loan. However, we have not applied the approach in the ASF Framework and it has not had any impact on the off-balance sheet treatment of our PCs and Structured Securities that hold loans meeting the related Subprime ARM Loan criteria. Our loss mitigation approach for Subprime ARM Loans under the ASF Framework is the same as any other delinquent loan underlying our PCs and Structured Securities. Refer to "Loss Mitigation Activities" below, and "ITEM 2. FINANCIAL INFORMATION -- ANNUAL MD&A -- CREDIT RISKS -- Mortgage Credit Risk -- Loss Mitigation Activities" in our Registration Statement for a description of our approach to loss mitigation activity. Alt-A Loans Many mortgage market participants classify single-family loans with credit characteristics that range between their prime and subprime categories as Alt-A because these loans have a combination of characteristics of each category or may be underwritten with lower or alternative documentation requirements relative to a full documentation mortgage loan. Although there is no universally accepted definition of Alt-A, industry participants have used this classification principally to describe loans for which the underwriting process has been streamlined in order to reduce the documentation requirements of the borrower or allow alternative documentation. We principally acquire single-family mortgage loans originated as Alt-A from our traditional lenders that largely specialize in originating prime mortgage loans. These lenders typically originate Alt-A loans as a complementary product

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offering and generally follow an origination path similar to that used for their prime origination process. In determining our Alt-A exposure in loans underlying our single-family mortgage portfolio, we have classified mortgage loans as Alt-A if the lender that delivers them to us has classified the loans as Alt-A, or if the loans had reduced documentation requirements, which indicate that the loan should be classified as Alt-A. We estimate that approximately $187 billion, or 10%, of loans underlying our guaranteed PCs and Structured Securities at September 30, 2008 were classified as Alt-A mortgage loans. In addition, we estimate that approximately $2 billion, or approximately 6%, of our investments in single-family mortgage loans in our retained portfolio were classified as Alt-A loans as of September 30, 2008. For all of these Alt-A loans combined, the average credit score was 724, and the estimated current average LTV ratio, based on our first-lien exposure, was 79%. The delinquency rate for these Alt-A loans was 4.10% and 1.86% at September 30, 2008 and December 31, 2007, respectively. We implemented several changes in our underwriting and eligibility criteria in 2008 to reduce our acquisition of certain higher-risk loan products, including Alt-A loans. As a result, there are approximately $15 billion of single-family Alt-A mortgage loans in our retained portfolio and underlying our PCs and Structured Securities as of September 30, 2008 that were originated in 2008 as compared to $59 billion as of September 30, 2007 that were originated in 2007. We also invest in non-agency mortgage-related securities backed by single-family Alt-A loans in our retained portfolio. We have classified these securities as Alt-A if the securities were labeled as Alt-A when sold to us or if we believe the underlying collateral includes a significant amount of Alt-A loans. A total of $42 billion and $51 billion of our single-family non-agency mortgage-related securities were backed by Alt-A and other mortgage loans at September 30, 2008 and December 31, 2007, respectively. We have focused our purchases on credit-enhanced, senior tranches of these securities, which provide additional protection due to subordination. Of these securities, 89% and 100% were investment grade at September 30, 2008 and December 31, 2007, respectively. We estimate that a significant portion of the declines in fair values for most of these securities have been due to poor underlying collateral performance, decreased liquidity and larger risk premiums in the mortgage market. See "CONSOLIDATED BALANCE SHEET ANALYSIS -- Retained Portfolio" for discussion of our evaluation of these securities for impairment. Credit Enhancements At September 30, 2008 and December 31, 2007, our credit-enhanced mortgages and mortgage-related securities represented approximately 18% and 17% of the $1,934 billion and $1,819 billion, respectively, unpaid principal balance of our total mortgage portfolio, excluding non-Freddie Mac mortgage-related securities, our Structured Transactions and that portion of issued Structured Securities that is backed by Ginnie Mae Certificates. We exclude non-Freddie Mac mortgage-related securities because they expose us primarily to institutional credit risk. We exclude that portion of Structured Securities backed by Ginnie Mae Certificates because the incremental credit risk to which we are exposed is considered insignificant. Although many of our Structured Transactions are credit enhanced, we present the credit enhancement coverage information separately in the table below due to the use of subordination in many of the securities' structures. See "CONSOLIDATED BALANCE SHEETS ANALYSIS -- Retained Portfolio" for additional information on credit enhancement coverage of our investments in non-Freddie Mac mortgage-related securities. Primary mortgage insurance is the most prevalent type of credit enhancement protecting our single-family mortgage portfolio, including those underlying our PCs and Structured Securities, and is typically provided on a loan-level basis. As of September 30, 2008 and December 31, 2007, in connection with the single-family mortgage portfolio, excluding the loans that are underlying Structured Transactions, the maximum amount of losses we could recover under primary mortgage insurance, excluding reimbursement of expenses, was $59.7 billion and $51.9 billion, respectively. Other prevalent types of credit enhancement that we use are lender recourse and indemnification agreements (under which we may require a lender to reimburse us for credit losses realized on mortgages), as well as pool insurance. Pool insurance provides insurance on a pool of loans up to a stated aggregate loss limit. In addition to a pool-level loss coverage limit, some pool insurance contracts may have limits on coverage at the loan level. At September 30, 2008 and December 31, 2007, in connection with the single-family mortgage portfolio, excluding the loans that are underlying Structured Transactions, the maximum amount of losses we could recover under lender recourse and indemnification agreements was $11.4 billion and $12.1 billion, respectively; and at both dates, we had $3.8 billion in pool insurance. See "Institutional Credit Risk -- Mortgage and Bond Insurers" and "Mortgage Seller/Servicers" for further discussion about our mortgage loan insurers and seller/servicers. Other forms of credit enhancements on single-family mortgage loans include government guarantees, collateral (including cash or high-quality marketable securities) pledged by a lender, excess interest and subordinated security structures. At both September 30, 2008 and December 31, 2007, in connection with the single-family mortgage portfolio, excluding the loans that are underlying Structured Transactions, the maximum amount of losses we could recover under other forms of credit enhancements was $0.5 billion. Table 42 provides information on credit enhancements and credit performance for our Structured Transactions.

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Table 42 -- Credit Enhancement, or CE, and Credit Performance of Single-Family Structured Transactions(1)

Structured Transaction Type	Unpaid Principal Balance at September 30, 2008	2007	Average CE Coverage(2)	Delinquency Rate(3)	Credit Losses(4) Nine Months Ended September 30, 2008	2007
	(in millions)				(in millions)	
Pass-through	$ 19,093 (5)	$ 13,401 (5)	--%	1.82%	$ 40	$ 1
Overcollateralization	5,313	6,828	19%	17.26%	2	--
Total Structured Single-Family Transactions	$ 24,406	$ 20,229	4%	6.28%	$ 42	$ 1

(1) Structured Transactions are a type of Structured Security where we issue our guarantee in a securitization using private-label, or non-Freddie Mac issued securities, as collateral. We issue two types of Structured Transactions, those using securities with senior/subordinated structures as well as other forms of credit enhancements, which represent the amount of protection against financial loss, and those without such structures which we categorize as a pass-through transaction. Credit enhancement percentages for each category are calculated based on information available from third-party financial data providers and exclude certain loan-level credit enhancements, such as private mortgage insurance, that may also afford additional protection to us.
(2) Average credit enhancement represents a weighted-average coverage percentage, is based on unpaid principal balances and includes overcollateralization and subordination at September 30, 2008.
(3) Based on the number of loans that are past due 90 days or more, or in the process of foreclosure at September 30, 2008.
(4) Represents the total of our guaranteed payments that has exceeded the remittances of the underlying collateral and includes amounts charged-off during the period. Charge-offs are the amount of contractual principal balance that has been discharged in order to satisfy the mortgage and extinguish our guarantee.
(5) Includes $1.9 billion and $2.2 billion at September 30, 2008 and 2007, respectively, that are securitized FHA/VA loans, for which those agencies provide recourse for 100% of qualifying losses associated with the loan.

The delinquency rates associated with single-family Structured Transactions categorized as pass-through structures have increased significantly during 2008. Although our credit losses to date have not been significant, we have increased our provision for credit losses on these guarantees during the three and nine months ended September 30, 2008. Our credit losses on Structured

Transactions during the nine months ended September 30, 2008 are principally related to option ARM loans underlying several of these transactions. Our loan loss reserves associated with pass-through Structured Transactions issued prior to January 1, 2008, in relation to the outstanding UPB of these transactions were approximately 3.9% and 1.3% as of September 30, 2008 and December 31, 2007, respectively. We are actively monitoring the credit performance of the loans underlying these Structured Transactions, particularly those originated during 2006 and 2007, and we will continue to work with the servicers of these loans on their loss mitigation efforts in the remainder of 2008. We may also use credit enhancements to mitigate risk of loss on certain multifamily mortgages and revenue bonds, generally those without recourse to the borrower. At September 30, 2008 and December 31, 2007, in connection with multifamily loans as well as PCs and Structured Securities backed by multifamily mortgage loans, excluding the loans that are underlying Structured Transactions, we had maximum coverage of $3.0 billion and $1.2 billion, respectively. Loss Mitigation Activities Loss mitigation activities are a key component of our strategy for managing and resolving troubled assets and lowering credit losses. Our single-family loss mitigation strategy emphasizes early intervention in delinquent mortgages and providing alternatives to foreclosure. Other single-family loss mitigation activities include providing our single-family servicers with default management tools designed to help them manage non-performing loans more effectively and support fulfillment of our mission by assisting borrowers in retaining homeownership. Foreclosure alternatives are intended to reduce the number of delinquent mortgages that proceed to foreclosure and, ultimately, mitigate our total credit losses by reducing or eliminating a portion of the costs related to foreclosed properties and avoiding the credit loss in REO. In August 2008 we implemented a plan to maximize the efforts of our servicers to execute foreclosure alternatives that included: (a) an increase in fee compensation paid to servicers for each repayment plan, loan modification or pre-foreclosure sale executed, (b) extending the time period for foreclosures in order to have an opportunity to negotiate repayment plans and loan modifications in states with relatively fast foreclosure processes, and (c) expanding our guidelines on the types of loans eligible and conditions required for loan modification, making alternatives available for a larger number of loans, including those previously modified. Table 43 presents our single-family foreclosure alternative volumes for the three and nine months ended September 30, 2008 and 2007, respectively.

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Table 43 -- Single-Family Foreclosure Alternatives(1)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(number of loans)			
Repayment plans	10,270	8,771	33,348	28,874
Loan modifications	8,456	1,752	17,389	5,833
Forbearance agreements	828	673	2,430	2,476
Pre-foreclosure sales	1,911	504	3,994	1,438
Foreclosure alternatives	21,465	11,700	57,161	38,621

(1) Based on the single-family mortgage portfolio, excluding non-Freddie Mac

mortgage-related securities, Structured Transactions and that portion of Structured Securities that is backed by Ginnie Mae Certificates.

Repayment plans are generally agreements completed with the borrower outside of the original mortgage loan agreement which allow for the borrower to separately repay all past due amounts, including nominal interest. Loan modifications include either: (a) those that result in a concession to the borrower, which are situations in which we do not expect to recover the full original principal or interest due under the original loan terms, or (b) those that do not result in a concession to the borrower, such as adding the past due amounts to the balance of the loan or extending the term. The majority of our loan modifications for the three and nine months ended September 30, 2008 are those in which we have agreed to add the past due amounts to the balance of the loan. Due to the higher rates of delinquency in loans underlying our single-family PCs, we are increasing our use of loan modifications and pre-foreclosure sales in 2008 as compared to 2007. During the third quarter of 2008, in order to accelerate our loss mitigation efforts we implemented a trial program to proactively offer modifications on some of the delinquent loans underlying our PCs that we identified using certain criteria that indicate they are more likely to proceed to foreclosure. This trial modification program did not follow our typical modification process, where we evaluate the borrower's capacity to meet the modified terms by reviewing qualifications such as income and other indebtedness. Large-scale loss mitigation programs through the use of modifications that freeze or reduce the interest rate and sometimes reduce the principal balance of a troubled borrower's loan have become increasingly prevalent in the market. For example, in October 2008, Bank of America Corporation announced a program for modifications of certain subprime and option arm loans originated by Countrywide Financial Corporation prior to December 31, 2007. In October 2008, the FHA implemented a significant program under the HOPE for Homeowners Program, or H4H, that enables refinancing of mortgages originated prior to January 1, 2008 for borrowers meeting certain criteria. On November 11, 2008, our Conservator announced a broad-based program, involving Fannie Mae, the FHA, FHFA, Freddie Mac and twenty-seven seller/servicer partners, to offer a fast-track loan modification to certain troubled borrowers. We will begin offering loan modifications to troubled borrowers on December 15, 2008 under this program. Such borrowers may be eligible for modifications that would reduce the borrower's monthly payment by capitalizing past due payments, reducing interest rates, extending mortgage terms, forbearing principal payments, or a combination of these options. We have not yet estimated whether the program will significantly increase our volume of loan modifications, because the success of the program is dependent on the success of efforts to obtain qualifying information from eligible delinquent borrowers. The resulting modified loans are intended to provide these borrowers with an affordable monthly payment, defined as one where the borrower's monthly payment is no more than 38% of the household's monthly gross income. This streamlined modification program offers another alternative and complements existing loss modification programs we utilize to avoid foreclosures. In addition, as part of the EESA, FHFA, as Conservator, is required to implement a mitigation program for delinquent mortgage loans within our total mortgage portfolio in order to maximize assistance for homeowners and encourage our servicers to take advantage of H4H to mitigate foreclosures. FHFA must develop and begin implementing a plan 60 days after the date of enactment. We cannot predict the content of the plan that FHFA may implement. Credit Performance Delinquencies We report single-family delinquency rate information based on the number of loans that are 90 days or more past due and those in the process of foreclosure. For multifamily loans, we report delinquency rates based on net carrying values of mortgage loans 90 days or more past due and those in the process of foreclosure. Mortgage loans whose contractual terms have been modified under agreement with the borrower are not counted as delinquent for purposes of reporting delinquency rates if the borrower is less than 90 days delinquent under the modified terms. We include all the single-family loans that we own and those that are collateral for our PCs and Structured Securities for which we actively manage the credit risk. Consequently, we exclude that portion of our Structured Securities that are backed by Ginnie Mae Certificates and our Structured Transactions. We exclude

Structured Securities backed by Ginnie Mae Certificates because these securities do not expose us to meaningful amounts of credit risk due to the guarantee provided on these securities by the U.S. government. We exclude Structured Transactions from the delinquency rates of our single-family mortgage portfolio because these are backed

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by non-Freddie Mac securities and consequently, we do not service the underlying loans and do not perform primary loss mitigation. Many of these securities are significantly credit enhanced through subordination and are not representative of the loans for which we have primary, or first loss, exposure. Structured Transactions represented approximately 1% of our total mortgage portfolio at both September 30, 2008 and December 31, 2007. See "NOTE 5: MORTGAGE LOANS AND LOAN LOSS RESERVES -- Table 5.6 -- Delinquency Performance" to our consolidated financial statements for the delinquency performance of our single-family and multifamily mortgage portfolios, including Structured Transactions. Table 44 presents regional single-family delinquency rates for non-credit enhanced loans, excluding those underlying our Structured Transactions. Table 44 -- Single-Family -- Delinquency Rates, excluding Structured Transactions -- By Region(1)

	September 30, 2008		December 31, 2007	
	Percent of Unpaid Principal Balance(2)	Delinquency Rate	Percent of Unpaid Principal Balance(2)	Delinquency Rate
Northeast(1)	24%	0.69%	24%	0.39%
Southeast(1)	18	1.31	18	0.59
North Central(1)	19	0.72	20	0.48
Southwest(1)	13	0.46	13	0.32
West(1)	26	1.08	25	0.42
	100%		100%	
Total non-credit-enhanced -- all regions		0.87		0.45
Total credit-enhanced -- all regions		2.75		1.62
Total single-family mortgage portfolio, excluding Structured Transactions		1.22		0.65

(1) Presentation of non-credit-enhanced delinquency rates with the following regional designation: West (AK, AZ, CA, GU, HI, ID, MT, NV, OR, UT, WA); Northeast (CT, DE, DC, MA, ME, MD, NH, NJ, NY, PA, RI, VT, VA, WV); North Central (IL, IN, IA, MI, MN, ND, OH, SD, WI); Southeast (AL, FL, GA, KY, MS, NC, PR, SC, TN, VI); and Southwest (AR, CO, KS, LA, MO, NE, NM, OK, TX, WY).
(2) Based on mortgage loans in our retained portfolio and total guaranteed PCs and Structured Securities issued, excluding that portion of Structured Securities that is backed by Ginnie Mae Certificates.

During 2007 and continuing in the nine months ended September 30, 2008, home prices have declined broadly across the U.S. In some geographical areas, particularly in the West and North Central regions and Florida, these declines have been combined with increased rates of unemployment and weakness in home sales, which has resulted in significant increases in delinquency rates throughout the nine months ended September 30, 2008. These increases in delinquency rates have been more severe in the Southeast, West and Northeast regions for the nine months ended September 30, 2008, particularly in the states of California, Florida, Nevada and Arizona. For example, as of September 30, 2008, single-family loans in the state of Florida comprise 7% of our single-family mortgage portfolio; however, this state makes up more than 20% of the delinquent loans in our single-family mortgage portfolio, based on unpaid principal balances. Increases in delinquency rates occurred in all product types during the nine months ended September 30, 2008, but were most significant for interest-only, Alt-A and ARM mortgage loans. Delinquency rates for interest-only and option ARM products, which together represented approximately 10% of our total single-family mortgage portfolio at September 30, 2008, increased to 4.10% and 5.38% at September 30, 2008, respectively, compared with 2.03% and 2.24% at December 31, 2007, respectively. In support of our servicers who are increasing their efforts to assist troubled borrowers avoid foreclosure, we announced in July 2008 that we have extended the timeframe for completion of the foreclosure process in certain states. In addition, many states, including Florida, already have relatively long foreclosure processes. The extension of our loss mitigation efforts as well as longer process timeframes of certain states experiencing significant home price declines has, in part, caused our delinquency rates to increase more severely in 2008. Until economic conditions moderate and fundamentals of the housing market improve, we expect our delinquency rates to continue to rise.

Performing and Non-Performing Assets We have classified single-family loans in our total mortgage portfolio that are past due for 90 days or more (seriously delinquent) or whose contractual terms have been modified as a troubled debt restructuring due to the financial difficulties of the borrower as non-performing assets. Similarly, multifamily loans are classified as non-performing assets if they are 90 days or more past due (seriously delinquent), if collectibility of principal and interest is not reasonably assured based on an individual loan level assessment, or if their contractual terms have been modified due to financial difficulties of the borrower. Table 45 provides detail of performing and non-performing assets within our total mortgage portfolio.

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Table 45 -- Performing and Non-Performing Assets(1)

	September 30, 2008			
		Non-Performing Assets		
	Performing Assets(2)	Less Than 90 Days Past Due(3)	Seriously Delinquent(4)	Total
	(in millions)			
Mortgage loans in the retained portfolio				
Multifamily	$ 68,013	$ 52	--	$ 68,065
Multifamily troubled debt restructurings	--	241	--	241
Subtotal, mortgage loans in our retained portfolio,	68,013	293	--	68,306

multifamily				
Single-family	21,160	--	1,034	22,194
Single-family loans purchased under financial guarantees(5)	4,206	--	2,529	6,735
Single-family troubled debt restructurings	--	2,330	747	3,077
Subtotal, mortgage loans in our retained portfolio, single-family	25,366	2,330	4,310	32,006
Subtotal, mortgage loans in our retained portfolio	93,379	2,623	4,310	100,312
Guaranteed PCs and Structured Securities				
Multifamily(6)	14,463	51	12	14,526
Single-family(6)	1,770,159	--	23,369	1,793,528
Structured Securities backed by non-Freddie Mac mortgage-related securities(7)	24,048	--	2,306	26,354
Subtotal, guaranteed PCs and Structured Securities	1,808,670	51	25,687	1,834,408
REO, net	--	--	3,224	3,224
Totals	$ 1,902,049	$ 2,674	$ 33,221	$ 1,937,944

	December 31, 2007			
		Non-Performing Assets		
	Performing Assets(2)	Less Than 90 Days Past Due(3)	Seriously Delinquent(4)	Total
	(in millions)			
Mortgage loans in the retained portfolio				
Multifamily	$ 57,295	--	$ 3	$ 57,298
Multifamily troubled debt restructurings	--	264	7	271
Subtotal, mortgage loans in our retained portfolio, multifamily	57,295	264	10	57,569
Single-family	13,591	--	698	14,289
Single-family loans purchased under financial guarantees(5)	2,399	--	4,602	7,001
Single-family troubled debt restructurings	--	2,690	609	3,299
Subtotal, mortgage loans in our retained portfolio, single-family	15,990	2,690	5,909	24,589
Subtotal, mortgage loans in our retained portfolio	73,285	2,954	5,919	82,158
Guaranteed PCs and Structured Securities				
Multifamily(6)	10,607	51	--	10,658
Single-family(6)	1,700,543	--	6,141	1,706,684
Structured Securities backed by non-Freddie Mac mortgage-related securities(7)	19,846	--	1,645	21,491
Subtotal, guaranteed PCs and Structured Securities	1,730,996	51	7,786	1,738,833
REO, net	--	--	1,736	1,736
Totals	$ 1,804,281	$ 3,005	$ 15,441	$ 1,822,727

(1) Balances exclude mortgage loans and mortgage-related securities traded, but not yet settled. For PCs and Structured Securities, the balance reflects reported security balances and not unpaid principal of the underlying

mortgage loans. Mortgage loans held in our retained portfolio reflect the unpaid principal balances of the loan.
(2) Consists of single-family and multifamily loans that are less than 90 days past due and not classified as a troubled debt restructuring.
(3) Includes single-family loans that were previously reported as seriously delinquent and for which the original loan terms have been modified.
(4) Consists of loans 90 days or more delinquent as well as those in the process of foreclosure, at period end. Delinquency status does not apply to REO; however, REO is included in non-performing assets.
(5) Represent those loans purchased from the mortgage pools underlying our PCs, Structured Securities or long-term standby agreements due to the borrower's delinquency. Once we purchase a loan under our financial guarantee, it is placed on non-accrual status as long as it remains greater than 90 days past due.
(6) Excludes our Structured Securities that we classify separately as Structured Transactions.
(7) Consist of our single-family and multifamily Structured Transactions and that portion of Structured Securities that is backed by Ginnie Mae Certificates. However, all Structured Securities backed by Ginnie Mae Certificates are shown as performing assets regardless of payment status.

The amount of our non-performing assets increased 95% during the nine months ended September 30, 2008, to approximately $35.9 billion, from $18.4 billion at December 31, 2007, due to continued deterioration in single-family housing market fundamentals which led to significant increases in the delinquency rate and delinquency transition rates during the nine months ended September 30, 2008 as compared to rates in 2007. The delinquency transition rate is the percentage of delinquent loans that proceed to foreclosure or are modified as troubled debt restructurings. The changes in both delinquency rates and delinquency transition rates, as compared to our historical experience, have been progressively worse for loans originated in 2006 and 2007. These trends are, in part, due to our greater purchase volume of interest-only and Alt-A mortgages during those years. Interest-only and Alt-A mortgage loans are also concentrated in the West region. The West region comprised 26% of the unpaid principal balances of our single-family mortgage portfolio as of

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September 30, 2008, but accounted for approximately 30% of new REO acquisitions during the nine months ended September 30, 2008. Florida is the state with the highest number of delinquencies in our single-family mortgage portfolio as of September 30, 2008, although these have not yet evidenced themselves in REO acquisitions due to the longer duration of Florida's foreclosure process. The balance of our REO, net, increased 86% during the nine months ended September 30, 2008. Loans originated in 2006 and 2007, interest-only and Alt-A loans and loans in the West and North Central regions have also been affected by certain macro-economic factors, such as significant increases in unemployment rates and declines in home prices. Until nationwide home prices return to historical appreciation rates and selected regional economies improve, we expect further increases in our non-performing assets. Loans Purchased Under Financial Guarantees As securities administrator, we are required to purchase a mortgage loan from a mortgage pool if a court of competent jurisdiction or a federal government agency, duly authorized to oversee or regulate our mortgage purchase business, determines that our purchase of the mortgage was unauthorized and a cure is not practicable without unreasonable effort or expense, or if such a court or government agency requires us to repurchase the mortgage. Additionally, we are required to purchase all convertible ARMs when the borrower exercises the option to convert the interest rate from an adjustable rate to a fixed rate; and in the case of balloon/reset loans, shortly before the mortgage reaches its scheduled balloon reset date. For the nine months ended September 30, 2008 and 2007, we repurchased $1.7 billion and $297 million, respectively, of such convertible ARMs and balloon/reset loans, which increased in 2008 due to higher volumes of convertible ARM loans securitized in the last three years. As guarantor, we also have the right to purchase mortgages that back our PCs and Structured Securities (other than Structured Transactions) from the underlying loan pools when they are significantly past due. This right to repurchase collateral is known as our repurchase option. Through November 2007, our general practice was to purchase the mortgage loans out of PCs after the loans became 120 days delinquent. Effective December 2007, we no longer automatically purchase loans from PC pools once they become 120 days delinquent, but rather, we purchase and effectively liquidate the loans from PCs when: (a) the loans are modified; (b) foreclosure sales occur; (c) the loans have been delinquent for 24 months; or (d) the loans have been 120 days delinquent and the cost of guarantee payments to PC holders, including advances of interest at the PC coupon, exceeds the expected cost of holding the nonperforming mortgage in our retained portfolio. Consequently, we purchased fewer impaired loans under our repurchase option for the three and nine months ended September 30, 2008 as compared to the three and nine months ended September 30, 2007. We record at fair value loans that we purchase in connection with our performance under our financial guarantees and record losses on loans purchased on our consolidated statements of income in order to reduce our net investment in acquired loans to their fair value.

Table 46 presents activities related to loans purchased under financial guarantees for the three and nine months ended September 30, 2008 and 2007.

Table 46 -- Changes in Loans Purchased Under Financial Guarantees(1)

	Three Months Ended September 30,							
	2008				2007			
	Unpaid Principal Balance	Purchase Discount	Loan Loss Reserves	Net Investment	Unpaid Principal Balance	Purchase Discount	Loan Loss Reserves	Net Investment
	(in millions)							
Beginning balance	$ 6,099	$ (1,386)	$ (6)	$ 4,707	$ 4,716	$ (621)	$ (2)	$ 4,093
Purchases of loans	1,248	(385)	--	863	2,615	(794)	--	1,821
Provision for credit losses	--	--	(50)	(50)	--	--	(11)	(11)
Principal repayments	(183)	68	1	(114)	(368)	51	--	(317)
Troubled debt restructurings(2)	(57)	17	--	(40)	(157)	32	--	(125)
Foreclosures, transferred to REO	(372)	116	1	(255)	(715)	122	1	(592)
Ending balance	$ 6,735	$ (1,570)	$ (54)	$ 5,111	$ 6,091	$ (1,210)	$ (12)	$ 4,869

	Nine Months Ended September 30,							
	2008				2007			
	Unpaid Principal Balance	Purchase Discount	Loan Loss Reserves	Net Investment	Unpaid Principal Balance	Purchase Discount	Loan Loss Reserves	Net Investment

				(in millions)				
Beginning balance	$ 7,001	$ (1,767)	$ (2)	$ 5,232	$ 2,983	$ (220)	--	$ 2,763
Purchases of loans	2,394	(630)	--	1,764	6,263	(1,392)	--	4,871
Provision for credit losses	--	--	(55)	(55)	--	--	(13)	(13)
Principal repayments	(693)	207	1	(485)	(1,074)	118	--	(956)
Troubled debt restructurings(2)	(85)	24	--	(61)	(482)	70	--	(412)
Foreclosures, transferred to REO	(1,882)	596	2	(1,284)	(1,599)	214	1	(1,384)
Ending balance	$ 6,735	$ (1,570)	$ (54)	$ 5,111	$ 6,091	$ (1,210)	$ (12)	$ 4,869

(1) Consist of seriously delinquent loans purchased in performance of our financial guarantees and in accordance with Statement of Position No. 03-3, "Accounting for Certain Loans or Debt Securities Acquired in a Transfer," or SOP 03-3.
(2) Consist of loans that have transitioned into troubled debt restructurings during the stated period. This excludes modifications involving capitalization, or addition, of past due amounts to the balance of the loan to return to current status during 2008.

The unpaid principal balance of non-performing loans that have been purchased under our financial guarantees and that have not been modified under troubled debt restructurings decreased approximately 4% for the nine months ended September 30, 2008. For the nine months ended September 30, 2008, we purchased approximately $2.4 billion in unpaid principal balances of these loans with a fair value at acquisition of $1.8 billion. The volume of these repurchases has significantly decreased in the nine months ended September 30, 2008, due to our change in repurchase practice in December 2007. However, there was $17.8 billion unpaid principal balance of loans remaining in our PCs and Structured Securities as of September 30, 2008 that were greater than 120 days past due for which we have not exercised our repurchase option. The loans acquired under our financial guarantees for the nine months ended September 30, 2008 added $630 million of purchase discount, which consists of $207 million that was previously recorded on our consolidated balance sheets as loan loss reserve or guarantee obligation and $423 million of losses on loans purchased as shown on our consolidated statements of income for the nine months ended September 30, 2008. We expect that we will continue to incur losses on the purchase of non-performing loans in 2008. However, the volume and severity of these losses is dependent on many factors, including the effects of our change in practice for repurchases, regional changes in home prices and the volume of home sales. Recoveries on loans impaired upon purchase represent the recapture into income of previously recognized losses on loans purchased and provision for credit losses associated with purchases of delinquent loans from our PCs and Structured Securities in conjunction with our guarantee activities. Recoveries occur when a non-performing loan is repaid in full or when at the time of foreclosure the estimated fair value of the acquired property, less costs to sell, exceeds the carrying value of the loan. During the nine months ended September 30, 2008 and 2007, we recognized recoveries on loans impaired upon purchase of $438 million and $232 million, respectively. For impaired loans where the borrower has made required payments that return the loan to less than 90 days past due, the basis adjustments are accreted into interest income over time as periodic payments are received. As of September 30, 2008, the cure rate for non-performing loans that we purchased out of PCs during 2008, 2007 and 2006 was approximately 74%, 41% and 56%, respectively. The cure rate is the percentage of non-performing loans purchased with or without modification from PCs under our financial guarantee that have returned to performing status or have been paid off, divided by the total non-performing loans purchased from PCs under our financial guarantee. A modified mortgage loan is classified as performing to the extent it is 90 days or less past due. We believe, based on our historical experience with 2006 and 2007 purchases, as well as our access to credit enhancement remedies, that we will continue to recognize recoveries in 2008 on impaired loans purchased during 2007 and 2006. Our cure rate for non-performing loans purchased out of PCs during the nine months ended September 30, 2008 is not directly comparable to prior year rates due to

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the impact of our operational changes for purchasing delinquent loans made in December 2007. As a result of these operational changes, we have principally purchased impaired loans from our PC pools that have been modified, while most delinquent loans have remained in the PCs throughout the loss mitigation and foreclosure process. As a result, we began purchasing fewer loans and an increasing number of foreclosed single-family properties out of PC pools during the nine months ended September 30, 2008 as compared to the same period in 2007. As of September 30, 2008, our cure rates for 2007 delinquent loan purchases reflect a higher rate of these loans remaining delinquent when compared to the status of 2006 impaired loan purchases. We believe that these cure rate statistics reflect both the lag effect inherent in delinquent loans as well as the poorer performance of loans that were originated during 2007. In July 2008, consistent with most mortgage investors and servicers, we extended the timeframe to complete the foreclosure process and expanded our use of loan modifications and other alternatives to avoid borrower foreclosures and reduce defaults. Consequently, we believe that the balance of our repurchased loans remaining delinquent will continue to decline since these loans do not fully reflect our current modification efforts because of the significant lag between the time a loan is purchased from our PCs and the conclusion of the loan resolution process. We have extensively increased our mitigation activity, including modifications where we agree to reduce interest on the loan, or to add delinquent amounts to the balance of the loan to bring the borrower current. However, these recent efforts only partially offset the volume of our delinquent loan repurchases in 2008. As discussed above, beginning in December 2007, we significantly decreased our purchases of delinquent loans from our PCs. Although this action decreased the number of loans we purchase it had no effect on our loss mitigation efforts nor our ultimate credit losses and cure rates. However, this will continue to have significant impacts to our cure rate statistics for the loans we purchase under financial guarantees in 2008, because loans that in prior years would have been purchased from the pools after a serious delinquency will now generally remain in the pools until the loans reperform, are modified or are foreclosed. During 2008, other loans for which foreclosure sales occur or that have been delinquent for 24 months are purchased from the pools at dates generally later than before. Table 47 provides detail by region for REO activity. Our REO activity consists almost entirely of single-family residential properties. Consequently, our regional REO acquisition trends generally follow a pattern that is similar to, but lags, that of regional delinquency trends of the single-family mortgages underlying our PCs and Structured Securities. Table 47 -- REO Activity by Region(1)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(number of units)			
REO Inventory				
Beginning property inventory	22,029	10,260	14,394	8,785
Properties acquired by region:				

Northeast	1,485	644	4,062	1,532
Southeast	3,231	1,276	7,828	3,386
North Central	3,994	2,376	10,576	6,591
Southwest	1,617	951	4,452	2,848
West	5,556	658	11,314	1,199
Total properties acquired	15,883	5,905	38,232	15,556
Properties disposed by region:				
Northeast	(1,121)	(354)	(2,743)	(1,036)
Southeast	(2,304)	(993)	(5,663)	(2,896)
North Central	(2,708)	(1,901)	(7,648)	(5,517)
Southwest	(1,343)	(831)	(3,757)	(2,602)
West	(2,344)	(170)	(4,723)	(374)
Total properties disposed	(9,820)	(4,249)	(24,534)	(12,425)
Ending property inventory	28,092	11,916	28,092	11,916

(1) See "Table 44 -- Single-Family -- Delinquency Rates, excluding Structured Transactions -- By Region" for a description of these regions.

Our REO property inventories increased 95% during the nine months ended September 30, 2008 reflecting the impact of the weakening single-family housing market, particularly in the North Central, West, Northeast and Southeast regions. The impact of a national decline in single-family home prices and a decrease in the volume of home sales activity during 2008 lessened the alternatives to foreclosure for homeowners exposed to temporary deterioration in their financial condition. Increases in our single-family REO acquisitions have been most significant in the states of California, Arizona, Michigan, Virginia, Florida and Nevada. The mortgage loans in these states have had higher average loan balances due to home price appreciation of the last several years, prior to the most recent decreases in home prices. The West region represents approximately 30% of the new REO acquisitions during the nine months ended September 30, 2008, and based on the number of units, the highest concentration in that region is in the state of California. At September 30, 2008, our REO

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inventory in California was approximately 30% of our total REO inventory. California has accounted for an increasing amount of our credit losses and approximately 34% of our total credit losses in the three months ended September 30, 2008. Although the composition of interest-only and Alt-A loans in our single-family mortgage portfolio was approximately 9% at December 31, 2007, the number of our REO acquisitions that had been secured by either of these loan types represented more than 47% of our total REO acquisitions, based on unpaid principal balance at foreclosure, during the nine months ended September 30, 2008. Collectively, interest-only and Alt-A mortgage loans contributed to more than 50% of our credit losses in the nine months ended September 30, 2008. Credit Loss Performance Some loans that are delinquent or in foreclosure result in credit losses. Table 48 provides detail on our credit loss performance associated with mortgage loans underlying our guaranteed PCs and Structured Securities as well as mortgage loans in our Retained Portfolio.

Table 48 -- Credit Loss Performance

Three Months Nine Months Ended

	Ended September 30, 2008	2007	September 30, 2008	2007
	(dollars in millions)			
REO BALANCES, NET:				
Single-family	$ 3,200	$ 1,321	$ 3,200	$ 1,321
Multifamily	24	--	24	--
Total	$ 3,224	$ 1,321	$ 3,224	$ 1,321
REO OPERATIONS EXPENSE:				
Single-family	$ (333)	$ (50)	$ (806)	$ (80)
Multifamily	--	(1)	--	(1)
Total	$ (333)	$ (51)	$ (806)	$ (81)
CHARGE-OFFS				
Single-family:				
Charge-offs, gross(1) (including $1,092 million, $92 million, $2,018 million and $258 million relating to loan loss reserves, respectively)	$ (1,173)	$ (133)	$ (2,350)	$ (340)
Recoveries(2)	236	61	548	161
Single-family, net	(937)	(72)	(1,802)	(179)
Multifamily:				
Charge-offs, gross(1) (including $5 million, $3 million, $5 million and $3 million relating to loan loss reserves, respectively)	(5)	(3)	(5)	(3)
Recoveries(2)	--	--	--	--
Multifamily, net	(5)	(3)	(5)	(3)
Total Charge-offs:				
Charge-offs, gross(1) (including $1,097 million, $95 million, $2,023 million and $261 million relating to loan loss reserves, respectively)	(1,178)	(136)	(2,355)	(343)
Recoveries(2)	236	61	548	161
Total charge-offs, net	$ (942)	$ (75)	$ (1,807)	$ (182)
CREDIT LOSSES(3)				
Single-family	$ (1,270)	$ (122)	$ (2,608)	$ (259)
Multifamily	(5)	(4)	(5)	(4)
Total	$ (1,275)	$ (126)	$ (2,613)	$ (263)
Total in basis points(4) (annualized)	26.8	3.0	18.7	2.2

(1) Represent the amount of the unpaid principal balance of a loan that has been discharged in order to remove the loan from our retained portfolio at the time of resolution, regardless of when the impact of the credit loss was recorded on our consolidated statements of income through the provision for credit losses or losses on loans purchased. The amount of charge-offs for credit loss performance is generally calculated as the contractual balance of a loan at the date it is discharged less the estimated value in final disposition.

(2) Recoveries of charge-offs primarily result from foreclosure alternatives and REO acquisitions on loans where a share of default risk has been assumed by mortgage insurers, servicers or other third parties through credit enhancements.

(3) Equal to REO operations expense plus charge-offs, net. Excludes interest forgone on nonperforming loans, which reduces our net interest income but is not reflected in our total credit losses. In addition, excludes other-than-temporary impairment losses resulting from deterioration in the credit quality of our mortgage-related securities.

(4) Calculated as annualized credit losses divided by the average total mortgage portfolio, excluding non-Freddie Mac mortgage-related securities and that portion of Structured Securities that is backed by Ginnie Mae Certificates.

Our credit loss performance is a historic metric that measures losses at the conclusion of the loan and related collateral resolution process. There is a significant lag in time from the implementation of loss mitigation activities and the final resolution of delinquent mortgage loans as well as the disposition of nonperforming assets. As indicated by the significant increase in our loan loss reserve during the nine months ended September 30, 2008, we expect our charge-offs will continue to increase in the remainder of 2008 and throughout 2009. Our credit loss performance does not include our provision for credit losses and losses on loans purchased. We expect our credit losses to continue to increase during 2008, as market conditions, such as home prices and the rate of home sales, continue to deteriorate. As part of our disclosure commitments

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with FHFA, we disclose our estimate of credit loss sensitivity on a quarterly basis, disclosing the present value of the change in expected future credit losses from our issued single-family guaranteed PCs and Structured Securities resulting from an immediate 5% decline in home prices for the entire United States. Our estimate of this measure of sensitivity, after considering recoveries of credit enhancements such as mortgage insurance and our assumptions about home price appreciation after the initial 5% decline, was $5.2 billion and $3.1 billion as of September 30, 2008 and December 31, 2007, respectively. Our estimate of the actual decline in national average home prices based on our measure, which uses data on homes underlying our single-family mortgage portfolio was 11% for the twelve months ended September 30, 2008. Single-family charge-offs, gross, for the nine months ended September 2008 increased to $2.4 billion compared to $340 million for the nine months ended September 30, 2007, primarily due to an increase in the volume of REO properties acquired at foreclosure and continued deterioration of residential real estate markets in regional areas. The volume of single-family REO additions increased 146% for the nine months ended September 30, 2008 as compared to the nine months ended September 30, 2007. The severity of charge-offs during the nine months ended September 30, 2008 has increased due to declines in regional housing markets resulting in higher per-property losses. Our per-property loss severity during 2008 has been greatest in those areas that experienced the fastest increases in property values during 2000 through 2006, such as California, Florida, Virginia, Nevada and Arizona. In addition, although Alt-A loans comprise approximately 10% of those underlying our single-family mortgage portfolio as of September 30, 2008, these loans have contributed approximately 50% of our credit losses during the nine months ended September 30, 2008. Table 49 presents the credit loss concentration of Alt-A loans in our single-family portfolio as of September 30, 2008 and 2007, respectively. Table 49 -- Single-Family Credit Loss Concentration Analysis(1)

Composition		Unpaid Principal Balance As of September 30, 2008 Alt-A	Non Alt-A	2007 Alt-A	Non Alt-A
		(in billions)			
Year of original purchase					
	2008	$ 15	$ 222	N/A	N/A
	2007	59	297	$ 46	$ 208
	2006	54	228	60	265
All other		61	915	51	1,049
Total		$ 189	$ 1,662	$ 157	$ 1,522

State				
CA	$ 42	$ 213	$ 37	$ 180
FL	18	106	16	98
AZ	7	44	7	40
VA	6	55	5	50
NV	5	18	5	16
GA	6	55	5	50
MI	3	58	3	59
MD	5	47	4	42
Subtotal	92	596	82	535
All other states	97	1,066	75	987
Total	$ 189	$ 1,662	$ 157	$ 1,522

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	Credit Losses(2) For the Nine Months Ended September 30,			
	2008		2007	
Composition	Alt-A	Non Alt-A	Alt-A	Non Alt-A
	(in millions)			
Year of original purchase				
2008	--	$ 2	N/A	N/A
2007	372	201	$ 1	$ (1)
2006	778	344	25	(2)
All other	165	746	(3)	240
Total	$ 1,315	$ 1,293	$ 23	$ 237
State				
CA	$ 565	$ 233	$ 1	$ 2
FL	129	109	(1)	(3)
AZ	138	85	--	(2)
VA	112	31	3	--
NV	75	23	(1)	--
GA	55	64	2	7
MI	37	256	3	65
MD	16	7	--	(1)
Subtotal	1,127	808	7	68
All other states	188	485	16	169
Total	$ 1,315	$ 1,293	$ 23	$ 237

	Delinquency Rate(3) As of September 30,			
	2008		2007	
Composition	Alt-A	Non Alt-A	Alt-A	Non Alt-A
Year of original purchase				
2008	.79%	.23%	N/A	N/A
2007	5.24	1.72	.56%	.12%
2006	6.53	1.65	1.80	.43
All other	2.63	.88	2.44	.57
Total	4.10	1.02	1.74	.51
State				
CA	6.06	.86	1.39	.19
FL	10.28	2.55	2.68	.58

AZ	6.21	1.27	1.88	.27
VA	2.85	.52	1.55	.23
NV	9.43	1.51	2.53	.40
GA	3.04	1.22	2.03	.71
MI	3.69	1.07	2.49	.59
MD	4.45	.83	1.24	.29
Subtotal	6.62%	1.29%	1.91%	.41%
All other states	2.26	.89	1.59	.56
Total	4.10%	1.02%	1.74%	.51%

(1) Information is based on single-family mortgage loans in our retained portfolio as well as those underlying our PCs and Structured Securities, excluding those backed by Ginnie Mae Certificates.
(2) Credit losses consist of the aggregate amount of charge-offs, net of recoveries, and the amount of REO operations expense in each of the respective periods.
(3) Our reported delinquency rates are based on the number of loans that are 90 days or more past due as well as those in the process of foreclosure, and exclude loans whose contractual terms have been modified under agreement with the borrower, if the borrower is less than 90 days delinquent under the modified terms.

Loan Loss Reserves We maintain two mortgage-related loan loss reserves -- allowance for losses on mortgage loans held-for-investment and reserve for guarantee losses -- at levels we deem adequate to absorb probable incurred losses on mortgage loans held-for-investment in our retained portfolio and mortgages underlying our PCs, Structured Securities and other financial guarantees. Determining the loan loss and credit-related loss reserves associated with our mortgage loans and PCs and Structured Securities is complex and requires significant management judgment about matters that involve a high degree of subjectivity. This management estimate is inherently more difficult to perform due to the absence of historical precedents relative to the current economic environment. See "MD&A -- CRITICAL ACCOUNTING POLICIES AND ESTIMATES -- Allowance for Loan Losses and Reserve for Guarantee Losses" and "ITEM 13. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA -- AUDITED CONSOLIDATED FINANCIAL STATEMENTS AND ACCOMPANYING NOTES -- NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES" in our Registration Statement for further information. Table 50 summarizes our loan loss reserves activity for guaranteed loans and those mortgage loans held in our retained portfolio, in total.

Table 50 -- Loan Loss Reserves Activity

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(in millions)			
Total loan loss reserves:(1)				
Beginning balance	$ 5,813	$ 1,138	$ 2,822	$ 619
Provision for credit losses	5,702	1,372	9,479	2,067

Charge-offs, gross(2)	(1,097)	(95)	(2,023)	(261)
Recoveries(3)	236	61	548	161
Charge-offs, net	(861)	(34)	(1,475)	(100)
Transfers, net(4)	(434)	(164)	(606)	(274)
Ending balance	$ 10,220	$ 2,312	$ 10,220	$ 2,312

(1) Include reserves for loans held-for-investment in our retained portfolio and reserves for guarantee losses on PCs and Structured Securities.
(2) Charge-offs related to retained mortgages represent the amount of the unpaid principal balance of a loan that has been discharged using the reserve balance to remove the loan from our retained portfolio at the time of resolution. Charge-offs exclude $81 million and $41 million for the three months ended September 30, 2008 and 2007, respectively, and $332 million and $82 million for the nine months ended September 30, 2008 and 2007, respectively, related to certain loans purchased under financial guarantees and reflected within losses on loans purchased on our consolidated statements of income.
(3) Recoveries of charge-offs primarily resulting from foreclosure alternatives and REO acquisitions on loans where a share of default risk has been assumed by mortgage insurers, servicers or other third parties through credit enhancements.
(4) Consist primarily of: (a) the transfer of a proportional amount of the recognized reserves for guaranteed losses related to PC pools associated with non-performing loans purchased from mortgage pools underlying our PCs, Structured Securities and long-term standby agreements to establish the initial recorded investment in these loans at the date of our purchase; and (b) amounts attributable to uncollectible interest on PCs and Structured Securities in our retained portfolio.

Our total loan loss reserves increased as we recorded additional reserves to reflect increased estimates of incurred losses, an observed increase in delinquency rates and increases in the estimated severity of losses on a per-property basis related to our single-family mortgage portfolio. See "CONSOLIDATED RESULTS OF OPERATIONS -- Non-Interest Expense -- Provision for Credit Losses," for additional information. OFF-BALANCE SHEET ARRANGEMENTS We enter into certain business arrangements that are not recorded on our consolidated balance sheets or may be recorded in amounts that differ from the full contract or notional amount of the transaction. Most of these arrangements relate to our financial guarantee and securitization activity for which we record guarantee assets and obligations and the related securitized assets are owned by third parties. See "ITEM 2. FINANCIAL INFORMATION -- ANNUAL MD&A -- OFF-BALANCE SHEET ARRANGEMENTS" in our Registration Statement and "NOTE 2: FINANCIAL GUARANTEES AND SECURITIZED INTERESTS IN MORTGAGE-RELATED ASSETS" in the notes to our consolidated financial statements for more discussion of our off-balance sheet arrangements. As part of our credit guarantee business, we routinely enter into forward purchase and sale commitments for mortgage loans and mortgage-related securities. Some of these commitments are accounted for as derivatives. Their fair values are reported as either derivative assets, net or derivative liabilities, net on our consolidated balance sheets. We also have purchase commitments primarily related to mortgage purchase flow business which we principally fulfill by executing PC guarantees in swap transactions and, to a lesser extent, commitments to purchase multifamily mortgage loans and revenue bonds that are not accounted for as derivatives and are not recorded on our consolidated balance sheets. These non-derivative commitments totaled $310.0 billion and $173.4 billion at September 30, 2008 and December 31, 2007, respectively. The increase during the nine months ended September 30, 2008 is due primarily to the timing of contract renewals with existing customers, which most often are for one-year periods. During 2008, several of the counterparties to these transactions have merged with other institutions, and in some cases have been placed into receivership under the control of the FDIC. See "CREDIT RISKS -- Institutional Credit Risk -- Our Customers -- Mortgage Seller/Servicers" for further information. Such commitments are not accounted for as derivatives and are not recorded on our consolidated balance sheets. These mortgage purchase contracts contain no penalty or liquidated damages clauses based on our inability to take delivery of mortgage loans. Effective December 2007 we established securitization trusts for the administration of cash remittances received on the underlying assets of our PCs and Structured Securities. We receive trust management income, which represents the fees we earn as master servicer, issuer, trustee and administrator for our PCs and Structured Securities. These fees, which are included in our non-interest income, are derived from interest earned on principal and interest cash flows held in the trust between the time funds are remitted to the trust by servicers and the date of distribution to our PC and Structured Securities holders. The trust management income will be offset by interest expense we incur when a borrower prepays a mortgage, but the full amount of interest for the month is due to the PC investor. We have off-balance sheet exposure to the trust of the same maximum amount that applies to our credit risk of our outstanding guarantees; however, we also have exposure to the trust and its institutional counterparties for any investment losses that are incurred in our role as the securities administrator for the trust. In accordance with the trust agreements, we invest the funds of the trusts in eligible short-term financial

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instruments that are mainly the highest-rated debt types as classified by a nationally-recognized rating service organization. During the third quarter of 2008, we recognized $1.1 billion of losses on investment activity associated with our role as securities administrator for this trust as a result of the Lehman short-term lending transactions. See "CONSOLIDATED RESULTS OF OPERATIONS -- Securities Administrator Loss on Investment Activity" for further information. As of September 30, 2008, the investments of the trust were primarily in cash equivalents, including obligations guaranteed by the U.S. government. On September 6, 2008, the Director of FHFA placed us into conservatorship. On September 7, 2008, the Conservator entered into the Purchase Agreement with the Treasury for senior preferred stock and warrants for the purchase of 79.9% of our common stock outstanding in return for the Treasury's commitment in the Purchase Agreement. The Purchase Agreement provides that the Treasury will contribute funds of up to $100 billion under certain conditions to fund our operations. We have also entered into the Lending Agreement with Treasury, which provides for short-term funding, under certain terms and conditions, on a secured basis. See "Executive Summary -- Conservatorship" for further information on both the Purchase and Lending Agreements. As part of the guarantee arrangements pertaining to certain multifamily housing revenue bonds and securities backed by multifamily housing revenue bonds, we provided commitments to advance funds, commonly referred to as "liquidity guarantees," totaling $11.6 billion and $8.0 billion at September 30, 2008 and December 31, 2007, respectively. These guarantees require us to advance funds to third parties that enable them to repurchase tendered bonds or securities that are unable to be remarketed. Any repurchased securities are pledged to us to secure funding until the securities are remarketed. At September 30, 2008 and December 31, 2007, $307 million and $ -- in liquidity guarantee advances were outstanding. Advances under our liquidity guarantees typically mature in 60 to 120 days. These liquidity guarantee advances are included in other assets on our consolidated balance sheets. CRITICAL ACCOUNTING POLICIES AND ESTIMATES The preparation of financial statements in conformity with GAAP requires us to make a number of judgments, estimates and assumptions that affect the reported amounts of our assets, liabilities, income and expenses. Certain of our accounting policies, as well as estimates we make, are critical to the presentation of our financial condition and results of operations. They often require management to make difficult, complex or subjective judgments and estimates, at times, regarding matters that are inherently uncertain. Actual results could differ from our estimates and different judgments and assumptions related to these policies and estimates could have a material impact on our consolidated financial statements. Our critical accounting policies and estimates relate to: (a) valuation of a significant portion of assets and liabilities; (b) allowances for loan losses and reserve for guarantee losses; (c) application of the static effective yield method to amortize the guarantee obligation; (d) application of the effective interest method; (e) impairment recognition on investments in securities; and (f) realizability of net deferred tax asset. For additional information about our critical accounting policies and estimates and other significant accounting policies, including recently issued accounting pronouncements, see "ITEM 2. FINANCIAL INFORMATION -- ANNUAL MD&A -- CRITICAL ACCOUNTING POLICIES AND ESTIMATES" and "ITEM 13. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA -- AUDITED CONSOLIDATED FINANCIAL STATEMENTS AND ACCOMPANYING NOTES -- NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES" in our Registration Statement. Realizability of Net Deferred Tax Asset We use the asset and liability method of accounting for income taxes pursuant to SFAS 109. Under this method, deferred tax assets and liabilities are recognized based upon the expected future tax consequences of existing temporary differences between the financial reporting and the tax reporting basis of assets and liabilities using enacted statutory tax rates. Valuation allowances are recorded to reduce net deferred tax assets when it is more likely than not that a tax benefit will not be realized. The realization of these deferred tax assets is dependent upon the generation of sufficient taxable income or upon our intent and ability to hold available-for-sale debt securities until the recovery of any temporary unrealized losses. On a quarterly basis, our management determines whether a valuation allowance is necessary. In so doing, our management considers all evidence currently available, both positive and negative, in determining whether, based on the weight of that evidence, it is more likely than not that the net deferred tax asset will be realized. For more information about the evidence that management considers, see "NOTE 12: INCOME TAXES" to our consolidated financial statements and "ITEM 13. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA -- AUDITED CONSOLIDATED FINANCIAL STATEMENTS AND ACCOMPANYING NOTES -- NOTE 13: INCOME TAXES" in our Registration Statement. The consideration of this evidence requires significant estimates, assumptions and judgments, particularly about our financial condition and results of operations for several years into the future and our intent and ability to hold available-for-sale debt securities with temporary unrealized losses until recovery. As discussed in "ITEM 1A. RISK FACTORS," recent events fundamentally affecting our control, management and operations are likely to affect our future financial condition and results of operations. These events have resulted in a variety of uncertainties regarding our future

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operations, our business objectives and strategies and our future profitability, the impact of which cannot be reliably forecasted at this time. As such, any changes in these estimates, assumptions or judgments may have a material effect on our financial position and results of operations. As described in "NOTE 12: INCOME TAXES" to our consolidated financial statements, our management determined that, as of September 30, 2008, it was more likely than not that we would not realize the portion of our net deferred tax assets that is dependent upon the generation of future taxable income. This determination was driven by recent events and the resulting uncertainties that existed as of September 30, 2008 that are discussed in "ITEM 1A. RISK FACTORS." As a result, we established a valuation allowance against these net deferred tax assets at September 30, 2008, which had a material effect on our financial position as of September 30, 2008 and our results of operations for the three and six months then ended. It is possible that, in future periods, the uncertainties regarding our future operations and profitability could be resolved such that it could become more likely than not that these net deferred tax assets would be realized due to the generation of sufficient taxable income. If that were to occur, our management would assess the need for a reduction of the valuation allowance, which could have a material effect on our financial position and results of operations in the period of the reduction. Also, as described in "NOTE 12: INCOME TAXES" to our consolidated financial statements, our management has determined that a valuation allowance is not necessary for the portion of our net deferred tax assets that is dependent upon our intent and ability to hold available-for-sale debt securities until the recovery of any temporary unrealized losses. These temporary unrealized losses have only impacted comprehensive income, not income from continuing operations or our taxable income, nor will they impact income from continuing operations or taxable income if they are held to maturity. As such, the realization of these net deferred tax assets is not dependent upon the generation of sufficient taxable income but is instead dependent on our intent and ability to hold these securities until recovery, which may be at maturity. The conclusion by management that these unrealized losses are temporary and that we have the intent and ability to hold these securities until recovery requires significant estimates, assumptions and judgments, as described in "ITEM 2. FINANCIAL INFORMATION -- ANNUAL MD&A -- CRITICAL ACCOUNTING POLICIES AND ESTIMATES -- Impairment Recognition on Investments in Securities" in our Registration Statement. Any changes in these estimates, assumptions or judgments in future periods may result in the recognition of an other-than-temporary impairment, which would result in some of these net deferred tax assets not being realized and may have a material effect on our financial position and results of operations. Fair Value Measurements Effective January 1, 2008, we adopted SFAS 157, which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. See "Determination of Fair Value" for additional information about fair value hierarchy and measurements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Upon adoption of SFAS 157 on January 1, 2008, we began estimating the fair value of our newly-issued guarantee obligations at their inception using the practical expedient provided by FIN 45, as amended by SFAS 157. Using the practical expedient, the initial guarantee obligation is recorded at an amount equal to the fair value of compensation received, inclusive of all rights related to the transaction, in exchange for our guarantee. As a result, we no longer record estimates of deferred gains or immediate, "day one" losses on most guarantees. In addition, amortization of the guarantee obligation will now more closely follow our economic release from risk under the guarantee. However, all unamortized amounts recorded prior to January 1, 2008 will continue to be deferred and amortized using existing amortization methods with respect to disclosure of the fair value of our guarantee obligation on the Fair Value Balance Sheet. Valuation of the guarantee obligation subsequent to initial recognition will use current pricing assumptions and related inputs. For information regarding our fair value methods and assumptions, see "NOTE 14: FAIR VALUE DISCLOSURES" to our consolidated financial statements. Determination of Fair Value SFAS 157 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value based on the inputs a market participant would use at the measurement date. Observable inputs reflect market data obtained from independent sources. Unobservable inputs reflect assumptions based on the best information available under the circumstances. Unobservable inputs are used to measure fair value to the extent that observable inputs are not available, or in situations where there is little, if any, market activity for an asset or liability at the measurement date. We use valuation techniques that maximize the use of observable inputs, where available, and minimize the use of unobservable inputs. The three levels of the fair value hierarchy under SFAS 157 are described below:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities;
Level 2: Quoted prices for similar assets and liabilities in active markets;

quoted prices for identical or similar assets and liabilities in markets that are not active; inputs other than quoted market prices that are

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observable for the asset or liability; and inputs that are derived principally from or corroborated by observable market data for substantially the full term of the assets; and

Level 3: Unobservable inputs for the asset or liability that are supported by little or no market activity and that are significant to the fair values.

We categorize assets and liabilities in the scope of SFAS 157 within the fair value hierarchy based on the valuation process used to derive their fair values and our judgment regarding the observability of the related inputs. Those judgments are based on our knowledge and observations of the markets relevant to the individual assets and liabilities and may vary based on current market conditions. In applying our judgments, we look to ranges of third party prices, transaction volumes and discussions with pricing service vendors to understand and assess the extent of market benchmarks available and the judgments or modeling required in their processes. Based on these factors, we determine whether the fair values are observable in active markets or determine that the markets are inactive. Our Level 1 financial instruments consist of exchange-traded derivatives where quoted prices exist for the exact instrument in an active market. Our Level 2 instruments generally consist of high credit quality agency mortgage-related securities, commercial mortgage-backed securities, non-mortgage-related asset-backed securities, interest-rate swaps, option-based derivatives and foreign-currency denominated debt. These instruments are generally valued through one of the following methods: (a) dealer or pricing service inputs with the value derived by comparison to recent transactions or similar securities and adjusting for differences in prepayment or liquidity characteristics; or (b) modeled through an industry standard modeling technique that relies upon observable inputs such as discount rates and prepayment assumptions. Our Level 3 assets primarily consist of non-agency residential mortgage-related securities, our guarantee asset and multifamily mortgage loans held-for-sale. While the non-agency mortgage-related securities market has become significantly less liquid, resulting in lower transaction volumes, wider credit spreads and less transparency in 2008, we value our non-agency mortgage-related securities based primarily on prices received from third party pricing services and prices received from dealers. The techniques used to value these instruments generally are either (a) a comparison to transactions of instruments with similar collateral and risk profiles; or (b) industry standard modeling such as the discounted cash flow model. For a large majority of the securities we value using dealers and pricing services, we obtain at least three independent prices, which are non-binding to us or our counterparties. When multiple prices are received, we use the median of the prices. The models and related assumptions used by the dealers and pricing services are owned and managed by them. However, we have an understanding of their processes used to develop the prices provided to us based on our ongoing due diligence. We have formal discussions with our pricing service vendors on at least a quarterly basis to maintain a current understanding of the processes and inputs they use to develop prices. We make no adjustments to the individual prices we receive from third party pricing services or dealers for non-agency mortgage-related securities backed by subprime and Alt-A mortgage loans beyond calculating median prices and discarding certain prices that are not valid based on our validation procedures. These validation procedures are executed to ensure that the individual prices we receive are consistent with our observations of the marketplace and prices that are provided to us by other dealers or pricing services. These processes include automated checks of prices for reasonableness based on variations from prices provided in previous periods, comparisons of prices to internally calculated expected prices and relative value comparisons based on specific characteristics of securities. To the extent we determine that a price provided to us is outside established parameters, we will further examine the price including follow up discussions with the specific pricing service or dealer and ultimately not use that price if we are not able to determine the price is valid. All of these processes are executed prior to the use of the prices in the financial statement process. We validate our prices using sources and methods different from the sources we use to obtain the price. This process is performed by an independent control group separate from that which is responsible for obtaining the prices. The pricing and related validation process is overseen by a senior management valuation committee that is responsible for reviewing all pricing judgments, methods, controls and results. The prices provided to us consider the existence of credit enhancements, including monoline insurance coverage and the current lack of liquidity in the market place. We consider credit risk in the valuation of our assets and liabilities, including in our derivative positions. For derivatives that are in an asset position, we hold collateral against those positions in accordance with agreed upon thresholds. The amount of collateral held depends on the credit rating of the counterparty and is based on our credit risk policies. See "CREDIT RISKS -- Derivative Counterparty Credit Risk" for a discussion of our counterparty credit risk. Similarly, for derivatives that are in a liability position to us we post collateral to counterparties in accordance with agreed upon thresholds. The fair value of derivative assets considers the impact of institutional credit risk in the event that the counterparty does not honor its payment obligation. Additionally, the fair value of derivative liabilities considers the impact of our institutional credit risk.

For a description of how we determine the fair value of our guarantee asset, see "NOTE 2: FINANCIAL GUARANTEES AND SECURITIZED INTERESTS IN MORTGAGE-RELATED ASSETS" to our consolidated financial statements. Our valuation process and related SFAS 157 hierarchy assessments require us to make judgments regarding the liquidity of the market place. These judgments are based on the volume of securities traded in the market place, the width of bid/ask spreads and dispersion of prices on similar securities. As previously mentioned, we have observed a significant reduction in liquidity within the non-agency mortgage-related security markets. We continue to utilize the prices provided to us by various pricing services and dealers and believe that the procedures executed by the pricing services and dealers, combined with our internal verification process, ensure that the prices used to develop the financial statements are in accordance with the guidance in SFAS 157. We periodically evaluate our valuation techniques and may change them to improve our fair value estimates, to accommodate market developments or to compensate for changes in data availability and reliability or other operational constraints. We review a range of market quotes from pricing services or dealers and perform analysis of internal valuations on a monthly basis to confirm the reasonableness of the valuations. See "ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK -- Interest-Rate Risk and Other Market Risks" for a discussion of market risks and our interest-rate sensitivity measures, PMVS and duration gap. In addition, see "NOTE 2: FINANCIAL GUARANTEES AND SECURITIZED INTERESTS IN MORTGAGE-RELATED ASSETS" to our consolidated financial statements for a sensitivity analysis of the fair value of our guarantee asset and other retained interests and the key assumptions utilized in fair value measurements.

Table 51 below summarizes our assets and liabilities measured at fair value on a recurring basis by level in the valuation hierarchy at September 30, 2008.

Table 51 -- Summary of Assets and Liabilities at Fair Value on a Recurring Basis

	At September 30, 2008									
	Assets							Liabilities		
	Mortgage Loans Held-for-sale, at fair value	Mortgage-related securities Available-for-sale, at fair value	Mortgage-related securities Trading, at fair value	Non-mortgage-related securities Available-for-sale, at fair value	Derivative assets, net(1)	Guarantee asset, at fair value	Total(1)	Debt securities denominated in foreign currencies	Derivative liabilities, net(1)	Total(1)
	(dollars in millions)									
Level 1	--%	--%	--%	--%	1%	--%	--%	--%	2%	1%
Level 2	--	73	97	100	99	--	78	100	96	98
Level 3	100	27	3	--	--	100	22	--	2	1
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Total GAAP Fair Value	$ 95	$ 478,413	$ 118,002	$ 10,410	$ 3,040	$ 9,679	$ 619,639	$ 13,701	$ 1,359	$ 15,060

(1) Percentages by level are based on gross fair value of derivative assets and derivative liabilities before counterparty netting, cash collateral netting, net trade/settle receivable or payable and net derivative interest receivable or payable.

Changes in Level 3 Recurring Fair Value Measurements At September 30, 2008, we measured and recorded on a recurring basis $142.8 billion, or approximately 22% of total assets, at fair value using significant unobservable inputs (Level 3), before the impact of counterparty and cash collateral netting across the levels of the fair value hierarchy. Our Level 3 assets primarily consist of non-agency residential mortgage-related securities, our guarantee asset and multifamily mortgage loans held-for-sale. We also measured and recorded on a recurring basis $0.3 billion, or 1% of total liabilities, at fair value using significant unobservable inputs, before the impact of counterparty and cash collateral netting across the levels of the fair value hierarchy. Our Level 3 liabilities consist of derivative liabilities, net. In the third quarter of 2008, our Level 3 assets decreased by $6.8 billion, primarily in our non-agency mortgage-related securities, backed by subprime and Alt-A mortgage loans. This decline was mainly attributable to substantial monthly remittances of principal repayments from the underlying collateral. Our net transfer of Level 2 assets to Level 3 during the third quarter of 2008 was $9.9 billion. See "LIQUIDITY AND CAPITAL RESOURCES -- Retained Portfolio" for more information. During the nine months ended September 30, 2008, our Level 3 assets increased significantly because the market for non-agency mortgage-related securities backed by subprime and Alt-A mortgages continued to experience a significant reduction in liquidity and wider spreads, as investor demand for these assets decreased. As a result, we have observed more variability in the quotations received from dealers and third-party pricing services. Consequently, we transferred $155.8 billion of Level 2 assets to Level 3 during the nine months ended September 30, 2008. These transfers were primarily within non-agency mortgage-related securities backed by subprime and Alt-A mortgage loans where inputs that are significant to their valuation became limited or unavailable. We concluded that the prices on these securities received from pricing services and dealers were reflective of significant unobservable inputs as the markets have become significantly less

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active, requiring higher degrees of judgment to extrapolate fair values from limited market benchmarks. We recorded $17.6 billion in additional losses primarily in AOCI on these transferred assets during the nine months ended September 30, 2008, which were included in our Level 3 reconciliation. See "NOTE 14: FAIR VALUE DISCLOSURES -- Table 14.2 -- Fair Value Measurements of Assets and Liabilities Using Significant Unobservable Inputs" to our consolidated financial statements for the Level 3 reconciliation. For discussion of types and characteristics of mortgage loans underlying our mortgage-related securities, see "CREDIT RISKS" and "CONSOLIDATED BALANCE SHEETS ANALYSIS -- Table 17 -- Characteristics of Mortgage Loans and Mortgage-Related Securities in our Retained Portfolio." Controls over Fair Value Measurement To ensure that fair value measurements are appropriate and reliable, we employ control processes to validate the techniques and models we use. These control processes include review and approval of new transaction types, price verification and review of valuation judgments, methods and models. Where applicable, valuations are back tested comparing the settlement prices to where the fair values were measured. Where models are employed to assist in the measurement of fair value, material changes made to those models during the periods presented are reviewed and approved by the Valuation Committee, with senior representation from business areas, Enterprise Risk Oversight and Finance. Inputs used by those models are regularly updated for changes in the underlying data, assumptions, valuation inputs, or market conditions. Groups independent of our trading and investing function, including the Financial Valuation Control group and the Valuation Committee, participate in the review and validation process. Financial Valuation Control performs monthly independent verification by comparing the methodology driven price to other market source data (to the extent available), and uses independent analytics to determine if assigned fair values are reasonable. Financial Valuation Control's review targets coverage across all products with increased attention to higher risk/impact valuations. The Valuation Committee evaluates and approves all significant valuation adjustments, judgments, methods, controls and results. In addition, the Model Governance Committee is responsible for the review and approval of the pricing models used in our fair value measurements. The Fair Value Option for Financial Assets and Financial Liabilities Effective January 1, 2008, we adopted SFAS 159 for certain eligible financial instruments. This statement permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value in order to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The effect of the first measurement to fair value is reported as a cumulative-effect adjustment to the beginning balance of retained earnings. We elected the fair value option for certain available-for-sale mortgage-related securities that were identified as an economic offset to the changes in fair value of the guarantee asset caused by interest rate movements, foreign-currency denominated debt and investments in securities classified as available-for-sale securities and identified as within the scope of Emerging Issues Task Force 99-20, "Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests That Continue to be Held by a Transferor in Securitized Financial Assets." As a result of the adoption of SFAS 159, we recognized a $1.0 billion after-tax increase to our beginning retained earnings at January 1, 2008. In addition, during the third quarter of 2008, we elected the fair value option for certain multifamily held-for-sale mortgage loans. For additional information on the impact of the election of the fair value option, see "NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- Changes in Accounting Principles" to our consolidated financial statements. For information regarding our fair value methods and assumptions, see "NOTE 14: FAIR VALUE DISCLOSURES" to our consolidated financial statements. OUR PORTFOLIOS Guaranteed PCs and Structured Securities Guaranteed PCs and Structured Securities represent the unpaid principal balances of the mortgage-related assets we issue or otherwise guarantee. Our guaranteed PCs are pass-through securities that represent undivided interests in trusts that own pools of mortgages we have purchased. Our Structured Securities represent beneficial interests in pools of PCs and certain other types of mortgage-related assets. We create Structured Securities primarily by resecuritizing our PCs or previously issued Structured Securities as collateral. Similar to our PCs, we guarantee the payment of principal and interest to the holders of all tranches of our Structured Securities. By issuing Structured Securities, we seek to provide liquidity to alternative sectors of the mortgage market. We do not charge a management and guarantee fee for Structured Securities backed by our PCs or previously issued Structured Securities, because the underlying collateral is already guaranteed, so there is no incremental credit risk to us as a result of resecuritization. We also issue Structured Securities to third parties in exchanges for non-Freddie Mac mortgage-related securities, which we refer to as Structured Transactions. See "ITEM 1. BUSINESS -- Our Business Segments -- Single-family Guarantee Segment" in our Registration Statement and "CREDIT RISKS -- Mortgage Credit Risk" herein for detailed discussion and other information on our PCs and Structured Securities, including Structured Transactions.

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In addition to our mortgage security guarantees, during the nine months ended September 30, 2008 and 2007, we entered into $1.6 billion and $19.4 billion, respectively, of long-term standby commitments for mortgage assets held by third parties that require us to purchase loans from lenders when the loans subject to these commitments meet certain delinquency criteria. We terminated $18.8 billion of our previously issued long-term standby commitments in the nine months ended September 30, 2008. The majority of the loans previously covered by these commitments were subsequently securitized as PCs. We have included these long-term standby commitments in the reported activity and balances of our guaranteed PCs and Structured Securities portfolio. Long-term standby commitments represented approximately 1% and 2% of the balance of our PCs and Structured Securities portfolio at September 30, 2008 and December 31, 2007, respectively. Table 52 presents the distribution of underlying mortgage assets for our issued PCs and Structured Securities. Table 52 -- Issued Guaranteed PCs and Structured Securities(1)

	September 30, 2008	December 31, 2007
	(in millions)	
PCs and Structured Securities backed by		

Freddie Mac mortgage-related securities:		
Single-family:		
Conventional:		
30-year fixed-rate(2)	$ 1,206,517	$ 1,091,212
20-year fixed-rate	68,667	72,225
15-year fixed-rate	253,897	272,490
ARMs/adjustable-rate	84,054	91,219
Option ARMs(3)	1,591	1,853
Interest-only(4)	163,310	159,028
Balloon/resets	11,981	17,242
Conforming-jumbo	2,067	--
FHA/VA	1,323	1,283
Rural Housing Service and other federally guaranteed loans	121	132
Total single-family	1,793,528	1,706,684
Multifamily:		
Conventional and other	14,526	10,658
Total multifamily	14,526	10,658
Structured Securities backed by non-Freddie Mac mortgage-related securities:		
Single-family:		
Ginnie Mae Certificates(5)	1,102	1,268
Structured Transactions(6)	24,406	19,323
Multifamily:		
Structured Transactions	846	900
Total Structured Securities backed by non-Freddie Mac mortgage-related securities	26,354	21,491
Total issued guaranteed PCs and Structured Securities	$ 1,834,408	$ 1,738,833

(1) Based on unpaid principal balances of the securities and excludes mortgage-related securities traded, but not yet settled. Also includes long-term standby commitments for mortgage assets held by third parties that require that we purchase loans from lenders when these loans meet certain delinquency criteria.
(2) Portfolio balances include $1.9 billion and $1.8 billion of 40-year fixed-rate mortgages at September 30, 2008 and December 31, 2007, respectively.
(3) Excludes option ARM mortgage loans that back our Structured Transactions. See endnote (6) for additional information.
(4) Represents loans where the borrower pays interest only for a period of time before the borrower begins making principal payments. Includes both fixed- and variable-rate interest-only loans.
(5) Ginnie Mae Certificates that underlie the Structured Securities are backed by FHA/VA loans.
(6) Represents Structured Securities backed by non-agency securities that include prime, FHA/VA and subprime mortgage loan issuances. Includes $10.0 billion and $12.8 billion of securities backed by option ARM mortgage loans at September 30, 2008 and December 31, 2007, respectively.

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Table 53 depicts the composition of our total mortgage portfolio and the various segment portfolios. Table 53 -- Freddie Mac's Total Mortgage Portfolio and Segment Portfolio Composition(1)

	September 30, 2008	December 31, 2007
	(in millions)	
Total mortgage portfolio:		
Retained portfolio:		
Single-family mortgage loans	$ 32,006	$ 24,589
Multifamily mortgage loans	68,306	57,569
Total mortgage loans	100,312	82,158
Guaranteed PCs and Structured Securities in our retained portfolio	374,946	356,970
Non-Freddie Mac mortgage-related securities, agency	57,108	47,836
Non-Freddie Mac mortgage-related securities, non-agency	204,510	233,849
Total non-Freddie Mac mortgage-related securities	261,618	281,685
Total retained portfolio(2)	736,876	720,813
Guaranteed PCs and Structured Securities held by third parties:		
Single-family PCs and Structured Securities	1,438,821	1,363,613
Single-family Structured Transactions	7,862	9,351
Multifamily PCs and Structured Securities	11,933	7,999
Multifamily Structured Transactions	846	900
Total guaranteed PCs and Structured Securities held by third parties	1,459,462	1,381,863
Total mortgage portfolio	$ 2,196,338	$ 2,102,676
Guaranteed PCs and Structured Securities:		
In our retained portfolio	374,946	356,970
Held by third parties	1,459,462	1,381,863
Total Guaranteed PCs and Structured Securities	$ 1,834,408	$ 1,738,833
Segment portfolios:		
Investments -- Mortgage-related investment portfolio:		
Single-family mortgage loans	$ 32,006	$ 24,589
Guaranteed PCs and Structured Securities in our retained portfolio	374,946	356,970
Non-Freddie Mac mortgage-related securities in our retained portfolio	261,618	281,685
Total Investments -- Mortgage-related investment portfolio(3)	$ 668,570	$ 663,244
Single-family Guarantee -- Credit guarantee portfolio:		
Single-family PCs and Structured Securities in our retained portfolio	$ 354,707	$ 343,071
Single-family PCs and Structured Securities held by third parties	1,438,821	1,363,613
Single-family Structured Transactions in our retained portfolio	17,646	11,240
Single-family Structured Transactions held by third parties	7,862	9,351
Total Single-family Guarantee -- Credit guarantee portfolio	$ 1,819,036	$ 1,727,275
Multifamily -- Guarantee and loan portfolios:		
Multifamily PCs and Structured Securities	$ 14,526	$ 10,658
Multifamily Structured Transactions	846	900
Total Multifamily guarantee portfolio	15,372	11,558
Multifamily loan portfolio	68,306	57,569
Total Multifamily -- Guarantee and loan portfolios	$ 83,678	$ 69,127
Less: Guaranteed PCs and Structured Securities in our retained portfolio(4)	(374,946)	(356,970)
Total mortgage portfolio	$ 2,196,338	$ 2,102,676

(1) Based on unpaid principal balance and excludes mortgage loans and mortgage-related securities traded, but not yet settled. For PCs and Structured Securities, the balance reflects reported security balances and not the unpaid principal of the underlying mortgage loans. Mortgage loans held in our retained portfolio reflect the unpaid principal balance of the loan.
(2) See "CONSOLIDATED BALANCE SHEETS ANALYSIS -- Table 17 -- Characteristics of Mortgage Loans and Mortgage-Related Securities in our Retained Portfolio" for a reconciliation of our retained portfolio amounts shown in this table to the amounts shown under such caption in conformity with GAAP on our consolidated balance sheets.
(3) Includes certain assets related to Single-family Guarantee activities and Multifamily activities.
(4) The amount of PCs and Structured Securities in our retained portfolio is included in both our segments' mortgage-related and guarantee portfolios and thus deducted in order to reconcile to our total mortgage portfolio. These securities are managed by the Investments segment, which receives related interest income; however, the Single-family and Multifamily segments manage and receive associated management and guarantee fees.

During the nine months ended September 30, 2008 and 2007, our total mortgage portfolio grew at an annualized rate of 6% and 14%, respectively. Our new business purchases consist of mortgage loans and non-Freddie Mac mortgage-related securities that are purchased for our retained portfolio or serve as collateral for our issued PCs and Structured Securities. We generate a significant portion of our mortgage purchase volume through several key mortgage lenders. During the nine months ended September 30, 2008, our purchases of fixed-rate product as a percentage of our total purchases increased while our purchases of ARMs and interest-only products decreased. We expect this trend to continue in the fourth quarter of 2008.

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Table 54 summarizes purchases into our total mortgage portfolio. Table 54 -- Total Mortgage Portfolio Activity Detail(1)

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2008		2007		2008		2007	
	Amount	% of Purchase Amounts	Amount	% of Purchase Amounts	Amount	% of Purchase Amounts	Amount	% of Purchase Amounts
	(dollars in millions)							
New business purchases:								
Single-family mortgage purchases:								
Conventional:								
30-year amortizing fixed-rate(2)	$ 55,853	74%	$ 86,209	67%	$ 248,408	74%	$ 238,509	65%
15-year amortizing fixed-rate	5,007	7	12,309	9	26,375	8	22,448	6
ARMs/adjustable-rate(3)	2,856	4	2,101	2	10,432	3	11,075	3
Interest-only(4)	3,824	5	22,391	17	21,884	7	83,301	23
Balloon/resets(5)	14	< 1	13	< 1	138	< 1	45	< 1

Conforming-jumbo	1,613	2	--	--	2,084	1	--	--
FHA/VA(6)	191	< 1	2	< 1	433	< 1	146	< 1
Rural Housing Service and other federally guaranteed loans	76	< 1	49	< 1	167	< 1	135	< 1
Total single-family	69,434	92	123,074	95	309,921	93	355,659	97
Multifamily mortgage purchases:								
Conventional and other	6,009	8	3,504	3	17,748	5	9,158	2
Total multifamily	6,009	8	3,504	3	17,748	5	9,158	2
Total mortgage purchases	75,443	100	126,578	98	327,669	98	364,817	99
Non-Freddie Mac mortgage-related securities purchased for Structured Securities:								
Single-family:								
Ginnie Mae Certificates	4	< 1	4	< 1	6	< 1	44	< 1
Structured Transactions	--	--	2,817	2	8,245	2	3,017	1
Total Non-Freddie Mac mortgage-related securities purchased for Structured Securities	4	< 1	2,821	2	8,251	2	3,061	1
Total single-family and multifamily mortgage purchases and total non-Freddie Mac mortgage-related securities purchased for Structured Securities	$ 75,447	100%	$ 129,399	100%	$ 335,920	100%	$ 367,878	100%

Non-Freddie Mac mortgage-related securities purchased into our retained portfolio:				
Agency securities:				
Fannie Mae:				
Single-family:				
Fixed-rate	$ 11,150	$ 976	$ 29,412	$ 2,079
Variable-rate	1,023	4,623	16,832	8,352
Total agency mortgage-related securities	12,173	5,599	46,244	10,431
Non-agency securities:				
Single-family:				
Fixed-rate	--	260	--	529
Variable-rate	--	3,330	618	41,914
Total single-family	--	3,590	618	42,443
Commercial mortgage-backed securities:				
Fixed-rate	--	280	547	3,381
Variable-rate	--	5,713	660	15,509
Total commercial mortgage-backed securities	--	5,993	1,207	18,890
Mortgage revenue bonds:				
Fixed-rate	22	604	81	1,407
Variable-rate	--	--	--	--
Total mortgage revenue bonds	22	604	81	1,407
Total non-agency mortgage-related	22	10,187	1,906	62,740

securities				
Total non-Freddie Mac mortgage-related securities purchased into our retained portfolio	12,195	15,786	48,150	73,171
Total new business purchases	$ 87,642	$ 145,185	$ 384,070	$ 441,049
Mortgage purchases with credit enhancements(7)	23%	22%	22%	19%
Mortgage liquidations(8)	$ 66,689	$ 73,474	$ 260,655	$ 242,226
Mortgage liquidations rate (annualized)(8)	12%	15%	17%	18%
Freddie Mac securities repurchased into our retained portfolio:				
Single-family:				
Fixed-rate	$ 20,032	$ 40,708	$ 111,130	$ 78,691
Variable-rate	1,906	6,402	23,406	24,732
Total Freddie Mac securities repurchased into our retained portfolio	$ 21,938	$ 47,110	$ 134,536	$ 103,423

(1) Based on unpaid principal balances. Excludes mortgage loans and mortgage-related securities traded but not yet settled. Also excludes net additions to our retained portfolio for delinquent mortgage loans and balloon/reset mortgages purchased out of PC pools.
(2) Includes 40-year and 20-year fixed-rate mortgages.
(3) Includes amortizing ARMs with 1-, 3-, 5-, 7- and 10-year initial fixed-rate periods.
(4) Represents loans where the borrower pays interest only for a period of time before the borrower begins making principal payments. Includes both fixed- and variable-rate interest-only loans.
(5) Represents mortgages whose terms require lump sum principal payments on contractually determined future dates unless the borrower qualifies for and elects an extension of the maturity date at an adjusted interest-rate.
(6) Excludes FHA/VA loans that back Structured Transactions.
(7) Excludes mortgage-related securities backed by Ginnie Mae Certificates.
(8) Based on total mortgage portfolio.

FORWARD-LOOKING STATEMENTS We regularly communicate information concerning our business activities to investors, securities analysts, the news media and others as part of our normal operations. Some of these communications, including this Form 10-Q, contain "forward-looking statements" pertaining to the conservatorship and our current expectations and objectives for financial reporting, remediation efforts, future business plans, capital plans, economic and market conditions and trends, market share, credit losses, and results of operations and financial condition on a GAAP, Segment Earnings and fair value basis. Forward-looking statements are often accompanied by, and identified with, terms such as "objective," "expect," "trend," "forecast," "believe," "intend," "could," "future" and similar phrases. These statements are not historical facts, but rather represent our expectations based on current information, plans, judgments, assumptions, estimates and projections. Forward-looking statements involve known and unknown risks, uncertainties and other factors, some of which are beyond our control. You should not unduly rely on our forward-looking statements. Actual results may differ materially from the expectations expressed in the forward-looking statements we make as a result of various factors, including those factors described in the "RISK FACTORS" section of this Form 10-Q, the comparably captioned sections in our Form 10-Q for the quarter ended June 30, 2008 and our Registration Statement, and:

ù the actions FHFA, Treasury and our management may take;
ù the impact of the restrictions and other terms of the conservatorship, the Purchase Agreement, the senior preferred stock and the warrant on our business;
ù any restructuring or reorganization in the form of our company, including whether we will remain a stockholder-owned company and whether we will be placed under receivership;
ù the risk that we may not be able to maintain the continued listing of our common and exchange-listed issues of preferred stock on the NYSE;
ù the success of the U.S. government's efforts to stabilize the financial markets through the implementation of EESA;
ù changes in applicable legislative or regulatory requirements, including regulation of the subprime or non-traditional mortgage product markets, the Reform Act, changes to our charter, changes to affordable housing goals regulation, reinstatement of regulatory capital requirements or the exercise or assertion of additional regulatory or administrative authority;
ù our ability to effectively identify and manage credit risk and/or changes to the credit environment;
ù changes in general regional, national or international economic, business or market conditions and competitive pressures, including consolidation of mortgage originators, employment rates and home price appreciation;
ù our ability to effectively implement our business strategies and manage the risks in our business, including our efforts to improve the supply and liquidity of, and demand for, our products;
ù our ability to effectively identify and manage interest-rate and other market risks, including the levels and volatilities of interest rates, as well as the shape and slope of the yield curves;
ù incomplete or inaccurate information provided by customers and counterparties, or adverse changes in the financial condition of our customers and counterparties;
ù changes to, or implementation of, legislative, regulatory or contractual limits on the growth of any aspect of our business activities, including our retained portfolio;
ù our ability to effectively identify, assess, evaluate, manage, mitigate or remediate control deficiencies and risks, including material weaknesses and significant deficiencies, in our internal control over financial reporting and disclosure controls and procedures;
ù changes in our judgments, assumptions, forecasts or estimates regarding rates of growth in our business, spreads we expect to earn, and the reinstatement of required capital levels;
ù our ability to effectively manage and implement changes, developments or impacts of accounting or tax standards and interpretations or changes to our accounting policies or estimates;
ù the availability of debt financing in sufficient quantity and at attractive rates to support growth in our retained portfolio, to refinance maturing debt and to mitigate interest-rate risk;
ù changes in pricing, valuation or other methodologies, models, assumptions, judgments, estimates and/or other measurement techniques or their respective reliability;
ù changes in mortgage-to-debt option-adjusted spreads;

ù the availability of options, interest-rate and currency swaps and other derivative financial instruments of the types and quantities and with acceptable counterparties needed for investment funding and risk management purposes;
ù the rate of growth in total outstanding U.S. residential mortgage debt and the size of the U.S. residential mortgage market;
ù volatility of reported results due to changes in the fair value of certain instruments or assets;
ù preferences of originators in selling into the secondary market;
ù changes to our underwriting and disclosure requirements or investment standards for mortgage-related products;
ù investor preferences for mortgage loans and mortgage-related and debt securities compared to other investments;
ù the ability of our financial, accounting, data processing and other operating systems or infrastructure and those of our vendors to process the complexity and volume of our transactions;
ù borrower preferences for fixed-rate mortgages or adjustable-rate mortgages;
ù the occurrence of a major natural or other disaster in geographic areas in which portions of our total mortgage portfolio are concentrated;
ù other factors and assumptions described in this Form 10-Q, our Form 10-Q for the quarter ended June 30, 2008 or our Registration Statement, including in the "MD&A" section;
ù our assumptions and estimates regarding the foregoing and our ability to anticipate the foregoing factors and their impacts; and
ù market reactions to the foregoing.

We undertake no obligation to update forward-looking statements we make to reflect events or circumstances after the date of this Form 10-Q or to reflect the occurrence of unanticipated events.

RISK MANAGEMENT AND DISCLOSURE COMMITMENTS In October 2000, we announced our voluntary adoption of a series of commitments designed to enhance market discipline, liquidity and capital. In September 2005, we entered into a written agreement with FHFA that updated these commitments and set forth a process for implementing them. A copy of the letters between us and FHFA dated September 1, 2005 constituting the written agreement has been filed as an exhibit to our Registration Statement, and is available on the Investor Relations page of our website at www.freddiemac.com/investors/sec_filings/index.html. The status of our commitments at September 30, 2008 follows:

Description	Status
1. Periodic Issuance of Subordinated	

Debt:	
ù We will issue Freddie SUBS(R) securities for public secondary market trading that are rated by no fewer than two nationally recognized statistical rating organizations.	ù FHFA, as Conservator of Freddie Mac, has suspended the requirements in the September 2005 agreement with respect to issuance, maintenance, and reporting and disclosure of Freddie Mac subordinated debt during the term of conservatorship and thereafter until directed otherwise.
ù Freddie SUBS(R) securities will be issued in an amount such that the sum of total capital (core capital plus general allowance for losses) and the outstanding balance of "Qualifying subordinated debt" will equal or exceed the sum of (i) 0.45% of outstanding PCs and Structured Securities we guaranteed; and (ii) 4% of total on-balance sheet assets. Qualifying subordinated debt is discounted by one-fifth each year during the instrument's last five years before maturity; when the remaining maturity is less than one year, the instrument is entirely excluded. We will take reasonable steps to maintain outstanding subordinated debt of sufficient size to promote liquidity and reliable market quotes on market values.	ù FHFA has directed Freddie Mac during the period of conservatorship and thereafter until directed otherwise to make, without deferral, all periodic principal and interest payments on all outstanding subordinated debt, regardless of Freddie Mac's existing capital levels.
ù Each quarter, we will submit to FHFA calculations of the quantity of qualifying Freddie SUBS(R) securities and total capital as part of our quarterly capital report.	
ù Every six months, we will submit to FHFA a subordinated debt management plan that includes any issuance plans for the six months following the date of the plan.	
2. Liquidity Management and Contingency Planning:	
ù We will maintain a contingency plan providing for at least three months' liquidity without relying upon the issuance of unsecured debt. We will also periodically test the contingency plan in consultation with FHFA.	ù We have in place a liquidity contingency plan, upon which we report to FHFA on a weekly basis. We periodically test this plan in accordance with our agreement with FHFA.
3. Interest-Rate Risk Disclosures:	
ù We will provide public disclosure of our duration gap, Portfolio Market Value Sensitivity-Level, or PMVS-L and Portfolio Market Value Sensitivity-Yield Curve, or PMVS-YC interest-rate risk sensitivity results on a monthly basis. See "ITEM 2. FINANCIAL INFORMATION -- ANNUAL MD&A -- QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK -- Interest-Rate Risk and Other Market Risks -- Portfolio Market Value Sensitivity and Measurement of Interest-Rate Risk" in our Registration Statement for a description of these metrics.	ù For the nine months ended September 30, 2008, our duration gap averaged zero months, PMVS-L averaged $418 million and PMVS-YC averaged $70 million. Our 2008 monthly average duration gap, PMVS results and related disclosures are provided in our Monthly Volume Summary which is available on our website, www.freddiemac.com/investors/volsum and our current reports on Form 8-K we file with the SEC.

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Description	Status
4. Credit Risk Disclosures: ù We will make quarterly assessments of the expected impact on credit losses from an immediate 5% decline in single-family home prices for the entire U.S. We will disclose the impact in present value terms and measure our estimated losses both before and after receipt of private mortgage insurance claims and other credit enhancements.	ù Our quarterly credit risk sensitivity estimates are as follows:

	Before Receipt of Credit Enhancements(1)		After Receipt of Credit Enhancements(2)	
	Net Present Value, or NPV(3)	NPV Ratio(4)	NPV(3)	NPV Ratio(4)
	(dollars in millions)			
At:				
09/30/08	$5,948	32.3 bps	$5,230	28.4 bps
06/30/08	$5,151	28.3 bps	$4,241	23.3 bps
03/31/08	$4,922	27.8 bps	$3,914	22.1 bps
12/31/07(5)	$4,036	23.2 bps	$3,087	17.8 bps
09/30/07	$1,959	11.7 bps	$1,415	8.4 bps
06/30/07	$1,768	11.0 bps	$1,292	8.1 bps

(1) Assumes that none of the credit enhancements currently covering our mortgage loans has any mitigating impact on our credit losses.
(2) Assumes we collect amounts due from credit enhancement providers after giving effect to certain assumptions about counterparty default rates.
(3) Based on the single-family mortgage portfolio, excluding Structured Securities backed by Ginnie Mae Certificates.
(4) Calculated as the ratio of NPV of increase in credit losses to the single-family mortgage portfolio, defined in footnote (3) above.
(5) The significant increase in our credit risk sensitivity estimates beginning in Q4 2007 was primarily attributable to changes in our assumptions employed to calculate the credit risk sensitivity disclosure. Given deterioration in housing fundamentals at the end of 2007, we modified our assumptions for slower recovery of forecasted home prices subsequent to the immediate 5% decline.

5. Public Disclosure of Risk Rating: ù We will seek to obtain a rating, that will be continuously monitored by at least one nationally recognized statistical rating organization, assessing our "risk-to-the-government" or independent financial strength.	ù At September 30, 2008, we no longer had a "risk-to-the-government" rating from Standard & Poor's. On September 7, 2008, S&P lowered our "risk-to-the-government" rating to "R" (regulatory supervision) from "AW22; " and withdrew the rating because of

conservatorship.
ù At September 30, 2008, our "Bank Financial Strength" rating from Moody's was "E+". On September 7, 2008, Moody's lowered our rating to "E+" from "D+" following our placement into conservatorship. The "Bank Financial Strength" rating scale ranges from "A", highest, to "E", lowest.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK Our retained portfolio investment and credit guarantee activities expose us to three broad categories of risk: (a) interest-rate risk and other market risks; (b) credit risks; and (c) operational risks. Risk management is a critical aspect of our business. See "ITEM 1A. RISK FACTORS" in our Registration Statement and "PART II -- ITEM 1A. RISK FACTORS" in our Form 10-Q for the quarter ended June 30, 2008 and this Form 10-Q for further information regarding these and other risks. We manage risk through a framework that recognizes primary risk ownership and management by our business areas. Within this framework, our executive management responsible for independent risk oversight monitors performance against our risk management strategies and established risk limits and reporting thresholds, identifies and assesses potential issues and provides oversight regarding changes in business processes and activities. See "ITEM 2. MD&A -- CREDIT RISKS" for a discussion of credit risks and see "ITEM 4T. CONTROLS AND PROCEDURES" for a discussion of disclosure controls and procedures and internal control over financial reporting. Interest-Rate Risk and Other Market Risks See "ITEM 2. FINANCIAL INFORMATION -- ANNUAL MD&A -- QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK -- Interest-Rate Risk and Other Market Risks" in our Registration Statement for more information. PMVS and Duration Gap Our primary interest-rate risk measures are PMVS and duration gap. PMVS is measured in two ways, one measuring the estimated sensitivity of our portfolio market value to parallel moves in interest rates (Portfolio Market Value Sensitivity-Level or PMVS-L) and the other to nonparallel movements (Portfolio Market Value Sensitivity -- Yield Curve or PMVS-YC). In December 2007, we changed our PMVS reporting to present estimated dollars-at-risk, rather than a percentage of fair value of common equity. We believe this change provides more relevant information and better represents our overall level and low exposure to adverse interest-rate movements given the substantial reduction in the fair value of common equity that occurred during 2007. The 50 basis point shift and 25 basis point change in slope of the LIBOR yield curve used for our PMVS measures represent events that are expected to have an approximately 5% probability of occurring over a one-month time horizon. Our PMVS and duration gap estimates are determined using models that involve our best judgment of interest-rate and prepayment assumptions. Accordingly, while we believe that PMVS and duration gap are useful risk management tools, they should be understood as estimates rather than as precise measurements. Methodologies used to calculate interest-rate risk sensitivity disclosures are periodically changed on a prospective basis to reflect improvements in the underlying estimation processes. During the second quarter of 2008, we made changes to reflect new prepayment and OAS assumptions related to certain floating rate securities. Limitations of Market Risk Measures There are inherent limitations in any methodology used to estimate exposure to changes in market interest rates. Our sensitivity analyses for PMVS and duration gap contemplate only certain movements in interest rates and are performed at a particular point in time based on the estimated fair value of our existing portfolio. These sensitivity analyses do not incorporate other factors that may have a significant effect, most notably expected future business activities and strategic actions that management may take to manage interest rate risk. In addition, when market conditions change rapidly and dramatically, as they have since July 2007, the assumptions that we use in our models for our sensitivity analyses may not keep pace with changing conditions. As such, these analyses are not intended to provide precise forecasts of the effect a change in market interest rates would have on the estimated fair value of our net assets. PMVS Results Table 55 provides estimated PMVS-L and PMVS-YC results. Table 55 also provides PMVS-L estimates assuming an immediate 100 basis point shift in the LIBOR yield curve. Because we do not hedge all prepayment risk, the duration of our mortgage assets changes more rapidly as changes in interest rates increase. Accordingly, as shown in Table 55, the PMVS-L results based on a 100 basis point shift in the LIBOR curve are disproportionately higher than the PMVS-L results based on a 50 basis point shift in the LIBOR curve. Table 55 -- PMVS Assuming Shifts of the LIBOR Yield Curve

	Potential Pre-Tax Loss in Portfolio Market Value		
	PMVS-YC	PMVS-L	
	25 bps	50 bps	100 bps
	(in millions)		
At:			
September 30, 2008	$ 114	$ 322	$ 1,258
December 31, 2007	$ 42	$ 533	$ 1,681

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Derivatives have enabled us to keep our interest-rate risk exposure at consistently low levels in a wide range of interest-rate environments. Table 56 shows that the low PMVS-L risk levels for the periods presented would generally have been higher if we had not used derivatives to manage our interest-rate risk exposure. Table 56 -- Derivative Impact on PMVS-L (50 bps)

	Before Derivatives	After Derivatives	Effect of Derivatives
		(in millions)	
At:			
September 30, 2008	$ 3,523	$ 322	$ (3,201)
December 31, 2007	$ 1,371	$ 533	$ (838)

The disclosure in our Monthly Volume Summary reports, which are available on our website at www.freddiemac.com and in current reports on Form 8-K we file with the SEC, reflects the average of the daily PMVS-L, PMVS-YC and duration gap estimates for a given reporting period (a month, quarter or year). Duration Gap Results Our estimated average duration gap for both the months of September 2008 and December 2007 was zero months. A positive duration gap indicates that the duration of our assets exceeds the duration of our liabilities, which, from a net perspective, implies that the fair value of equity will increase in value when interest rates fall and decrease in value when interest rates rise. A duration gap of zero implies that the duration of our assets equals the duration of our liabilities. As a result, the change in value of assets from an instantaneous move in interest rates, either up or down, will be accompanied by an equal and offsetting change in the value of liabilities, thus leaving the fair value of equity unchanged. A negative duration gap indicates that the duration of our liabilities exceeds the duration of our assets, which, from a net perspective, implies that the fair value of equity will increase in value when interest rates rise and decrease in value when interest rates fall. Use of Derivatives and Interest-Rate Risk Management We use derivatives primarily to:

ù hedge forecasted issuances of debt and synthetically create callable and non-callable funding;
ù regularly adjust or rebalance our funding mix in order to more closely match changes in the interest-rate characteristics of our mortgage assets; and
ù hedge foreign-currency exposure (see "ITEM 2. FINANCIAL INFORMATION -- ANNUAL MD&A -- QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK -- Sources of Interest-Rate Risk and Other Market Risks -- Foreign-Currency Risk" in our Registration Statement).

Types of Derivatives The derivatives we use to hedge interest-rate and foreign-currency risks are common in the financial markets. We principally use the following types of derivatives:

ù LIBOR- and Euro Interbank Offered Rate, or Euribor-, based interest-rate swaps;
ù LIBOR- and Treasury-based options (including swaptions);
ù LIBOR- and Treasury-based exchange-traded futures; and
ù Foreign-currency swaps.

Derivative Positions In addition to swaps, futures and purchased options, our derivative positions include the following: Written Options and Swaptions. Written call and put swaptions are sold to counterparties allowing them the option to enter into receive- and pay-fixed swaps, respectively. Written call and put options on mortgage-related securities give the counterparty the right to execute a contract under specified terms, which generally occurs when we are in a liability position. We use these written options and swaptions to manage convexity risk over a wide range of interest rates. We may, from time to time, write other derivative contracts such as caps, floors, interest-rate futures and options on buy-up and buy-down commitments. Forward Purchase and Sale Commitments. We routinely enter into forward purchase and sale commitments for mortgage loans and mortgage-related securities. Most of these commitments are derivatives subject to the requirements of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended. Swap Guarantee Derivatives. We issue swap guarantee derivatives that guarantee the payments on (a) multifamily mortgage loans that are originated and held by state and municipal housing finance agencies to support tax-exempt multifamily housing revenue bonds and (b) Freddie Mac pass-through certificates which are backed by tax-exempt multifamily housing revenue bonds and related taxable bonds and/or loans. In connection with some of these guarantees, we may also guarantee the sponsor's or the borrower's performance as a counterparty on any related interest-rate swaps used to mitigate interest-rate risk.

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Credit Derivatives. We enter into credit derivatives, including risk-sharing agreements. Under these risk-sharing agreements, default losses on specific mortgage loans delivered by sellers are compared to default losses on reference pools of mortgage loans with similar characteristics. Based upon the results of that comparison, we remit or receive payments based upon the default performance of the referenced pools of mortgage loans. In addition, we enter into agreements whereby we assume credit risk for mortgage loans held by third parties in exchange for a monthly fee. We are obligated to purchase any of the mortgage loans that become 120 days delinquent. In addition, we have purchased mortgage loans containing debt cancellation contracts, which provide mortgage debt or payment cancellation for borrowers who experience unanticipated losses of income dependent on a covered event. The rights and obligations under these agreements have been assigned to the servicers. However, in the event the servicer does not perform as required by contract, under our guarantee, we would be obligated to make the required contractual payments. ITEM 4T. CONTROLS AND PROCEDURES Evaluation of Disclosure Controls and Procedures Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that the information we are required to disclose in our financial reports is recorded, processed, summarized and reported within the time periods specified by the SEC rules and forms and that such information is accumulated and communicated to senior management, as appropriate, to allow timely decisions regarding required disclosure. In designing our disclosure controls and procedures, we recognize that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and we must apply judgment in implementing possible controls and procedures. Management, including the company's Chief Executive Officer and Acting Chief Financial Officer, conducted an evaluation of the effectiveness of our disclosure controls and procedures as of September 30, 2008. As a result of management's evaluation, our Chief Executive Officer and Acting Chief Financial Officer concluded that our disclosure controls and procedures were not effective as of September 30, 2008, at a reasonable level of assurance. We lack a functioning Board of Directors and Audit Committee with oversight authority with respect to our disclosure controls and procedures. In addition, we have not yet updated the design of our disclosure controls and procedures to take account of the conservatorship. As a result, we have not been able to rely on the disclosure controls and procedures that were in place as of September 30, 2008 or as of the date of this filing. As described below, we have identified two corresponding material weaknesses in our internal control over financial reporting, which management considers an integral part of our disclosure controls and procedures. However, we and the Conservator are designing and implementing policies and procedures and have undertaken numerous steps and activities, as identified below, intended to permit accumulation and communication to management of information needed to meet our disclosure obligations under the federal securities laws, including disclosure affecting our financial statements. We are continuing to work with the Conservator to remediate our disclosure controls and procedures, however, as of the date of filing of this report, the deficiency in our disclosure controls and procedures has not been remediated. Changes in Internal Control Over Financial Reporting We have evaluated whether any changes in our internal control over financial reporting during the quarter ended September 30, 2008 have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Based on our evaluation, management has concluded that the following changes in our internal control over financial reporting that occurred during the third quarter of 2008 have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting:

ù Conservatorship. On September 6, 2008, FHFA was appointed Conservator of Freddie Mac. By operation of law, the Conservator succeeded to the powers of our shareholders, management and board of directors. As a result, we ceased to have functioning committees of the board of directors, including the audit committee. As discussed below, these matters have led management to identify two material weaknesses in internal control over financial reporting.

ù Changes in Management. During the third quarter of 2008, we appointed a new Chief Executive Officer and announced several management changes, including the appointment of an Acting Chief Financial Officer and acting Chief Credit Officer, and the realignment of our business lines to report directly to the Chief Executive Officer. We also announced the departures of our Chief Business Officer and Chief Financial Officer.

New Material Weaknesses As with our disclosure controls and procedures, despite the activities described below, up to the date of filing this report we were unable to design, implement, operate and test policies and procedures necessary to remediate the following two material weaknesses in our internal control over financial reporting as of September 30, 2008:

ù Board of Directors and Audit Committee. Upon the appointment of FHFA as the Conservator on September 6, 2008, the Board of Directors and its committees, including the Audit Committee, ceased to have any authority. The Audit Committee, in accordance with its charter, is responsible for reviewing and discussing with management and others

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the adequacy and effectiveness of our internal control over financial reporting and management reports thereon, as well as the annual audited and quarterly unaudited financial statements and certain disclosures required to be contained in our periodic reports. In addition, the Audit Committee previously consulted with management to address disclosure and accounting issues and reviewed drafts of periodic reports before we filed such reports with the SEC. As of September 30, 2008 and the date of this filing, neither a Board of Directors nor an Audit Committee has been reconstituted. As a result, we lacked the appropriate governance structure to provide oversight of our financial reporting process.

ù Policy Updates. We have not yet updated our policies that establish the design of our disclosure controls and procedures to take account of the conservatorship. As a result, our disclosure controls and procedures have not provided adequate mechanisms for information that may have financial statement disclosure ramifications to be communicated to management. Accordingly, we did not maintain effective controls and procedures designed to ensure complete and accurate financial reporting disclosure as required by GAAP.

Remediation Progress and Mitigation Since September 30, 2008, working with the Conservator, we have made the following progress in remediating these material weaknesses in internal control over financial reporting and in improving the effectiveness of our disclosure controls and procedures:

ù Board of Directors and Board Committees. The Conservator has indicated that it intends to appoint a full Board of Directors to which it will delegate specified roles and responsibilities.

ù Updated Policies. We are working with our Conservator to design, implement, operate and test updated policies and procedures intended to ensure that adequate communication will occur under these unique circumstances, and to provide communication and training regarding those policies and procedures.

Together with our Conservator, management has implemented mitigating actions during conservatorship intended to provide oversight of our financial reporting process in lieu of audit committee oversight and permit accumulation and communication to management of information needed to meet our disclosure obligations under the federal securities laws, including disclosure affecting our financial statements. These include the following:

ù Beginning on September 8, 2008, FHFA examiners established a presence on site at our headquarters and at locations of other key operations, in part to enhance good communication with management and employees.

ù Many of our departments and executive officers who remained after the conservatorship were assigned designated FHFA liaisons who monitored activities within those departments, provided direction and advice, and made themselves available to answer questions for those officers or departments and raise issues with others at FHFA for prompt resolution.

ù FHFA representatives established weekly meetings with various groups within the company to enhance the flow of information and to provide oversight on a variety of matters, including accounting, capital markets management, fulfillment of mission, external communications and legal matters.

ù The Director of FHFA is in frequent communication with our Chief Executive Officer.

ù Various officials within FHFA, including a number of senior officials, have participated in review of our various SEC filings and have engaged in discussions regarding issues associated with the information contained in those filings.

ù Senior officials within FHFA's accounting group have met weekly with our senior financial executives regarding our accounting policies, practices and procedures.

ù As part of the process for filing this Quarterly Report on Form 10-Q, senior members of management met with representatives of the Conservator. At that meeting, the representatives of the Conservator in attendance discussed and reviewed with various members of senior management: a draft of this report; management's representation letter to our independent registered public accounting firm; and significant accounting decisions. In addition, during that meeting, the representatives of the Conservator asked questions and discussed issues in a manner similar to that previously employed by our Audit Committee.

It is expected that many of these activities will no longer be necessary once a Board of Directors and committees, with powers similar to those possessed by the Board of Directors and its committees prior to conservatorship, are reconstituted. New Significant Deficiency Our assessment of controls over our process for estimating our reserve for loan losses has identified various deficiencies in the governance and execution of the process that could result in significant variances in model output. While our process uses multiple other sources of data, along with model output, to inform management's judgment, the identified deficiencies make it difficult to produce a consistently reliable result for management to review. Because of deteriorating market conditions during the third quarter, the lack of clear accountability for the process as we transitioned to conservatorship and

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stress on the governance process due to recent changes in management, we believe these deficiencies aggregate to a new significant deficiency in our internal control over financial reporting as of September 30, 2008. Management is currently developing a remediation plan to resolve this matter. Summary of Remediation Progress Our progress as of September 30, 2008 toward remediation of the newly identified material weaknesses and significant deficiency and the previously disclosed significant deficiencies in internal control over financial reporting is summarized below. We report progress toward remediation in the following stages:

ù In process -- We are in the process of designing and implementing controls to correct identified internal control deficiencies and conducting ongoing evaluations to ensure all deficiencies have been identified.
ù Remediation activities implemented -- We have designed and implemented the controls that we believe are necessary to remediate the identified internal control deficiencies.
ù Remediated -- After a sufficient period of operation of the controls implemented to remediate the control deficiencies, management has evaluated the controls and found them to be operating effectively.

Material Weaknesses (MW) and Significant Deficiencies (SD)	Remediation Progress as of June 30, 2008	Remediation Progress as of September 30, 2008
MW -- Board of Directors and Audit Committee		
We do not have a functioning Board of Directors and Audit Committee. As a result, we lack the appropriate governance structure to provide oversight of our financial reporting process.	Not applicable	In process
MW -- Policy Updates		
We have not yet updated our policies that establish the design of our disclosure controls and procedures to take account of the conservatorship. As a result, our disclosure controls and procedures have not provided adequate mechanisms for information that may have financial statement disclosure ramifications to be communicated to management.	Not applicable	In process
SD -- Tax Basis Balance Sheet		
We do not maintain a tax basis balance sheet to support deferred tax accounting under GAAP, which could result in balance sheet misclassifications and potential income statement adjustments.	In process	In process
SD -- Oversight of Models and Model Applications		
Our model governance and monitoring procedures did not effectively ensure that changes to and our use of models in our financial reporting process are appropriate.	Remediation activities implemented	Remediation activities implemented
SD -- IT Security -- Shared IDs		
We have not consistently executed security	In process	In process

controls over system and user accounts that can be used by multiple individuals.		
SD -- User Access Recertification		
We have not effectively executed periodic review and recertification of user access to financial applications and related technical platforms.	In process	In process
SD -- Loan Loss Reserve		
Deficiencies in the governance and execution of our loan loss reserve process make it difficult to produce a consistently reliable result for management to review.	Not applicable	In process

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ITEM 1. FINANCIAL STATEMENTS

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FREDDIE MAC
CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(dollars in millions, except share-related amounts)			
Interest income				
Mortgage loans	$ 1,361	$ 1,103	$ 3,924	$ 3,244
Mortgage-related securities	8,590	8,943	25,103	26,278
Cash and investments	518	959	1,558	2,897
Total interest income	10,469	11,005	30,585	32,419
Interest expense				
Short-term debt	(1,468)	(2,292)	(5,149)	(6,749)
Long-term debt	(6,795)	(7,521)	(20,231)	(22,028)
Total interest expense on debt securities	(8,263)	(9,813)	(25,380)	(28,777)
Due to Participation Certificate investors	--	(98)	--	(322)
Total interest expense	(8,263)	(9,911)	(25,380)	(29,099)
Expense related to derivatives	(362)	(333)	(1,034)	(995)
Net interest income	1,844	761	4,171	2,325
Non-interest income (loss)				
Management and guarantee income (includes interest on guarantee asset of $299, $138, $757 and $395, respectively)	832	718	2,378	1,937

Gains (losses) on guarantee asset	(1,722)	(465)	(2,002)	(168)
Income on guarantee obligation	783	473	2,721	1,377
Derivative gains (losses)	(3,080)	(188)	(3,210)	(394)
Gains (losses) on investment activity	(9,747)	478	(11,855)	(44)
Unrealized gains (losses) on foreign-currency denominated debt recorded at fair value	1,500	--	684	--
Gains (losses) on debt retirement	36	91	312	187
Recoveries on loans impaired upon purchase	91	125	438	232
Foreign-currency gains (losses), net	--	(1,162)	--	(1,692)
Other income	25	47	147	154
Non-interest income (loss)	(11,282)	117	(10,387)	1,589
Non-interest expense				
Salaries and employee benefits	(133)	(216)	(605)	(656)
Professional services	(61)	(103)	(188)	(296)
Occupancy expense	(16)	(16)	(49)	(46)
Other administrative expenses	(98)	(93)	(267)	(275)
Total administrative expenses	(308)	(428)	(1,109)	(1,273)
Provision for credit losses	(5,702)	(1,372)	(9,479)	(2,067)
Real estate owned operations expense	(333)	(51)	(806)	(81)
Losses on certain credit guarantees	(2)	(392)	(17)	(719)
Losses on loans purchased	(252)	(649)	(423)	(1,129)
Securities administrator loss on investment activity	(1,082)	--	(1,082)	--
Low-income housing tax credit partnerships	(121)	(111)	(346)	(354)
Minority interest in earnings of consolidated subsidiaries	--	(4)	(8)	(22)
Other expenses	(86)	(63)	(264)	(168)
Non-interest expense	(7,886)	(3,070)	(13,534)	(5,813)
Loss before income tax (expense) benefit	(17,324)	(2,192)	(19,750)	(1,899)
Income tax (expense) benefit	(7,971)	954	(6,517)	1,257
Net loss	$ (25,295)	$ (1,238)	$ (26,267)	$ (642)
Preferred stock dividends and issuance costs on redeemed preferred stock (including $--, $--, $-- and $6 of issuance costs on redeemed preferred stock, respectively)	(6)	(102)	(509)	(292)
Amount allocated to participating security option holders	--	(2)	(1)	(4)
Net loss applicable to common stockholders	$ (25,301)	$ (1,342)	$ (26,777)	$ (938)
Loss per common share:				
Basic	$ (19.44)	$ (2.07)	$ (30.90)	$ (1.43)
Diluted	$ (19.44)	$ (2.07)	$ (30.90)	$ (1.43)
Weighted average common shares outstanding (in thousands):				
Basic	1,301,430	647,377	866,472	653,825
Diluted	1,301,430	647,377	866,472	653,825
Dividends per common share	--	$ 0.50	$ 0.50	$ 1.50

The accompanying notes are an integral part of these unaudited consolidated financial statements.

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FREDDIE MAC

CONSOLIDATED BALANCE SHEETS

	September 30, 2008 (unaudited)	December 31, 2007
	(in millions, except share-related amounts)	
Assets		
Retained portfolio		
Mortgage loans:		
Held-for-investment, at amortized cost (net of allowances for loan losses of $459 and $256, respectively)	$ 86,225	$ 76,347
Held-for-sale, at lower-of-cost-or-fair-value (except $95 at fair value at September 30, 2008)	11,978	3,685
Mortgage loans, net	98,203	80,032
Mortgage-related securities:		
Available-for-sale, at fair value (includes $22,659 and $17,010, respectively, pledged as collateral that may be repledged)	478,413	615,665
Trading, at fair value	118,002	14,089
Total mortgage-related securities	596,415	629,754
Retained portfolio	694,618	709,786
Cash and investments		
Cash and cash equivalents	50,180	8,574
Investments:		
Non-mortgage-related securities:		
Available-for-sale, at fair value	10,410	35,101
Securities purchased under agreements to resell and federal funds sold	8,000	6,562
Cash and investments	68,590	50,237
Accounts and other receivables, net	5,298	5,003
Derivative assets, net	3,040	827
Guarantee asset, at fair value	9,679	9,591
Real estate owned, net	3,224	1,736
Deferred tax asset, net	11,866	10,304
Low-income housing tax credit partnerships equity investments	4,248	4,568
Other assets	3,827	2,316
Total assets	$ 804,390	$ 794,368
Liabilities and stockholders' equity (deficit)		
Short-term debt (includes $1,950 at fair value at September 30, 2008)	$ 319,641	$ 295,921
Long-term debt (includes $11,751 at fair value at September 30, 2008)	464,309	442,636
Accrued interest payable	6,207	7,864
Guarantee obligation	13,874	13,712
Derivative liabilities, net	1,359	582
Reserve for guarantee losses on Participation Certificates	9,761	2,566
Other liabilities	2,939	4,187
Total liabilities	818,090	767,468
Commitments and contingencies (Notes 2, 3, 11 and 12)		
Minority interests in consolidated subsidiaries	95	176
Stockholders' equity (deficit)		
Senior preferred stock, at redemption value	1,000	--
Preferred stock, at redemption value	14,109	14,109
Common stock, $0.00 par value, 4,000,000,000 and	--	152

806,000,000 shares authorized, 725,863,886 shares issued and 647,156,870 shares and 646,266,701 shares outstanding, respectively		
Additional paid-in capital	14	871
Retained earnings	833	26,909
Accumulated other comprehensive income (loss), or AOCI, net of taxes, related to:		
Available-for-sale securities	(22,037)	(7,040)
Cash flow hedge relationships	(3,554)	(4,059)
Defined benefit plans	(43)	(44)
Total AOCI, net of taxes	(25,634)	(11,143)
Treasury stock, at cost, 78,707,016 shares and 79,597,185 shares, respectively	(4,117)	(4,174)
Total stockholders' equity (deficit)	(13,795)	26,724
Total liabilities and stockholders' equity (deficit)	$ 804,390	$ 794,368

The accompanying notes are an integral part of these unaudited consolidated financial statements.

FREDDIE MAC
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
(UNAUDITED)

	Nine Months Ended September 30, 2008		2007	
	Shares	Amount	Shares	Amount
	(in millions)			
Senior preferred stock, at redemption value				
Balance, beginning of year	--	--	--	--
Senior preferred stock issuance	1	1,000	--	--
Senior preferred stock, end of period	1	1,000	--	--
Preferred stock, at redemption value				
Balance, beginning of year	464	14,109	132	6,109
Preferred stock issuances	--	--	104	2,600
Preferred stock redemptions	--	--	(12)	(600)
Preferred stock, end of period	464	14,109	224	8,109
Common stock, par value				
Balance, beginning of year	726	152	726	152
Adjustment to par value	--	(152)	--	--
Common stock, end of period	726	--	726	152
Additional paid-in capital				
Balance, beginning of year		871		962
Stock-based compensation		60		61
Income tax benefit from stock-based compensation		(13)		2
Preferred stock issuance costs		--		(26)
Common stock issuances		(60)		(31)
Real Estate Investment Trust preferred stock repurchase		4		(7)
Adjustment to common stock par value		152		--
Common stock warrant issuance		2,304		--
Commitment from the U.S. Department of the Treasury		(3,304)		--
Additional paid-in capital, end of period		14		961
Retained earnings				

Balance, beginning of year		26,909		31,372
Cumulative effect of change in accounting principle, net of taxes		1,023		181
Balance, beginning of year, as adjusted		27,932		31,553
Net loss		(26,267)		(642)
Preferred stock dividends declared		(503)		(286)
Common stock dividends declared		(329)		(989)
Retained earnings, end of period		833		29,636
AOCI, net of taxes				
Balance, beginning of year		(11,143)		(8,451)
Cumulative effect of change in accounting principle, net of taxes		(850)		--
Balance, beginning of year, as adjusted		(11,993)		(8,451)
Changes in unrealized gains (losses) related to available-for-sale securities, net of reclassification adjustments		(14,143)		(1,469)
Changes in unrealized gains (losses) related to cash flow hedge relationships, net of reclassification adjustments		501		724
Changes in defined benefit plans		1		7
AOCI, net of taxes, end of period		(25,634)		(9,189)
Treasury stock, at cost				
Balance, beginning of year	80	(4,174)	65	(3,230)
Common stock issuances	(1)	57	(1)	44
Common stock repurchases	--	--	16	(1,000)
Treasury stock, end of period	79	(4,117)	80	(4,186)
Total stockholders' equity (deficit)		$ (13,795)		$ 25,483
Comprehensive income (loss)				
Net loss		$ (26,267)		$ (642)
Changes in other comprehensive income (loss), net of taxes, net of reclassification adjustments		(13,641)		(738)
Total comprehensive income (loss)		$ (39,908)		$ (1,380)

The accompanying notes are an integral part of these unaudited consolidated financial statements.

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FREDDIE MAC
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Nine Months Ended September 30, 2008	2007
	(in millions)	
Cash flows from operating activities		
Net loss	$ (26,267)	$ (642)
Adjustments to reconcile net loss to net cash used for operating activities:		
Hedge accounting losses	16	--
Derivative losses	2,207	635
Asset related amortization -- premiums, discounts and basis adjustments	84	28
Debt related amortization -- premiums and discounts on certain debt securities and basis adjustments	6,678	8,192

Net discounts paid on retirements of debt	(6,981)	(6,195)
Gains on debt retirement	(312)	(187)
Provision for credit losses	9,479	2,067
Low-income housing tax credit partnerships	346	354
Losses on loans purchased	423	1,129
Losses on investment activity	11,881	80
Foreign-currency losses, net	--	1,692
Unrealized gains on foreign-currency denominated debt recorded at fair value	(684)	--
Deferred income taxes	5,959	(462)
Purchases of held-for-sale mortgages	(29,871)	(16,091)
Sales of held-for-sale mortgages	21,196	14,369
Repayments of held-for-sale mortgages	457	95
Due to Participation Certificates and Structured Securities Trust	(180)	--
Change in trading securities	--	(2,269)
Change in accounts and other receivables, net	(1,129)	(360)
Change in amounts due to Participation Certificate investors, net	--	(1,360)
Change in accrued interest payable	(1,188)	(786)
Change in income taxes payable	(594)	(1,459)
Change in guarantee asset, at fair value	(87)	(2,478)
Change in guarantee obligation	236	2,404
Other, net	705	530
Net cash used for operating activities	(7,626)	(714)
Cash flows from investing activities		
Purchases of trading securities	(100,523)	--
Proceeds from sales of trading securities	67,222	--
Proceeds from maturities of trading securities	14,674	--
Purchases of available-for-sale securities	(168,108)	(240,572)
Proceeds from sales of available-for-sale securities	35,182	82,475
Proceeds from maturities of available-for-sale securities	175,446	181,194
Purchases of held-for-investment mortgages	(16,215)	(13,161)
Repayments of held-for-investment mortgages	4,797	7,076
Increase in restricted cash	(899)	--
Net (payments) proceeds from mortgage insurance and acquisitions and dispositions of real estate owned	(2,455)	1,255
Net (increase) decrease in securities purchased under agreements to resell and Federal funds sold	(1,437)	5,762
Derivative premiums and terminations and swap collateral, net	(4,472)	(1,118)
Investments in low-income housing tax credit partnerships	--	(116)
Net cash provided by investing activities	3,212	22,795
Cash flows from financing activities		
Proceeds from issuance of short-term debt	832,442	722,518
Repayments of short-term debt	(806,121)	(737,779)
Proceeds from issuance of long-term debt	218,830	149,092
Repayments of long-term debt	(197,623)	(153,691)
Proceeds from the issuance of preferred stock	--	2,574
Redemption of preferred stock	--	(600)
Payment of cash dividends on preferred stock and common stock	(835)	(1,279)
Excess tax benefits associated with stock-based awards	4	5
Payments of low-income housing tax credit partnerships notes payable	(600)	(824)
Increase (decrease) in cash overdraft	6	(3)
Other, net	(83)	(1,226)
Net cash provided by (used for) financing activities	46,020	(21,213)
Net increase in cash and cash equivalents	41,606	868
Cash and cash equivalents at beginning of year	8,574	11,359
Cash and cash equivalents at end of period	$ 50,180	$ 12,227
Supplemental cash flow information		
Cash paid (received) for:		
Debt interest	$ 27,868	$ 28,821
Swap collateral interest	137	344
Derivative interest carry, net	261	(838)
Income taxes	1,230	663
Non-cash investing and financing activities:		
Held-for-sale mortgages securitized and retained as available-for-sale securities	--	169

Transfers from mortgage loans to real estate owned	1,517	1,977
Investments in low-income housing tax credit partnerships financed by notes payable	--	173
Transfers from held-for-sale mortgages to held-for-investment mortgages	--	40
Transfers from retained portfolio Participation Certificates to held-for-investment mortgages	--	1,570
Issuance of senior preferred stock to U.S. Department of the Treasury	1,000	--
Transfers from available-for-sale securities to trading securities	87,281	--

The accompanying notes are an integral part of these unaudited consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Conservatorship Entry into Conservatorship On September 6, 2008, at the request of the Secretary of the U.S. Department of the Treasury, or Treasury, the Chairman of the Board of Governors of the Federal Reserve and the Director of the Federal Housing Finance Agency, or FHFA, our Board of Directors adopted a resolution consenting to putting the company into conservatorship. After obtaining this consent, the Director of FHFA appointed FHFA as our Conservator on September 6, 2008, in accordance with the Federal Housing Finance Regulatory Reform Act of 2008, or Reform Act, and the Federal Housing Enterprises Financial Safety and Soundness Act of 1992. Upon its appointment, the Conservator immediately succeeded to all rights, titles, powers and privileges of Freddie Mac, and of any stockholder, officer or director of Freddie Mac with respect to Freddie Mac and its assets, and succeeded to the title to all books, records and assets of Freddie Mac held by any other legal custodian or third party. The Conservator has the power to take over our assets and operate our business with all the powers of our stockholders, directors and officers, and to conduct all business of the company. The Conservator announced at that time that it would eliminate the payment of dividends on common and preferred stock during the conservatorship. On September 7, 2008, the Director of FHFA issued a statement that he had determined that we could not continue to operate safely and soundly and fulfill our critical public mission without significant action to address FHFA's concerns, which were principally: safety and soundness concerns, including our current capitalization; current market conditions; our financial performance and condition; our inability to obtain funding according to normal practices and prices; and our critical importance in supporting the U.S. residential mortgage market. Overview of Treasury Agreements Senior Preferred Stock Purchase Agreement The Conservator, acting on our behalf, entered into a senior preferred stock purchase agreement, or Purchase Agreement, with Treasury on September 7, 2008. Under the Purchase Agreement, Treasury provided us with its commitment to provide up to $100 billion in funding under specified conditions. The Purchase Agreement requires Treasury, upon the request of the Conservator, to provide funds to us after any quarter in which we have a negative net worth (that is, our total liabilities exceed our total assets, as reflected on our GAAP balance sheet). In exchange for Treasury's funding commitment, we issued to Treasury, as an initial commitment fee: (1) one million shares of Variable Liquidation Preference Senior Preferred Stock (with an initial liquidation preference of $1 billion), which we refer to as the senior preferred stock; and (2) a warrant to purchase, for a nominal price, shares of our common stock equal to 79.9% of the total number of shares of our common stock outstanding at the time the warrant is exercised, which we refer to as the warrant. We did not receive any cash proceeds from Treasury as a result of issuing the senior preferred stock or the warrant. We are not permitted to redeem the senior preferred stock prior to the termination of Treasury's funding commitment set forth in the Purchase Agreement; however, we are permitted to pay down the liquidation preference of the outstanding shares of senior preferred stock to the extent of (1) accrued and unpaid dividends previously added to the liquidation preference and not previously paid down; and (2) quarterly commitment fees previously added to the liquidation preference and not previously paid down. Under the terms of the Purchase Agreement, Treasury is entitled to a quarterly dividend of 10% per year (which increases to 12% per year if not paid timely and in cash) on the aggregate liquidation preference of the senior preferred stock. To the extent we are required to draw on the Purchase Agreement, and therefore increase the liquidation preference of the senior preferred stock, the amounts payable for this dividend could be substantial and have an adverse impact on our financial position and net worth. The senior preferred stock is also entitled to a priority payment equal to the liquidation preference over the common stock and all other series of preferred stock in the event of our liquidation. In addition, beginning on March 31, 2010, we are required to pay a quarterly commitment fee to Treasury, which will accrue from January 1, 2010. We are required to pay this fee each quarter for as long as the Purchase Agreement is in effect. The amount of this fee has not yet been determined. The Purchase Agreement includes significant restrictions on our ability to manage our business, including limiting the amount of indebtedness we can incur to 110% of our aggregate indebtedness as of June 30, 2008 and capping the size of our retained portfolio at $850 billion as of December 31, 2009. In addition, beginning in 2010, we must decrease the size of our retained portfolio at the rate of 10% per year until it reaches $250 billion. In addition, while the senior preferred stock is outstanding, we are prohibited from issuing equity securities without Treasury's consent, and the terms of the Purchase Agreement and warrant make it unlikely that we will be able to obtain equity from other private sources.

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The Purchase Agreement has an indefinite term and can terminate only in very limited circumstances, which do not include the end of the conservatorship. The agreement therefore could continue after the conservatorship ends. Treasury has the right to exercise the warrant, in whole or in part, at any time on or before September 7, 2028. Expected Draw under the Purchase Agreement At September 30, 2008, our liabilities exceeded our assets under GAAP by $(13.7) billion while our stockholders' equity (deficit) totaled $(13.8) billion. The Director of FHFA has submitted a request under the Purchase Agreement in the amount of $13.8 billion to Treasury. We expect to receive such funds by November 29, 2008. If the Director of FHFA were to determine in writing that our assets are, and have been for a period of 60 days, less than our obligations to creditors and others, FHFA would be required to place us into receivership. As a result of this draw, the aggregate liquidation preference of the senior preferred stock will increase to $14.8 billion, and our annual aggregate dividend payment to Treasury, at the 10% dividend rate, would increase to $1.5 billion. If we are unable to pay such dividend in cash in any quarter, the unpaid amount will be added to the aggregate liquidation preference of the senior preferred stock and the dividend rate on the unpaid liquidation preference will increase to 12% per year. Treasury Credit Facility On September 18, 2008, we entered into a lending agreement with Treasury, or Lending Agreement, pursuant to which Treasury established a new secured lending credit facility that is available to us until December 31, 2009 as a liquidity back-stop. In order to borrow pursuant to the Lending Agreement, we are required to post collateral in the form of Freddie Mac or Fannie Mae mortgage-backed securities to secure all borrowings under the facility. The terms of any borrowings under the Lending Agreement, including the interest rate payable on the loan and the amount of collateral we will need to provide as security for the loan, will be determined by Treasury. Treasury is not obligated under the Lending Agreement to make any loan to us. As of November 14, 2008, we have not borrowed any amounts under the Lending Agreement. Changes in Company Management and our Board of Directors Since our entry into conservatorship on September 6, 2008, eight members of our Board of Directors have resigned, including Richard F. Syron, our former Chairman and Chief Executive Officer. On September 16, 2008, the Conservator appointed John A. Koskinen as the new non-executive Chairman of our Board of Directors. We currently have 4 members of our Board of Directors and 9 vacancies. As noted above, as our Conservator, FHFA has assumed the powers of our Board of Directors. Accordingly, the current Board of Directors acts with neither the power nor the duty to manage, direct or oversee our business and affairs. The Conservator has indicated that it intends to appoint a full Board of Directors to which it will delegate specified roles and responsibilities. On September 7, 2008, the Conservator appointed David M. Moffett as our Chief Executive Officer, effective immediately. Supervision of our Business under the Reform Act and During Conservatorship During the third quarter of 2008, the company experienced a number of significant changes in our regulatory supervisory environment. First, on July 30, 2008, President Bush signed into law the Reform Act, which placed us under the regulation of a new regulator, FHFA. That legislation strengthened the existing safety and soundness oversight of the government sponsored enterprises, or GSEs, and provided FHFA with new safety and soundness authority that is comparable to and in some respects broader than that of the federal bank agencies. That legislation gave FHFA enhanced powers that, even if we were not placed into conservatorship, gave them the authority to raise capital levels above statutory minimum levels, regulate the size and content of our portfolio, and to approve new mortgage products. That legislation also gave FHFA the authority to place the GSEs into conservatorship or receivership under conditions set forth in the statute. Second, we experienced a change in control when we were placed into conservatorship on September 6, 2008 and then entered into the Purchase Agreement and issued the senior preferred stock and warrant to Treasury. Under conservatorship, we have additional heightened supervision and direction from our regulator, FHFA, who is also acting as our Conservator. The conservatorship has no specified termination date. There can be no assurance as to when or how the conservatorship will be terminated, whether we will continue to exist following conservatorship, or what our business structure will be during or following our conservatorship. In a statement issued on September 7, 2008, the Secretary of the Treasury indicated that 2008 and 2009 should be viewed as a "time out" where we and Fannie Mae are stabilized while policymakers decide our future role and structure. He also stated that there is a consensus that we and Fannie Mae pose a systemic risk and cannot continue in our current form.

Managing Our Business During Conservatorship -- Our Objectives Based on the Federal Home Loan Mortgage Corporation Act, which we refer to as our charter, public statements from Treasury officials and guidance from our Conservator, we have a variety of different, and potentially conflicting, objectives, including:

ù providing liquidity, stability and affordability in the mortgage market;
ù immediately providing additional assistance to the struggling housing and mortgage markets;
ù reducing the need to draw funds from Treasury pursuant to the Purchase Agreement;
ù returning to long-term profitability; and
ù protecting the interests of the taxpayers.

These objectives create conflicts in strategic and day-to-day decision making that will likely lead to less than optimal outcomes for one or more, or possibly all, of these objectives. For example, maintaining a positive net worth could require us to constrain some of our business activities, including activities that provide liquidity, stability and affordability to the mortgage market. Conversely, to the extent we increase activities to assist the mortgage market, our financial results are likely to suffer, and we may be less able to maintain a positive net worth. We regularly consult with and get direction from our Conservator on how to balance these objectives. To the extent that we are unable to maintain a positive net worth following our expected draw of funds from Treasury after the filing of this Form 10-Q, we will be required to request additional funding from Treasury under the Purchase Agreement, which will further increase our ongoing dividend obligations and, therefore, extend the period of time until we might be able to return to profitability. Additional Impacts of Conservatorship and Related Events Total stockholders' equity (deficit) reflects the following actions as a result of our Purchase Agreement with Treasury:

ù Preferred stock increased by $1 billion reflecting the issuance of senior preferred stock to Treasury.
ù We issued a warrant to Treasury for the purchase of our common stock with an estimated value of $2.3 billion representing 79.9% of our common stock outstanding on a fully diluted basis at the time of exercise at a price of $0.00001 per share.

As a result of our issuance to Treasury of the warrant to purchase shares of our common stock equal to 79.9% of the total number of shares of our common stock outstanding, on a fully diluted basis, we are deemed related parties with the U.S. government. Except for the transactions with Treasury discussed above and in "NOTE 7: DEBT SECURITIES AND SUBORDINATED BORROWINGS," and "NOTE 8: STOCKHOLDERS' EQUITY (DEFICIT)," no transactions outside of normal business activities have occurred between us and the U.S. government during the three and nine months ended September 30, 2008. We issued the senior preferred stock and the warrant to Treasury in consideration for the commitment set forth in our Purchase Agreement with Treasury, and for no other consideration. As a result, the issuance of the senior preferred stock and warrant to Treasury had no impact on total stockholders' equity (deficit), as the offset was to additional paid-in capital. The first dividend on the senior preferred stock will be payable on December 31, 2008. If we choose not to pay this dividend in cash, the amount of the dividend payable will be added to the aggregate liquidation preference of the senior preferred stock. Total stockholders' equity (deficit) also reflects the following actions of the Director of FHFA, as Conservator:

ù The elimination of the par value of our common stock which resulted in the reclassification of $152 million from common stock to additional paid-in-capital on our consolidated balance sheet as of September 30, 2008.
ù An increase in the number of common shares available for issuance to four billion shares as of September 30, 2008.

FHFA, as Conservator, has suspended our minimum and risk-based capital requirements during conservatorship and directed us to focus our risk and capital management on maintaining a positive stockholders' equity under GAAP. The Director of FHFA has classified Freddie Mac as undercapitalized as of June 30, 2008, using FHFA's discretionary authority as provided by Statute. FHFA stated that, although Freddie Mac's capital calculations for June 30, 2008 reflect that it met the FHFA-directed and statutory requirements for capital, the continued market downturn during late July and August raised significant questions about the sufficiency of its capital. On October 9, 2008, FHFA announced that the Director of FHFA has suspended the capital classifications of Freddie Mac during the conservatorship, in light of the Purchase Agreement, and that existing statutory and FHFA-directed regulatory capital requirements will not be binding during the conservatorship. During the conservatorship, FHFA will not issue quarterly capital classifications of Freddie Mac, but we will continue to submit capital reports to FHFA. For additional information concerning the conservatorship and the effects of the Purchase Agreement, see "NOTE 7: DEBT SECURITIES AND SUBORDINATED BORROWINGS", "NOTE 8: STOCKHOLDERS' EQUITY (DEFICIT)" and "NOTE 9: REGULATORY CAPITAL."

Basis of Presentation The accompanying unaudited consolidated financial statements include our accounts and those of our subsidiaries, and should be read in conjunction with the audited consolidated financial statements and related notes included in our Form 10 Registration Statement filed and declared effective by the SEC on July 18, 2008, or Registration Statement. We are operating under the basis that we will realize assets and satisfy liabilities in the normal course of business as a going concern and in accordance with our delegation of authority. These unaudited consolidated financial statements have been prepared in conformity with GAAP for interim financial information. Certain financial information that is normally included in annual financial statements prepared in conformity with GAAP but is not required for interim reporting purposes has been condensed or omitted. Certain amounts in prior periods' consolidated financial statements have been reclassified to conform to the current presentation. In the opinion of management, all adjustments, which include only normal recurring adjustments, have been recorded for a fair statement of our unaudited consolidated financial statements in conformity with GAAP. Net income (loss) includes certain adjustments to correct immaterial errors related to previously reported periods. Use of Estimates The preparation of our consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of these consolidated balance sheets as well as the reported amounts of revenues and expenses during the reporting periods. Management has made significant estimates in preparation of the financial statements, including, but not limited to, valuation of financial instruments and other assets and liabilities, amortization of assets and liabilities and allowance for loan losses and reserves for guarantee losses. Actual results could be different from these estimates. Change in Accounting Principles Fair Value Measurements Effective January 1, 2008, we adopted Statement of Financial Accounting Standards, or SFAS, No. 157, "Fair Value Measurements," or SFAS 157, which defines fair value, establishes a framework for measuring fair value in GAAP and expands disclosures about fair value measurements. SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (also referred to as exit price). The adoption of SFAS 157 did not cause a cumulative effect adjustment to our GAAP consolidated financial statements on January 1, 2008. SFAS 157 amends FASB Interpretation No., or FIN, 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, an Interpretation of FASB Statements No. 5, 57 and 107 and Rescission of FASB Interpretation No. 34," or FIN 45, to provide for a practical expedient in measuring the fair value at inception of a guarantee. Upon adoption of SFAS 157 on January 1, 2008, we began measuring the fair value of our newly-issued guarantee obligations at their inception using the practical expedient provided by FIN 45, as amended by SFAS 157. Using the practical expedient, the initial guarantee obligation is recorded at an amount equal to the fair value of compensation received, inclusive of all rights related to the transaction, in exchange for our guarantee. As a result, we no longer record estimates of deferred gains or immediate "day one" losses on most guarantees. In addition, amortization of the guarantee obligation will now more closely follow our economic release from risk under the guarantee. This change is further discussed in "NOTE 2: FINANCIAL GUARANTEES AND SECURITIZED INTERESTS IN MORTGAGE-RELATED ASSETS." Measurement Date for Employers' Defined Pension and Other Postretirement Plans Effective January 1, 2008, we adopted the measurement date provisions of SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an Amendment of FASB Statements No. 87, 88, 106 and 132(R)," or SFAS 158. In accordance with the standard, we are required to measure our defined plan assets and obligations as of the date of our consolidated balance sheet and change the measurement date from September 30 to December 31. The transition approach we elected for the change was the 15-month approach. Under this approach, we continued to use the measurements determined for our Registration Statement to estimate the effects of the change. As a result of adoption, we recognized an $8 million decrease in retained earnings (after tax) at January 1, 2008 and the impact to AOCI (after tax) was immaterial. The Fair Value Option for Financial Assets and Financial Liabilities On January 1, 2008, we adopted SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities, Including an Amendment of FASB Statement No. 115," or SFAS 159 or the fair value option, which permits entities to choose to measure many financial instruments and certain other items at fair value that are not required to be measured at fair value. The effect of the first measurement to fair value is reported as a cumulative-effect adjustment to the opening balance of retained earnings. We elected the fair value option for certain available-for-sale mortgage-related securities, foreign-currency denominated debt, and investments in securities classified as available-for-sale securities and identified as within the scope of Emerging Issues Task Force, or EITF, 99-20, "Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests That Continue to Be Held by a Transferor in Securitized Financial Assets."

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Our election of the fair value option for the items discussed above was made in an effort to better reflect, in the financial statements, the economic offsets that exist related to items that were not previously recognized as changes in fair value through our consolidated statements of income. As a result of the adoption, we recognized a $1.0 billion after-tax increase to our beginning retained earnings at January 1, 2008, representing the effect of changing our measurement basis to fair value for the above items with the fair value option elected. During the third quarter of 2008, we elected the fair value option for certain multifamily held-for-sale mortgage loans. For additional information on the election of the fair value option and SFAS 159, see "NOTE 14: FAIR VALUE DISCLOSURES." Table 1.1 summarizes the incremental effect on individual line items on our consolidated balance sheets upon the adoption of SFAS 159. Table 1.1 -- Change in Accounting for the Fair Value Option -- Impact on Financial Statements

	Balance Sheet January 1, 2008 prior to Adoption	Net Gain/(Losses) upon Adoption (in millions)	Balance Sheet January 1, 2008 after Adoption
Mortgage-related securities(1)	$ 87,281	--	$ 87,281
Total debt securities,	19,091	276	18,815

net(2)	
Cumulative-effect adjustment (pre-tax)	276
Impact on deferred tax	(95)
Cumulative-effect adjustment (net of taxes)	181
Reclassification from AOCI to retained earnings, net of taxes(1)	850
Cumulative-effect adjustments to retained earnings	$ 1,031

(1) Effective January 1, 2008, we elected the fair value option for certain available-for-sale mortgage-related securities that were identified as economic offsets to the changes in fair value of the guarantee asset and investments in securities classified as available-for-sale securities and identified as within the scope of EITF 99-20. The net gains/(losses) upon adoption represent the reclassification of the related unrealized gains/(losses) from AOCI, net of taxes, to retained earnings.

(2) Effective January 1, 2008, our measurement basis for debt securities denominated in a foreign currency changed from amortized cost to fair value. The difference between the carrying amount and fair value at the adoption of SFAS 159 was recorded as a cumulative-effect adjustment to retained earnings.

Recently Issued Accounting Standards, Not Yet Adopted Determining Whether Instruments Granted in Share-based Payment Transactions are Participating Securities In June 2008, the Financial Accounting Standards Board, or FASB, issued FASB Staff Position, or FSP, No. EITF 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities", or FSP EITF 03-6-1. The guidance in this FSP applies to the calculation of earnings per share for share-based payment awards with rights to dividends or dividend equivalents. It clarifies that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. FSP EITF 03-6-1 is effective and will be retrospectively applied by us on January 1, 2009. We expect the adoption of this FSP will have an immaterial impact on our consolidated financial statements. Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities and Consolidation of Variable Interest Entities, or VIEs In April 2008, the FASB voted to eliminate Qualifying Special Purpose Entities, or QSPEs, from the guidance in SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities -- a replacement of FASB Statement No. 125," or SFAS 140. The FASB has also proposed revisions to the consolidation model prescribed by FIN 46 (revised December 2003),"Consolidation of Variable Interest Entities, an interpretation of ARB No. 51," or FIN 46(R), to accommodate the removal of the scope exemption applicable to QSPEs. While the revised standards have not been finalized and the Board's proposals have been subject to a public comment period through November 14, 2008, these changes may have a significant impact on our consolidated financial statements. These proposed revisions could be effective as early as January 2010. Noncontrolling Interests In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements -- an amendment of ARB No. 51," or SFAS 160. A noncontrolling interest (referred to as a minority interest prior to adoption) is the portion of equity in a subsidiary not attributable, directly or indirectly, to the parent. SFAS 160 will require that noncontrolling interests be presented within equity, instead of between liabilities and equity. SFAS 160 will also require that net income include amounts attributable to the noncontrolling interests, instead of reducing net income by those amounts. SFAS 160 will also require expanded disclosures. SFAS

160 would be effective for and retrospectively adopted by us on January 1, 2009. We have not yet determined the impact of adopting SFAS 160 on our consolidated financial statements.

NOTE 2: FINANCIAL GUARANTEES AND SECURITIZED INTERESTS IN MORTGAGE-RELATED ASSETS Financial Guarantees We provide a variety of financial guarantees. For a discussion of these guarantees see "ITEM 13. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA -- AUDITED CONSOLIDATED FINANCIAL STATEMENTS AND ACCOMPANYING NOTES -- NOTE 2: FINANCIAL GUARANTEES AND TRANSFERS OF SECURITIZED INTERESTS IN MORTGAGE-RELATED ASSETS" in our Registration Statement. Guaranteed PCs, Structured Securities and Other Mortgage Guarantees We guarantee the payment of principal and interest on issued PCs and Structured Securities that are backed by pools of mortgage loans. For our fixed-rate PCs, we guarantee the timely payment of interest at the applicable PC coupon rate and scheduled principal payments for the underlying mortgages. For our adjustable-rate mortgage, or ARM PCs, we guarantee the timely payment of the weighted average coupon interest rate and the full and final payment of principal for the underlying mortgages. We do not guarantee the timely payment of principal for ARM PCs. To the extent the interest rate is modified and reduced for a loan underlying a fixed-rate PC, we pay the shortfall between the original contractual interest rate and the modified interest rate. To the extent the interest rate is modified and reduced for a loan underlying an ARM PC, we only guarantee the timely payment of the modified interest rate and we are not responsible for any shortfalls between the original contractual interest rate and the modified interest rate. When our Structured Securities consist of re-securitizations of PCs, our guarantee and the impacts of modifications to the interest rate of the underlying loans operate in the same manner as PCs. In addition to our guarantees on PCs and Structured Securities we also provide long-term standby commitments to certain customers, which obligate us to purchase delinquent loans that are covered by those agreements. Most of the guarantees we provide meet the definition of a derivative under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," or SFAS 133; however, most of these guarantees also qualify for a scope exemption for financial guarantee contracts in SFAS 133. For guarantees that meet the scope exemption, we initially account for the guarantee obligation at fair value and subsequently amortize the obligation into earnings. If we determine that our guarantee does not qualify for the scope exemption, we account for it as a derivative with changes in fair value reflected in current period earnings. At September 30, 2008 and December 31, 2007, we had $1,834.4 billion and $1,738.8 billion of issued PCs and Structured Securities and such other mortgage guarantees, respectively, of which $374.9 billion and $357.0 billion were held in our retained portfolio. When we purchase Freddie Mac PCs or Structured Securities for our retained portfolio, we do not derecognize any components of the guarantee asset, guarantee obligation, reserve for guarantee losses, or any other outstanding recorded amounts associated with the guarantee transaction because our contractual guarantee obligation to the unconsolidated PC trust remains in force until the trust is liquidated, unless the trust is consolidated. Whether we own the security or not, our guarantee obligation and related credit exposure do not change. Our valuation of these securities is consistent with the legal structure of the guarantee transaction, which includes the Freddie Mac guarantee to the securitization trust. Upon the subsequent sale of a Freddie Mac PC or Structured Security, we continue to account for any outstanding recorded amounts associated with the guarantee transaction on the same basis as prior to the sale of the Freddie Mac PC or Structured Security, because the sale does not result in the retention of any new assets or the assumption of any new liabilities. There were $1,710.3 billion and $1,518.8 billion at September 30, 2008 and December 31, 2007, respectively, of Structured Securities backed by resecuritized PCs and other previously issued Structured Securities. These restructured securities do not increase our credit-related exposure and consist of single-class and multi-class Structured Securities backed by PCs, Real Estate Mortgage Investment Conduits, or REMICs, interest-only strips, and principal-only strips. Our guarantee obligation represents the recognized liability associated with our guarantee of PCs and Structured Securities net of cumulative amortization. Upon adoption of SFAS 157 on January 1, 2008, we began measuring the fair value of our newly-issued guarantee obligations at their inception using the practical expedient provided by FIN 45, as amended by SFAS 157. Using the practical expedient, the initial guarantee obligation is recorded at an amount equal to the fair value of compensation received in the related securitization transaction. As a result, we no longer record estimates of deferred gains or immediate, "day one", losses on most guarantees. However, all unamortized amounts recorded prior to January 1, 2008 will continue to be deferred and amortized using existing amortization methods. In addition to our guarantee obligation, we recognized a reserve for guarantee losses on PCs that totaled $9.8 billion and $2.6 billion at September 30, 2008 and December 31, 2007, respectively.

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Derivative Instruments Derivative instruments include written options, written swaptions, interest-rate swap guarantees and guarantees of stated final maturity Structured Securities. Derivative instruments also include short-term default guarantee commitments that we account for as derivatives. Servicing-Related Premium Guarantees We provide guarantees to reimburse servicers for premiums paid to acquire servicing in situations where the original seller is unable to perform under its separate servicing agreement. The liability associated with these agreements was not material at September 30, 2008 and December 31, 2007. Table 2.1 below presents our maximum potential amount of future payments, our recognized liability and the maximum remaining term of these guarantees. Table 2.1 -- Financial Guarantees

	September 30, 2008			December 31, 2007		
	Maximum Exposure	Recognized Liability	Maximum Remaining Term	Maximum Exposure	Recognized Liability	Maximum Remaining Term
	(dollars in millions, terms in years)					
Guaranteed PCs, Structured Securities and other mortgage guarantees issued(1)	$ 1,834,408	$ 13,874	44	$ 1,738,833	$ 13,712	40
Derivative instruments	40,115	226	35	32,538	129	30
Servicing-related premium guarantees	52	--	5	37	--	5

(1) Exclude mortgage loans and mortgage-related securities traded, but not yet settled.

With the exception of derivative instruments in Table 2.1, maximum exposure represents the contractual amounts that could be lost under the guarantees if underlying borrowers defaulted, without consideration of possible recoveries under recourse provisions or from collateral held or pledged. The maximum exposure related to interest-rate swap derivative guarantees is based on contractual rates and without consideration of recovery under recourse provisions. The maximum exposure related to other derivative instruments is based on the notional amount of the contract. The maximum exposure disclosed above is not representative of the actual loss we are likely to incur, based on our historical loss experience and after consideration of proceeds from related collateral liquidation. Other Financial Commitments As part of the guarantee arrangements pertaining to certain multifamily housing revenue bonds and to certain securities backed by multifamily housing revenue bonds, we provided commitments to advance funds, commonly referred to as "liquidity guarantees," totaling $11.6 billion and $8.0 billion at September 30, 2008 and December 31, 2007, respectively. These guarantees require us to advance funds to third parties that enable them to repurchase tendered bonds or securities that are unable to be remarketed. Any repurchased bonds or securities are pledged to us to secure funding until the bonds or securities are remarketed. At September 30, 2008 and December 31, 2007, $307 million and $-- in liquidity guarantee advances were outstanding. Advances under our liquidity guarantees typically mature in 60 to 120 days. These liquidity guarantee advances are included in other assets on our consolidated balance sheets. Gains and Losses on Transfers of PCs and Structured Securities that are Accounted for as Sales We recognized gains (losses) on transfers of PCs and Structured Securities that were accounted for as sales under SFAS 140. For the three months ended September 30, 2008 and 2007, the net pre-tax gains (losses) were approximately $39 million and $(26) million, respectively. For the nine months ended September 30, 2008 and 2007, the net pre-tax gains (losses) were approximately $131 million and $(125) million, respectively. Valuation of Recognized Guarantee Asset Guarantee Asset Our approach for estimating the fair value of the guarantee asset at September 30, 2008 used third-party market data as practicable. For approximately 74% of the fair value of the guarantee asset, which relates to fixed-rate loan products that reflect current market rates, the valuation approach involved obtaining dealer quotes on proxy securities with collateral similar to aggregated characteristics of our portfolio. This effectively equates the guarantee asset with current, or "spot," market values for excess servicing interest-only securities. We consider these securities to be comparable to the guarantee asset, in that they represent interest-only cash flows, and do not have matching principal-only securities. The remaining 26% of the fair value of the guarantee asset related to underlying loan products for which comparable market prices were not readily available. These amounts relate specifically to ARM products, highly seasoned loans or fixed-rate loans with coupons that are not consistent with current market rates. This portion of the guarantee asset was valued using an expected cash flow approach including only those cash flows expected to result from our contractual right to receive management and guarantee fees, with market input assumptions extracted from the dealer quotes provided on the more liquid products, reduced by an

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estimated liquidity discount. We establish some of our guarantee asset in accordance with SFAS 140 in transactions through various underwriters in which we issue our PCs and Structured Securities for cash. However, we issue most of our PCs and Structured Securities in guarantor swap transactions in which securities dealers or investors deliver to us the mortgage-related assets underlying the securities in exchange for the securities themselves. We establish the majority of our guarantee asset in these guarantor swap transactions in accordance with FIN 45. The key assumptions used in valuation of our guarantee asset and a sensitivity analysis for our guarantee asset, which includes those guarantee assets established in swap transactions as well as those established in cash sales, are presented below.

Key Assumptions Used in the Valuation of the Guarantee Asset

Table 2.2 summarizes the key assumptions associated with the fair value measurements of the recognized guarantee asset. The fair values at the time of securitization and the subsequent fair value measurements were estimated using third-party information. However, the assumptions included in this table for those periods are those implied by our fair value estimates, with the internal rates of return, or IRRs, adjusted where necessary to align our internal models with estimated fair values determined using third-party information. Prepayment rates are presented as implied by our internal models and have not been similarly adjusted.

At September 30, 2008, our guarantee asset totaled $9.7 billion on our consolidated balance sheets, of which approximately $0.2 billion, or approximately 2%, related to PCs and Structured Securities backed by multifamily mortgage loans. Table 2.2 contains the key assumptions used to derive the fair value measurement of the entire guarantee asset associated with PCs and other financial guarantees backed by single-family mortgage loans. For the portion of our guarantee asset that is valued by obtaining dealer quotes on proxy securities, we derive the assumptions from the prices we are provided. Table 2.3 contains a sensitivity analysis of the fair value of the entire guarantee asset associated with PCs and other financial guarantees backed by single-family mortgage loans.

Table 2.2 -- Key Assumptions Utilized in Fair Value Measurements of the Guarantee Asset (Single-Family Mortgages)

	Three Months Ended September 30,		Nine Months Ended September 30,	
Mean Valuation Assumptions(1)	2008	2007	2008	2007
IRRs(2)	10.9%	5.9%	10.0%	6.4%
Prepayment rates(3)	11.2%	15.5%	14.0%	17.3%
Weighted average lives (years)	6.6	5.6	5.8	5.2

(1) Mean values represent the weighted average of all estimated IRRs, prepayment rate and weighted average lives assumptions.
(2) IRR assumptions represent an unpaid principal balance weighted average of the discount rates inherent in the fair value of the recognized guarantee asset. We estimated the IRRs using a model which employs multiple interest rate scenarios versus a single assumption.
(3) Although prepayment rates are simulated monthly, the assumptions above represent annualized prepayment rates based on unpaid principal balances.

Table 2.3 -- Sensitivity Analysis of the Guarantee Asset (Single-Family Mortgages)

	September 30, 2008	December 31, 2007
	(dollars in millions)	
Fair value	$ 9,473	$ 9,417
Weighted average IRR assumptions	13.9%	8.1%
Impact on fair value of 100 bps unfavorable change	$ (306)	$ (389)
Impact on fair value of 200 bps unfavorable change	$ (593)	$ (746)
Weighted average prepayment rate assumptions	11.2%	16.5%
Impact on fair value of 10% unfavorable change	$ (374)	$ (516)
Impact on fair value of 20% unfavorable change	$ (722)	$ (977)

Valuation of Other Retained Interests Other retained interests include securities we issued as part of resecuritization transactions for which those interests not retained are sold. The fair value of other retained interests is generally based on independent price quotations obtained from third-party pricing services or dealer provided prices. To report the hypothetical sensitivity of the carrying value of other retained interests, we used internal models adjusted where necessary to align with the fair values. The sensitivity analysis in Table 2.4 illustrates hypothetical adverse changes in the fair value of other retained interests for changes in key assumptions based on these models. Table 2.4 -- Sensitivity Analysis of Other Retained Interests(1)

	September 30, 2008	December 31, 2007
	(dollars in millions)	
Fair value	$ 99,324	$ 107,931
Weighted average IRR assumptions	5.8%	5.5%
Impact on fair value of 100 bps unfavorable change	$ (4,191)	$ (4,109)
Impact on fair value of 200 bps unfavorable change	$ (8,073)	$ (7,928)
Weighted average prepayment rate assumptions	7.0%	8.7%
Impact on fair value of 10% unfavorable change	$ (12)	$ (30)
Impact on fair value of 20% unfavorable change	$ (15)	$ (57)

(1) The sensitivity analysis includes only other retained interests whose fair value is impacted as a result of changes in IRR and prepayment assumptions.

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Cash Flows on Transfers of Securitized Interests and Corresponding Retained Interests Table 2.5 summarizes cash flows on retained interests as well as the amount of cash payments made to acquire delinquent loans to satisfy our financial performance obligations. Table 2.5 -- Details of Cash Flows

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(in millions)			
Cash flows from:				
Transfers of Freddie Mac securities that were accounted for as sales(1)	$ 8,392	$ 12,538	$ 33,124	$ 51,580
Cash flows received on the guarantee asset(2)	730	585	2,139	1,661
Other retained interests principal and interest(3)	5,092	5,882	15,958	18,352
Purchases of delinquent or foreclosed loans(4)	(3,962)	(2,179)	(6,745)	(5,648)

(1) Represents proceeds from securities receiving sales treatment under SFAS 140 including sales of Structured Securities. On our consolidated

statements of cash flows, this amount is included in the investing activities as part of proceeds from sales of trading and available-for-sale securities.

(2) Represents cash received related to management and guarantee fees, which reduce the guarantee asset. On our consolidated statements of cash flows, the change in guarantee asset and the corresponding management and guarantee fee income are reflected as operating activities.

(3) Represents cash proceeds related to interest income and principal repayment of our securities that are not transferred to third parties upon the completion of a securitization or resecuritization transaction. On our consolidated statements of cash flows, the cash flows from interest are included in net income (loss) and the principal repayments are included in the investing activities as part of proceeds from maturities of trading and available-for-sale securities. The amount for the three and nine months ended September 30, 2007 has been revised to also include interest-only and principal-only strips, which conforms to the 2008 presentation.

(4) Represents our cash payments for the purchase of delinquent or foreclosed loans from mortgage pools underlying our PCs and Structured Securities. On our consolidated statements of cash flows, this amount is included in the investing activities as part of purchases of held-for-investment mortgages.

Credit Protection and Other Forms of Recourse In connection with our guarantees of PCs and Structured Securities issued, we have credit protection in the form of primary mortgage insurance, pool insurance, recourse to lenders, and other forms of credit enhancements. At September 30, 2008 and December 31, 2007, we recorded $1.8 billion and $0.7 billion, respectively, within other assets on our consolidated balance sheets related to these credit enhancements on securitized mortgages. Table 2.6 presents the maximum amounts of potential loss recovery by type of credit protection. Table 2.6 -- Credit Protection and Other Forms of Recourse(1)

	September 30, 2008	December 31, 2007
	(in millions)	
PCs and Structured Securities:		
Single-family:		
Primary mortgage insurance	$ 59,652	$ 51,897
Lender recourse and indemnifications	11,446	12,085
Pool insurance	3,819	3,813
Other credit enhancements	483	549
Multifamily:		
Credit enhancements	3,019	1,233
Structured Securities backed by Ginnie Mae Certificates(2)	1,102	1,268

(1) Exclude credit enhancements related to Structured Transactions, which had unpaid principal balances that totaled $25.3 billion and $20.2 billion at September 30, 2008 and December 31, 2007, respectively.

(2) Ginnie Mae Certificates are backed by the full faith and credit of the U.S. government.

In addition to the types of credit enhancements associated with our PCs and Structured Securities, certain of our Structured Transactions benefit from additional credit protection afforded by subordinated security structures. Our Structured Transactions also include $1.9 billion at September 30, 2008 of securitized FHA/VA loans, for which those agencies provide recourse for 100% of qualifying losses associated with the loan. There were $5.3 billion in unpaid principal balance of these securities at September 30, 2008, which had coverage, including amounts associated with subordination, of up to approximately 19% of the security balance, on average. The remaining Structured Transactions, which do not have subordination protection or other forms of credit enhancement, totaled $18.0 billion at September 30, 2008. Although our charge-offs associated with Structured Transactions to date have been minimal, we have increased our provision for credit losses associated with the loans underlying these guarantees during the three and nine months ended September 30, 2008. Securities Administration Effective December 2007 we established securitization trusts for the administration of cash remittances received on the underlying assets of our PCs and Structured Securities. We receive trust management income, which represents the fees we earn as master servicer, issuer, trustee and securities administrator for our issued PCs and Structured Securities. These fees, which are included in our non-interest income, are derived from interest earned on principal and interest cash flows held in the trust between the time funds are remitted to the trust by servicers and the date of distribution to our PC and Structured Securities holders. The trust management income is offset by interest expense we incur when a borrower prepays a mortgage, but the full amount of interest for the month is due to the PC investor. We must indemnify the trust for any investment losses that are incurred in our role as the securities administrator for the trust. In August 2008, acting as the security administrator

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for a trust which holds mortgage loan pools backing our PCs, we invested in $1.2 billion of short-term, unsecured loans which we made to Lehman Brothers Holdings, Inc., or Lehman, on the trust's behalf. These transactions were due to mature on September 15, 2008. On September 15, 2008, Lehman filed a chapter 11 bankruptcy petition in the Bankruptcy Court for the Southern District of New York. Lehman failed to repay these loans and accrued interest. To the extent there is a loss related to an eligible investment for the trusts, we, as the administrator, are responsible for making up that shortfall. During the third quarter of 2008, we recorded a $1.1 billion loss to reduce the carrying amount of this asset to our estimate of the net realizable amount on these transactions. The loss amount was recorded to securities administrator loss on investment activity on our consolidated statements of income. The remaining carrying amount is included in other assets as of September 30, 2008 on our consolidated balance sheets. Other Indemnifications In connection with certain business transactions, we may provide indemnification to counterparties for claims arising out of breaches of certain obligations (e.g., those arising from representations and warranties) in contracts entered into in the normal course of business. For a discussion of these indemnifications see "ITEM 13. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA -- AUDITED CONSOLIDATED FINANCIAL STATEMENTS AND ACCOMPANYING NOTES -- NOTE 2: FINANCIAL GUARANTEES AND TRANSFERS OF SECURITIZED INTERESTS IN MORTGAGE-RELATED ASSETS" in our Registration Statement. Our assessment is that the risk of any material loss from such a claim for indemnification is remote and there are no probable and estimable losses associated with these contracts. Therefore, we have not recorded any liabilities related to these indemnifications on our consolidated balance sheets at September 30, 2008 and December 31, 2007. NOTE 3: VARIABLE INTEREST ENTITIES We are a party to numerous entities that are considered to be VIEs. Our investments in VIEs include low-income housing tax credit, or LIHTC, partnerships and certain Structured Securities transactions. In addition, we buy the highly-rated senior securities in non-mortgage-related, asset-backed investment trusts that are VIEs. Our investments in these securities do not represent a significant variable interest in the securitization trusts as the securities issued by these trusts are not designed to absorb a significant portion of the variability in the trust. Accordingly, we do not consolidate these securities. See "ITEM 13. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA -- AUDITED CONSOLIDATED FINANCIAL STATEMENTS AND ACCOMPANYING NOTES -- NOTE 1:

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- Consolidation and Equity Method of Accounting" in our Registration Statement for further information regarding the consolidation practices of our VIEs. LIHTC Partnerships We invest as a limited partner in LIHTC partnerships formed for the purpose of providing funding for affordable multifamily rental properties. The LIHTC partnerships invest as limited partners in lower-tier partnerships, which own and operate multifamily rental properties. These properties are rented to qualified low-income tenants, allowing the properties to be eligible for federal tax credits. Most of these LIHTC partnerships are VIEs. A general partner operates the partnership, identifying investments and obtaining debt financing as needed to finance partnership activities. Although these partnerships generate operating losses, we realize a return on our investment through reductions in income tax expense that result from tax credits and the deductibility of the operating losses of these partnerships. The partnership agreements are typically structured to meet a required 15-year period of occupancy by qualified low-income tenants. The investments in LIHTC partnerships, in which we were either the primary beneficiary or had a significant variable interest, were made between 1989 and 2007. At September 30, 2008 and December 31, 2007, we did not guarantee any obligations of these LIHTC partnerships and our exposure was limited to the amount of our investment. At September 30, 2008 and December 31, 2007, we were the primary beneficiary of investments in six partnerships and we consolidated these investments. The investors in the obligations of the consolidated LIHTC partnerships have recourse only to the assets of those VIEs and do not have recourse to us. VIEs Not Consolidated LIHTC Partnerships At both September 30, 2008 and December 31, 2007, we had unconsolidated investments in 189 LIHTC partnerships, respectively, in which we had a significant variable interest. The size of these partnerships at September 30, 2008 and December 31, 2007, as measured in total assets, was $10.5 billion and $10.3 billion, respectively. These partnerships are accounted for using the equity method. As a limited partner, our maximum exposure to loss equals the undiscounted book value of our equity investment. At September 30, 2008 and December 31, 2007, our maximum exposure to loss on unconsolidated LIHTC partnerships, in which we had a significant variable interest, was $3.4 billion and $3.7 billion, respectively.

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Structured Transactions We periodically issue securities in Structured Transactions, which are backed by mortgage loans or non-Freddie Mac mortgage-related securities using collateral pools transferred to a trust specifically created for the purpose of issuing securities. These trusts issue various senior interests and subordinated interests. We purchase interests, including senior interests, of the trusts and issue and guarantee Structured Securities backed by these interests. The subordinated interests are generally either held by the seller or other party or sold in the capital markets. Generally, the structure of the transactions and the trusts as qualifying special purpose entities exempts them from the scope of FIN 46(R). However, at September 30, 2008 and December 31, 2007, we had an interest in one Structured Transaction that did not fall within the scope of this exception and in which we had a significant variable interest. Our involvement in this one Structured Transaction began in 2002. The size of the Structured Transaction at September 30, 2008 and December 31, 2007 as measured in total assets, was $36 million and $40 million, respectively. For the same dates, our maximum exposure to loss on this transaction was $33 million and $37 million, respectively, consisting of the book value of our investments plus incremental guarantees of the senior interests that are held by third parties. NOTE 4: SECURITIES HELD IN OUR RETAINED PORTFOLIO AND CASH AND INVESTMENTS PORTFOLIO Table 4.1 summarizes amortized cost, estimated fair values and corresponding gross unrealized gains and gross unrealized losses for available-for-sale securities by major security type. Table 4.1 -- Available-For-Sale Securities

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in millions)			
September 30, 2008				
Retained portfolio:				
Mortgage-related securities:				
Freddie Mac	$ 277,099	$ 1,632	$ (3,977)	$ 274,754
Subprime	77,486	3	(13,555)	63,934
Commercial mortgage-backed securities	64,383	1	(7,339)	57,045
Alt-A and other	38,675	7	(8,856)	29,826
Fannie Mae.	40,194	243	(471)	39,966
Obligations of state and political subdivisions	13,072	8	(1,635)	11,445
Manufactured housing	1,030	73	(58)	1,045
Ginnie Mae	381	18	(1)	398
Total mortgage-related securities	512,320	1,985	(35,892)	478,413
Cash and investments portfolio:				
Non-mortgage-related securities:				
Asset-backed securities	10,407	3	--	10,410
Total non-mortgage-related securities	10,407	3	--	10,410
Total available-for-sale securities	$ 522,727	$ 1,988	$ (35,892)	$ 488,823
December 31, 2007				
Retained portfolio:				
Mortgage-related securities:				
Freddie Mac	$ 346,569	$ 2,981	$ (2,583)	$ 346,967
Subprime	101,278	12	(8,584)	92,706
Commercial mortgage-backed securities	64,965	515	(681)	64,799
Alt-A and other	51,456	15	(2,543)	48,928
Fannie Mae	45,688	513	(344)	45,857
Obligations of state and political subdivisions	14,783	146	(351)	14,578
Manufactured housing	1,149	131	(12)	1,268
Ginnie Mae	545	19	(2)	562
Total mortgage-related securities	626,433	4,332	(15,100)	615,665
Cash and investments portfolio:				
Non-mortgage-related securities:				
Asset-backed securities	16,644	25	(81)	16,588
Commercial paper	18,513	--	--	18,513
Total non-mortgage-related securities	35,157	25	(81)	35,101
Total available-for-sale securities	$ 661,590	$ 4,357	$ (15,181)	$ 650,766

Other-Than-Temporary Impairments Our evaluation of unrealized losses on our available-for-sale portfolio for other-than-temporary impairment contemplates numerous factors. We performed an evaluation on a security-by-security basis considering all available information. Important factors include the length of time and extent to which the fair value of the security has been less than book value; the impact of changes in credit ratings (i.e., rating agency downgrades); our intent and ability to retain the security in order to allow for a recovery in fair value; and an analysis of the performance of the underlying collateral relative to its credit

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enhancements using techniques that require assumptions about future default, prepayment and borrower behavior. The impairment analysis identified securities backed by subprime and Alt-A and other loans, including MTA loans, with $21.7 billion of unpaid principal balance for which it was probable that we would not recover all of our contractual principal and interest due to a significant recent and sustained deterioration in the performance of the underlying collateral of these securities, considerably more pessimistic expectations around future performance due to the unprecedented deterioration in economic conditions since the second quarter, and decreased confidence in the credit enhancements related to two monoline bond insurers where we have determined that it is both probable a principal and interest shortfall will occur on the insured securities and that in such a case, there is substantial uncertainty surrounding the insurer's ability to pay all future claims. We rely on monoline bond insurance, including secondary coverage, to provide credit protection on some of our securities held in our mortgage-related investment portfolio as well as our non-mortgage-related investment portfolio. Monolines are companies that provide credit insurance principally covering securitized assets in both the primary issuance and secondary markets. Accordingly, we recorded other-than-temporary security impairments on securities backed by subprime and Alt-A loans, including MTA loans, of $8.9 billion and $9.7 billion for the three and nine months ended September 30, 2008. The recent deterioration has not impacted our ability and intent to hold these securities. We estimate that the future expected principal and interest shortfall on these securities will be significantly less than the impairment loss required to be recorded under GAAP. The portion of the other-than-temporary impairment charges associated with these expected recoveries will be accreted back through net interest income in future periods. We also recognized impairment charges of $244 million and $458 million for the three and nine months ended September 30, 2008 related to our short-term available-for-sale non-mortgage-related securities, as management could no longer assert the positive intent to hold these securities to recovery. The decision to impair these securities is consistent with our consideration of sales of securities from the cash and investments portfolio as a contingent source of liquidity. We recorded security impairments on available-for-sale securities for the three and nine months ended September 30, 2007 of $1 million and $351 million, respectively. Table 4.2 shows the fair value of available-for-sale securities as of September 30, 2008 and December 31, 2007 that have been in a gross unrealized loss position less than 12 months or greater than 12 months. Table 4.2 -- Available-For-Sale Securities in a Gross Unrealized Loss Position

	Less than 12 months		12 months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
			(in millions)			
September 30, 2008						
Retained portfolio:						
Mortgage-related securities:						
Freddie Mac	$ 130,561	$ (1,777)	$ 44,243	$ (2,200)	$ 174,804	$ (3,977)
Subprime	6,084	(1,677)	54,697	(11,878)	60,781	(13,555)
Commercial mortgage-backed securities	30,765	(4,290)	26,204	(3,049)	56,969	(7,339)
Alt-A and other	3,601	(1,320)	16,352	(7,536)	19,953	(8,856)
Fannie Mae	20,961	(220)	7,269	(251)	28,230	(471)
Obligations of state and political subdivisions	5,790	(513)	4,990	(1,122)	10,780	(1,635)
Manufactured housing	553	(50)	36	(8)	589	(58)
Ginnie Mae	51	(1)	1	--	52	(1)
Total mortgage-related securities	198,366	(9,848)	153,792	(26,044)	352,158	(35,892)
Total	$ 198,366	$ (9,848)	$ 153,792	$ (26,044)	$ 352,158	$ (35,892)

available-for-sale securities in a gross unrealized loss position						
December 31, 2007						
Retained portfolio:						
Mortgage-related securities:						
Freddie Mac	$ 22,546	$ (254)	$ 135,966	$ (2,329)	$ 158,512	$ (2,583)
Subprime	87,004	(8,021)	5,213	(563)	92,217	(8,584)
Commercial mortgage-backed securities	8,652	(154)	26,207	(527)	34,859	(681)
Alt-A and other	33,509	(2,029)	14,525	(514)	48,034	(2,543)
Fannie Mae	4,728	(17)	15,214	(327)	19,942	(344)
Obligations of state and political subdivisions	7,735	(264)	1,286	(87)	9,021	(351)
Manufactured housing	435	(11)	24	(1)	459	(12)
Ginnie Mae	2	--	74	(2)	76	(2)
Total mortgage-related securities	164,611	(10,750)	198,509	(4,350)	363,120	(15,100)
Cash and investments portfolio:						
Non-mortgage-related securities:						
Asset-backed securities	8,236	(63)	3,222	(18)	11,458	(81)
Total non-mortgage-related securities	8,236	(63)	3,222	(18)	11,458	(81)
Total available-for-sale securities in a gross unrealized loss position	$ 172,847	$ (10,813)	$ 201,731	$ (4,368)	$ 374,578	$ (15,181)

At September 30, 2008, our gross unrealized losses on available-for-sale mortgage-related securities were $35.9 billion. Included in these losses are gross unrealized losses of $29.8 billion related to non-agency mortgage-related securities backed

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by subprime, Alt-A and other loans and commercial mortgage-backed securities. Approximately 84% of our non-agency mortgage-related securities backed by subprime, Alt-A and other loans and commercial mortgage-backed securities were investment grade (i.e., rated BBBW22; or better on a Standard & Poor's or equivalent scale) at November 10, 2008. We believe that these unrealized losses on non-agency mortgage-related securities as of September 30, 2008, were principally a result of decreased liquidity and larger risk premiums in the non-agency mortgage market. While it is possible that under certain conditions, defaults and severity of losses on these securities could exceed our subordination and credit enhancement levels and a principal and interest loss could occur, we do not believe that those conditions are probable at September 30, 2008. As a result of our reviews, we have not identified any securities in our available-for-sale portfolio that are probable of incurring a contractual principal or interest loss. Based on our ability and intent to hold our available-for-sale securities for a sufficient time to recover all unrealized losses and our consideration of all available information, we have concluded that, other than the securities for which impairment has already been recorded, the reduction in fair value of these securities is temporary at September 30, 2008. Table 4.3 below illustrates the gross realized gains and gross realized losses from the sale of available-for-sale securities. Table 4.3 -- Gross Realized Gains and Gross Realized Losses on Available-For-Sale Securities

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(in millions)			
Retained portfolio:				
Mortgage-related securities:				
Obligations of states and political subdivisions	$ 7	--	$ 74	--
Freddie Mac	223	320	415	432
Fannie Mae	58	--	67	--
Commercial mortgage-backed securities	--	--	--	3
Subprime	--	4	--	4
Manufactured Housing	--	11	--	11
Total mortgage-related securities gross realized gains	288	335	556	450
Cash and investments portfolio:				
Non-mortgage-related securities:				
Asset-backed securities	1	--	1	--
Obligations of state and political subdivisions	--	--	--	1
Total non-mortgage-related securities gross realized gains	1	--	1	1
Gross realized gains	289	335	557	451
Retained portfolio:				
Mortgage-related securities:				
Obligations of states and political subdivisions	--	--	(4)	--
Freddie Mac	(1)	(55)	(12)	(372)
Fannie Mae	(1)	--	(1)	(9)
Total mortgage-related securities gross realized losses	(2)	(55)	(17)	(381)
Cash and investments portfolio:				
Non-mortgage-related securities:				
Asset-backed securities	--	(52)	--	(57)
Total non-mortgage-related securities gross realized losses	--	(52)	--	(57)
Gross realized losses	(2)	(107)	(17)	(438)
Net realized gains (losses)	$ 287	$ 228	$ 540	$ 13

Table 4.4 presents the changes in AOCI, net of taxes, related to available-for-sale securities. The net unrealized holding (losses), net of tax, represents the net fair value adjustments recorded on available-for-sale securities throughout the period, after the effects of our federal statutory tax rate of 35%. The net reclassification adjustment for realized losses, net of tax, represents the amount of those fair value adjustments, after the effects of our federal statutory tax rate of 35%, that have been recognized in earnings due to the sale of an available-for-sale security or the recognition of an other-than-temporary impairment loss.

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Table 4.4 -- AOCI, Net of Taxes, Related to Available-For-Sale Securities

	Nine Months Ended September 30, 2008	2007
	(in millions)	
Beginning balance	$ (7,040)	$ (3,332)
Adjustment to initially apply SFAS 159(1)	(854)	--
Net unrealized holding (losses), net of tax(2)	(20,434)	(1,687)
Net reclassification adjustment for realized losses, net of tax(3)(4)	6,291	218
Ending balance	$ (22,037)	$ (4,801)

(1) Net of tax benefit of $460 million for the nine months ended September 30, 2008.
(2) Net of tax benefit of $11.0 billion and $908 million for the nine months ended September 30, 2008 and 2007, respectively.
(3) Net of tax benefit of $3.4 billion and $117 million for the nine months ended September 30, 2008 and 2007, respectively.
(4) Includes the reversal of previously recorded unrealized losses that have been recognized on our consolidated statement of income as impairment losses on available-for-sale securities of $6.6 billion and $226 million, net of tax, for the nine months ended September 30, 2008 and 2007, respectively.

Table 4.5 summarizes the estimated fair values by major security type for trading securities held in our retained portfolio. Table 4.5 -- Trading Securities in our Retained Portfolio

	September 30, 2008	December 31, 2007
	(in millions)	
Mortgage-related securities issued by:		
Freddie Mac	$ 100,484	$ 12,216
Fannie Mae	17,267	1,697
Ginnie Mae	197	175
Other	54	1
Total trading securities in our retained portfolio	$ 118,002	$ 14,089

For the three months ended September 30, 2008 and 2007, we recorded net unrealized gains (losses) on trading securities held at September 30, 2008 and 2007 of $(976) million and $257 million, respectively. For the nine months ended September 30, 2008 and 2007, we recorded net unrealized gains (losses) on trading securities held at September 30, 2008 and 2007 of $(1.5) billion and $302 million, respectively. Total trading securities in our retained portfolio include $3.7 billion and $4.2 billion of SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments and amendment of FASB Statement No. 133 and 140," or SFAS 155, related assets as of September 30, 2008 and December 31, 2007, respectively. Gains (losses) on trading securities include losses of $(80) million and $(104) million, respectively, related to these SFAS 155 trading securities for the three and nine months ended September 30, 2008. Gains (losses) on trading securities include gains of $209 million and $110 million related to these SFAS 155 trading securities for the three and nine months ended September 30, 2007, respectively. Impact of the Purchase Agreement on the Retained Portfolio Under the Purchase Agreement, our retained mortgage and mortgage-backed securities portfolio as of December 31, 2009 may not exceed $850 billion, and must decline by 10% per year thereafter until it reaches $250 billion. Retained Portfolio Voluntary Growth Limit As of March 1, 2008, we are no longer subject to the voluntary growth limit on our retained portfolio of 2% annually. Collateral Pledged Collateral Pledged to Freddie Mac Our counterparties are required to pledge collateral for reverse repurchase transactions and most derivative transactions subject to collateral posting thresholds generally related to a counterparty's credit rating. Although it is our practice not to repledge assets held as collateral, a portion of the collateral may be repledged based on master agreements related to our derivative transactions. At September 30, 2008 and December 31, 2007, we did not have collateral in the form of securities pledged to and held by us under interest-rate swap agreements. Collateral Pledged by Freddie Mac We are also required to pledge collateral for margin requirements with third-party custodians in connection with secured financings, interest-rate swap agreements, futures and daily trade activities with some counterparties. The level of collateral pledged related to our interest-rate swap agreements is determined after giving consideration to our credit rating. As of September 30, 2008, we had two uncommitted intraday lines of credit with third parties, both of which are secured, in connection with the Federal Reserve Board's revised payments system risk policy, which restricts or eliminates daylight overdrafts by the GSEs in connection with our use of the Fedwire system. In certain limited circumstances, the line of credit agreements give the secured parties the right to repledge the securities underlying our financing to other third parties, including the Federal Reserve Bank. See "NOTE 7: DEBT SECURITIES AND SUBORDINATED BORROWINGS --

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Lending Agreement" for a discussion of our GSE Credit Facility. We pledge collateral to meet these requirements upon a demand by the respective counterparty. Table 4.6 summarizes all securities pledged as collateral by us, including assets that the secured party may repledge and those that may not be repledged. Table 4.6 -- Collateral in the Form of Securities Pledged

	September 30, 2008	December 31, 2007
	(in millions)	
Securities pledged with ability for secured party to repledge		
Available-for-sale	$ 22,659	$ 17,010
Securities pledged without ability for secured party to repledge		
Available-for-sale	437	793
Total securities pledged	$ 23,096	$ 17,803

NOTE 5: MORTGAGE LOANS AND LOAN LOSS RESERVES We own both single-family mortgage loans, which are secured by one-to-four family residential properties, and multifamily mortgage loans, which are secured by properties with five or more residential rental units. Table 5.1 summarizes the types of loans within our retained mortgage loan portfolio at September 30, 2008 and December 31, 2007. These balances do not include mortgage loans underlying our guaranteed PCs and Structured Securities, since these are not consolidated on our balance sheets. See "NOTE 2: FINANCIAL GUARANTEES AND SECURITIZED INTERESTS IN MORTGAGE-RELATED ASSETS" for information on our securitized mortgage loans. Table 5.1 -- Mortgage Loans within the Retained Portfolio

	September 30, 2008	December 31, 2007
	(in millions)	
Single-family(1):		
Conventional		
Fixed-rate	$ 29,108	$ 20,707
Adjustable-rate	1,586	2,700
Total conventional	30,694	23,407
FHA/VA -- Fixed-rate	480	311

Rural Housing Service and other federally guaranteed loans	832	871
Total single-family	32,006	24,589
Multifamily(1):		
Conventional		
Fixed-rate	63,074	53,111
Adjustable-rate	5,229	4,455
Total conventional	68,303	57,566
Rural Housing Service	3	3
Total multifamily	68,306	57,569
Total unpaid principal balance of mortgage loans	100,312	82,158
Deferred fees, unamortized premiums, discounts and other cost basis adjustments	(1,625)	(1,868)
Lower of cost or market adjustments on loans held-for-sale	(25)	(2)
Allowance for loan losses on loans held-for-investment	(459)	(256)
Total mortgage loans, net of allowance for loan losses	$ 98,203	$ 80,032

(1) Based on unpaid principal balances and excluding mortgage loans traded, but not yet settled.

For the nine months ended September 30, 2008 and 2007, we transferred $-- million and $40 million, respectively, of held-for-sale mortgage loans to held-for-investment. Loan Loss Reserves We maintain an allowance for loan losses on mortgage loans in our retained portfolio that we classify as held-for-investment and a reserve for guarantee losses associated with mortgage loans that underlie our guaranteed PCs and Structured Securities, collectively referred to as loan loss reserves. For loans subject to Statement of Position No. 03-3, "Accounting for Certain Loans or Debt Securities Acquired in a Transfer," or SOP 03-3, loan loss reserves are only established when it becomes probable that we will be unable to collect all cash flows which we expected to collect when we acquired the loan. Our allowance for loan losses held-for-investment related to single-family and multifamily mortgage loans was $383 million and $76 million, respectively, as of September 30, 2008. The amount of our total loan loss reserves that related to single-family and multifamily mortgage loans was $10.1 billion and $87 million, respectively, as of September 30, 2008.

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Table 5.2 summarizes loan loss reserve activity during the periods presented.
Table 5.2 -- Detail of Loan Loss Reserves

	Three Months Ended September 30,					
	2008			2007		
	Allowance for Loan Losses	Reserve for Guarantee Losses	Total Loan Loss Reserves	Allowance for Loan Losses	Reserve for Guarantee Losses	Total Loan Loss Reserves
	(in millions)					
Beginning balance	$ 468	$ 5,345	$ 5,813	$ 118	$ 1,020	$ 1,138

Provision for credit losses	44	5,658	5,702	138	1,234	1,372
Charge-offs(1)(2)	(112)	(985)	(1,097)	(92)	(3)	(95)
Recoveries(1)	59	177	236	61	--	61
Transfers, net(3)	--	(434)	(434)	--	(164)	(164)
Ending balance	$ 459	$ 9,761	$ 10,220	$ 225	$ 2,087	$ 2,312

	Nine Months Ended September 30,					
	2008			2007		
	Allowance for Loan Losses	Reserve for Guarantee Losses	Total Loan Loss Reserves	Allowance for Loan Losses	Reserve for Guarantee Losses	Total Loan Loss Reserves
	(in millions)					
Beginning balance	$ 256	$ 2,566	$ 2,822	$ 69	$ 550	$ 619
Provision for credit losses	339	9,140	9,479	253	1,814	2,067
Charge-offs(1)(2)	(351)	(1,672)	(2,023)	(258)	(3)	(261)
Recoveries(1)	215	333	548	161	--	161
Transfers, net(3)	--	(606)	(606)	--	(274)	(274)
Ending balance	$ 459	$ 9,761	$ 10,220	$ 225	$ 2,087	$ 2,312

(1) Charge-offs related to retained mortgages represent the amount of the unpaid principal balance of a loan that has been discharged using the reserve balance to remove the loan from our retained portfolio at the time of resolution. Charge-offs exclude $81 million and $41 million for the three months ended September 30, 2008 and 2007, respectively, and $332 million and $82 million for the nine months ended September 30, 2008 and 2007, respectively, related to certain loans purchased under financial guarantees and reflected within losses on loans purchased on our consolidated statements of income. Recoveries of charge-offs primarily result from foreclosure alternatives and Real Estate Owned, or REO, acquisitions on loans where a share of default risk has been assumed by mortgage insurers, servicers or other third parties through credit enhancements.

(2) Effective December 2007, we no longer automatically purchase loans from PC pools once they become 120 days delinquent, but rather, we purchase and effectively liquidate the loans from PCs when: (a) the loans are modified; (b) foreclosure sales occur; (c) the loans have been delinquent for 24 months; or (d) the loans have been 120 days delinquent and the cost of guarantee payments to PC holders, including advances of interest at the PC coupon, exceeds the expected cost of holding the nonperforming mortgage in our retained portfolio. Consequently, the increase in charge-offs in PCs and Structured Securities during the three and nine months ended September 30, 2008, as compared to the three and nine months ended September 30, 2007, respectively, is due to this operational change under which loans proceed to a loss event (upon a foreclosure sale) while in a PC pool.

(3) Consist primarily of: (a) the transfer of a proportional amount of the recognized reserves for guaranteed losses related to PC pools associated with non-performing loans purchased from mortgage pools underlying our PCs, Structured Securities and long-term standby agreements to establish the initial recorded investment in these loans at the date of our purchase and (b) amounts attributable to uncollectible interest on PCs and Structured Securities in our retained portfolio.

Impaired Loans Single-family impaired loans include performing and non-performing loan modifications, as well as delinquent or modified loans that were purchased from mortgage pools underlying our PCs and Structured Securities and long-term standby agreements. Multifamily impaired loans include loans whose contractual terms have previously been modified due to credit concerns (including troubled debt restructurings), certain loans with observable collateral deficiencies, and loans impaired based on management's judgments concerning other known facts and circumstances associated with those loans.

Recorded investment on impaired loans includes the unpaid principal balance plus amortized basis adjustments, which are modifications to the loans' carrying values. Single-family mortgage loans are aggregated based on similar risk characteristics and measured for impairment using the present value of the future expected cash flows. Multifamily loans are measured individually for impairment based on the fair value of the underlying collateral as the repayment of these loans is generally provided from the cash flows of the underlying collateral. Total loan loss reserves, as presented in "Table 5.2 -- Detail of Loan Loss Reserves," consists of a specific valuation allowance related to impaired mortgage loans, which is presented in Table 5.3, and an additional reserve for other probable incurred losses, which totaled $10.1 billion and $2.8 billion at September 30, 2008 and December 31, 2007, respectively. Our recorded investment in impaired mortgage loans and the related valuation allowance are summarized in Table 5.3. The specific allowance presented in Table 5.3 is determined using estimates of the fair value of the underlying collateral and insurance or other recoveries, less estimated selling costs.

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Table 5.3 -- Impaired Loans

	September 30, 2008			December 31, 2007		
	Recorded Investment	Specific Reserve	Net Investment	Recorded Investment	Specific Reserve	Net Investment
	(in millions)					
Impaired loans having:						
Related valuation allowance	$ 943	$ (83)	$ 860	$ 155	$ (13)	$ 142
No related valuation allowance(1)	7,439	--	7,439	8,579	--	8,579
Total	$ 8,382	$ (83)	$ 8,299	$ 8,734	$ (13)	$ 8,721

(1) Primarily represent performing single-family troubled debt restructuring loans and those delinquent loans purchased out of PC pools that have not been impaired subsequent to acquisition.

The average investment in impaired loans was $8.1 billion and $7.5 billion for the nine months ended September 30, 2008 and for the year ended December 31, 2007, respectively. Interest income foregone on impaired loans was approximately $58 million and $74 million for the nine months ended September 30, 2008 and 2007, respectively. Loans Acquired under Financial Guarantees We have the option under our PC agreements to purchase mortgage loans from the loan pools that underlie our guarantees under certain circumstances to resolve an existing or impending delinquency or default. Prior to December 2007, our practice was to automatically purchase the mortgage loans when the loans were significantly past due, generally after 120 days of delinquency. Effective December 2007, our practice is to purchase and effectively liquidate the loans from pools when: (a) the loans are modified; (b) foreclosure sales occur; (c) the loans have been delinquent for 24 months; or (d) the loans have been 120 days delinquent and the cost of guarantee payments to PC holders, including advances of interest at the PC coupon, exceeds the expected cost of holding the nonperforming mortgage in our retained portfolio. Loans purchased from PC pools that underlie our guarantees or that are covered by our standby commitments are recorded at the lesser of their initial investment or the loans' fair value. Our estimate of the fair value of delinquent loans purchased from pools is determined by obtaining indicative market prices from large, experienced dealers and using an average of these market prices to estimate the initial fair value. We recognize losses on loans purchased in our consolidated statements of income when, upon purchase, the fair value is less than the acquisition cost of the loan. At September 30, 2008 and 2007, the unpaid principal balances of mortgage loans in our retained portfolio acquired under financial guarantees were $6.7 billion and $6.1 billion, respectively, while the carrying amounts of these loans were $5.1 billion and $4.9 billion, respectively. We account for loans acquired in accordance with SOP 03-3 if, at acquisition, the loans have credit deterioration and we do not consider it probable that we will collect all contractual cash flows from the borrowers without significant delay. We concluded that all loans acquired under financial guarantees during all periods presented met this criterion. Table 5.4 provides details on impaired loans acquired under financial guarantees and accounted for in accordance with SOP 03-3. Table 5.4 -- Loans Acquired Under Financial Guarantees

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(in millions)			
Contractual principal and interest payments at acquisition	$ 1,491	$ 2,883	$ 2,875	$ 6,900
Non-accretable difference	(109)	(166)	(180)	(312)
Cash flows expected to be collected at acquisition	1,382	2,717	2,695	6,588
Accretable balance	(519)	(896)	(931)	(1,717)
Initial investment in acquired loans at acquisition	$ 863	$ 1,821	$ 1,764	$ 4,871

The excess of contractual principal and interest over the undiscounted amount of cash flows we expect to collect represents a non-accretable difference that is neither accreted to interest income nor displayed on the consolidated balance sheets. The amount that may be accreted into interest income on such loans is limited to the excess of our estimate of undiscounted expected principal, interest and other cash flows from the loan over our initial investment in the loan. We consider estimated prepayments when calculating the accretable balance and the non-accretable difference. While these loans are seriously delinquent, no amounts are accreted to interest income. Subsequent changes in estimated future cash flows to be collected related to interest-rate changes are recognized prospectively in interest income over the remaining contractual life of the loan. We increase our allowance for loan losses if there is a decline in estimates of future cash flows collections due to further credit deterioration. Subsequent to acquisition, we recognized an increase in provision for credit losses related to these loans of $50 million and $11 million for the three months ended September 30, 2008 and 2007, respectively, and $55 million and $13 million for the nine months ended September 30, 2008 and 2007, respectively.

Table 5.5 provides changes in the accretable balance of loans acquired under financial guarantees and accounted for in accordance with SOP 03-3. Table 5.5

-- Changes in Accretable Balance

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(in millions)			
Beginning balance	$ 2,211	$ 1,124	$ 2,407	$ 510
Additions from new acquisitions	519	896	931	1,717
Accretion during the period	(91)	(59)	(259)	(124)
Reductions(1)	(85)	(125)	(430)	(233)
Change in estimated cash flows(2)	(1)	30	105	67
Reclassifications (to) or from nonaccretable difference(3)	(267)	(76)	(468)	(147)
Ending balance	$ 2,286	$ 1,790	$ 2,286	$ 1,790

(1) Represent the recapture of losses previously recognized due to borrower repayment or foreclosure on the loan.
(2) Represents the change in expected cash flows due to troubled debt restructurings or changes in the prepayment assumptions of the related loans.
(3) Represent the change in expected cash flows due to changes in credit quality or credit assumptions.

Delinquency Rates Table 5.6 summarizes the delinquency performance for our total mortgage portfolio, excluding non-Freddie Mac mortgage-related securities and that portion of Structured Securities backed by Ginnie Mae Certificates.
Table 5.6 -- Delinquency Performance

	September 30, 2008	December 31, 2007
Delinquencies:		
Single-family:(1)		
Non-credit-enhanced portfolio(2)		
Delinquency rate	0.87%	0.45%
Total number of delinquent loans	88,786	44,948
Credit-enhanced portfolio(2)		
Delinquency rate	2.75%	1.62%
Total number of delinquent loans	62,729	34,621
Total portfolio(2)		
Delinquency rate	1.22%	0.65%
Total number of delinquent loans	151,515	79,569
Structured Transactions(3):		
Delinquency rate	6.28%	9.86%
Total number of delinquent loans	16,292	14,122
Total single-family:		
Delinquency rate	1.32%	0.76%
Total number of delinquent loans	167,807	93,691
Multifamily:		
Total portfolio		
Delinquency rate(4)	0.04%	0.01%
Net carrying value of delinquent loans (in millions)	$ 30	$ 10

(1) Based on the number of mortgages 90 days or more delinquent as well as those in the process of foreclosure. Delinquencies on mortgage loans underlying certain Structured Securities, long-term standby commitments and Structured Transactions may be reported on a different schedule due to

variances in industry practice.
(2) Excluding Structured Transactions.
(3) Structured Transactions generally have underlying mortgage loans with a variety of risk characteristics but may provide inherent credit protections from losses due to underlying subordination, excess interest, overcollateralization and other features.
(4) Multifamily delinquency performance is based on net carrying value of mortgages 90 days or more delinquent rather than on a unit basis and includes multifamily Structured Transactions, which were approximately 1% of our total multifamily portfolio at both September 30, 2008 and December 31, 2007, respectively. Prior period delinquency rate has been revised to conform to the current period presentation.

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NOTE 6: REAL ESTATE OWNED For periods presented below, the weighted average holding period for our disposed properties was less than one year. Table 6.1 provides a summary of our REO activity. Table 6.1 -- REO

	Three Months Ended September 30,					
	2008			2007		
	REO, Gross	Valuation Allowance	REO, Net	REO, Gross	Valuation Allowance	REO, Net
	(in millions)					
Beginning balance	$ 3,213	$ (633)	$ 2,580	$ 1,180	$ (160)	$ 1,020
Additions	2,235	(137)	2,098	775	(46)	729
Dispositions and write-downs	(1,365)	(89)	(1,454)	(423)	(5)	(428)
Ending balance	$ 4,083	$ (859)	$ 3,224	$ 1,532	$ (211)	$ 1,321
	Nine Months Ended September 30,					
	2008			2007		
	REO, Gross	Valuation Allowance	REO, Net	REO, Gross	Valuation Allowance	REO, Net
	(in millions)					
Beginning balance	$ 2,067	$ (331)	$ 1,736	$ 871	$ (128)	$ 743
Additions	5,375	(327)	5,048	1,841	(110)	1,731
Dispositions and write-downs	(3,359)	(201)	(3,560)	(1,180)	27	(1,153)
Ending balance	$ 4,083	$ (859)	$ 3,224	$ 1,532	$ (211)	$ 1,321

We recognized losses of $191 million and $30 million for the three months ended September 30, 2008 and 2007, respectively, and $483 million and $63 million for the nine months ended September 30, 2008 and 2007, respectively, on single-family REO dispositions, which are included in REO operations expense. The number of single-family property additions to our REO inventory increased by 169% and 146% for the three and nine months ended September 30, 2008, compared to the three and nine months ended September 30, 2007. Increases in our single-family REO acquisitions have been most significant in the North Central, West and Southeast regions. The West region represents approximately 30% of the new acquisitions during the nine months ended September 30, 2008, based on the number of units, and the highest concentration in the West region is in the state of California. At September 30, 2008, our REO inventory in California represented approximately 30% of our total REO inventory. We increased our valuation allowance for single-family REO by $172 million and $404 million for the three and nine months ended September 30, 2008, to account for declines in home prices during these periods. NOTE 7: DEBT SECURITIES AND SUBORDINATED BORROWINGS The Purchase Agreement provides that, without the prior consent of Treasury, we may not increase our indebtedness (as defined in the Purchase Agreement) to more than 110% of our total indebtedness at June 30, 2008 nor may we become liable for any subordinated indebtedness. The Purchase Agreement defines indebtedness as follows:

(a) all obligations for money borrowed;
(b) all obligations evidenced by bonds, debentures, notes or similar instruments;
(c) all obligations under conditional sale or other title retention agreements relating to property or assets purchased;
(d) all obligations issued or assumed as the deferred purchase price of property or services, other than trade accounts payable;
(e) all capital lease obligations;
(f) obligations, whether contingent or liquidated, in respect of letters of credit (including standby and commercial), bankers' acceptances and similar instruments; and
(g) any obligation, contingent or otherwise, guaranteeing or having the economic effect of guaranteeing any indebtedness of the types set forth in items (a) through (f) payable by us other than mortgage guarantee obligations.

Based on our interpretation of this definition, we estimate that the balance of our indebtedness at September 30, 2008 did not exceed 110% of the balance of indebtedness at June 30, 2008.

Debt securities are classified as either short-term or long-term debt based on their remaining contractual maturity. Table 7.1 summarizes the balances and effective rates for debt securities and subordinated borrowings. Table 7.1 -- Total Debt Securities

	September 30, 2008			December 31, 2007		
	Par Value	Balance, Net(1)	Effective Rate(2)	Par Value	Balance, Net(1)	Effective Rate(2)
	(dollars in millions)					
Short-term debt:						
Reference Bills(R) securities and discount notes	$ 210,705	$ 209,604	2.49%	$ 198,323	$ 196,426	4.52%
Medium-term notes	12,025	12,025	2.51	1,175	1,175	4.36
Securities sold under agreements to repurchase and federal funds purchased	1,500	1,500	2.50	--	--	--
Short-term	224,230	223,129	2.49	199,498	197,601	4.52

debt securities						
Current portion of long-term debt	96,542	96,512	4.36	98,432	98,320	4.44
Short-term debt	320,772	319,641	3.06	297,930	295,921	4.49
Long-term debt:						
Senior debt(3)	489,384	459,808	4.67	478,547	438,147	5.24
Subordinated debt(4)	4,784	4,501	5.58	4,784	4,489	5.84
Long-term debt	494,168	464,309	4.68	483,331	442,636	5.25
Total debt securities	$ 814,940	$ 783,950		$ 781,261	$ 738,557	

(1) Represents par value, net of associated discounts, premiums and hedging-related basis adjustments, with $2.0 billion of current portion of long-term debt and $11.8 billion of long-term debt, that represents the fair value of foreign-currency denominated debt in accordance with SFAS 159 at September 30, 2008.
(2) Represents the weighted average effective rate that remains constant over the life of the instrument, which includes the amortization of discounts or premiums and issuance costs. 2008 also includes the amortization of hedging-related basis adjustments.
(3) Balance, net for senior debt includes callable debt of $210.1 billion and $202.0 billion at September 30, 2008 and December 31, 2007, respectively.
(4) Balance, net for subordinated debt includes callable debt of $-- at both September 30, 2008 and December 31, 2007.

For the three and nine months ended September 30, 2008, we recognized fair value gains (losses) of $1.5 billion and $684 million on our foreign-currency denominated debt, respectively, of which $1.7 billion and $539 million are gains (losses) related to our net foreign-currency translation, respectively. See "NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES" for additional information regarding our adoption of SFAS 159. Lines of Credit We periodically use intraday lines of credit with third parties to provide additional liquidity to fund our intraday activities through the Fedwire system in connection with the Federal Reserve Board's revised payments system risk policy, which restricts or eliminates daylight overdrafts by GSEs, including us. At September 30, 2008 and December 31, 2007, we had two secured, uncommitted lines of credit totaling $17 billion, respectively. No amounts were drawn on these lines of credit at September 30, 2008 and December 31, 2007, respectively. We expect to continue to use these facilities from time to time to satisfy our intraday financing needs; however, since the lines are uncommitted, we may not be able to draw on them if and when needed. Lending Agreement On September 18, 2008, we entered into the Lending Agreement with Treasury under which we may request loans until December 31, 2009. Loans under the Lending Agreement require approval from Treasury at the time of request. Treasury is not obligated under the Lending Agreement to make, increase, renew or extend any loan to us. The Lending Agreement does not specify a maximum amount that may be borrowed thereunder, but any loans made to us by Treasury pursuant to the Lending Agreement must be collateralized by Freddie Mac or Fannie Mae mortgage-backed securities. As of September 30, 2008, we held approximately $410 billion of fair value in Freddie Mac and Fannie Mae mortgage-backed securities available to be pledged as collateral. In addition, as of that date, we held another approximately $32 billion in single-family loans in our mortgage portfolio that could be securitized into Freddie Mac mortgage-backed securities and then pledged as collateral under the Lending

Agreement. Treasury may assign a reduced value to mortgage-backed securities we provide as collateral under the Lending Agreement, which would reduce the amount we are able to borrow from Treasury under the Lending Agreement. Further, unless amended or waived by Treasury, the amount we may borrow under the Lending Agreement is limited by the restriction under the Purchase Agreement on incurring debt in excess of 110% of our aggregate indebtedness as of June 30, 2008. The Lending Agreement does not specify the maturities or interest rate of loans that may be made by Treasury under the credit facility. In a Fact Sheet regarding the credit facility published by Treasury on September 7, 2008, Treasury indicated that loans made pursuant to the credit facility will be for short-term durations and would in general be expected to be for less than one month but no shorter than one week. The Fact Sheet further indicated that the interest rate on loans made pursuant to the credit facility ordinarily will be based on the daily London Interbank Offered Rate, or LIBOR, fix for a similar term of the loan plus 50 basis points. Given that the interest rate we are likely to be charged under the credit facility will be significantly higher than the rates we have historically achieved through the sale of unsecured debt, use of the facility

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in significant amounts could have a material adverse impact on our financial results. No amounts were borrowed under this facility as of September 30, 2008.

Subordinated Debt Interest and Principal Payments In a September 23, 2008 statement concerning the conservatorship, the Director of FHFA stated that we would continue to make interest and principal payments on our subordinated debt, even if we fail to maintain required capital levels. As a result, the terms of any of our subordinated debt that provide for us to defer payments of interest under certain circumstances, including our failure to maintain specified capital levels, are no longer applicable.

NOTE 8: STOCKHOLDERS' EQUITY (DEFICIT) Purchase Agreement On September 7, 2008, we, through FHFA, in its capacity as Conservator, and Treasury entered into the Purchase Agreement. The Purchase Agreement was subsequently amended and restated on September 26, 2008. Pursuant to the Purchase Agreement, we agreed to issue to Treasury one million shares of senior preferred stock with an initial liquidation preference equal to $1,000 per share (for an aggregate liquidation preference of $1 billion), and a warrant for the purchase of our common stock. The terms of the senior preferred stock and warrant are summarized in separate sections below. We did not receive any cash proceeds from Treasury as a result of issuing the senior preferred stock or the warrant. The senior preferred stock and warrant were sold and issued to Treasury as an initial commitment fee in consideration of the commitment from Treasury to provide up to $100 billion in funds to us under the terms and conditions set forth in the Purchase Agreement. In addition to the issuance of the senior preferred stock and warrant, beginning on March 31, 2010, we are required to pay a quarterly commitment fee to Treasury. This quarterly commitment fee will accrue from January 1, 2010. The fee, in an amount to be mutually agreed upon by us and Treasury and to be determined with reference to the market value of Treasury's funding commitment as then in effect, will be determined on or before December 31, 2009, and will be reset every five years. Treasury may waive the quarterly commitment fee for up to one year at a time, in its sole discretion, based on adverse conditions in the U.S. mortgage market. We may elect to pay the quarterly commitment fee in cash or add the amount of the fee to the liquidation preference of the senior preferred stock. The Purchase Agreement provides that, on a quarterly basis, we generally may draw funds up to the amount, if any, by which our total liabilities exceed our total assets, as reflected on our GAAP balance sheet for the applicable fiscal quarter (referred to as the deficiency amount), provided that the aggregate amount funded under the Purchase Agreement may not exceed $100 billion. The Purchase Agreement provides that the deficiency amount will be calculated differently if we become subject to receivership or other liquidation process. The deficiency amount may be increased above the otherwise applicable amount upon our mutual written agreement with Treasury. In addition, if the Director of FHFA determines that the Director will be mandated by law to appoint a receiver for us unless our capital is increased by receiving funds under the commitment in an amount up to the deficiency amount (subject to the $100 billion maximum amount that may be funded under the agreement), then FHFA, in its capacity as our Conservator, may request that Treasury provide funds to us in such amount. The Purchase Agreement also provides that, if we have a deficiency amount as of the date of completion of the liquidation of our assets, we may request funds from Treasury in an amount up to the deficiency amount (subject to the $100 billion maximum amount that may be funded under the agreement). Any amounts that we draw under the Purchase Agreement will be added to the liquidation preference of the senior preferred stock. No additional shares of senior preferred stock are required to be issued under the Purchase Agreement. Issuance of Senior Preferred Stock Pursuant to the Purchase Agreement described above, we issued one million shares of senior preferred stock to Treasury on September 8, 2008. The senior preferred stock was issued to Treasury in partial consideration of Treasury's commitment to provide up to $100 billion in funds to us under the terms set forth in the Purchase Agreement. Shares of the senior preferred stock have no par value, and have a stated value and initial liquidation preference equal to $1,000 per share. The liquidation preference of the senior preferred stock is subject to adjustment. Dividends that are not paid in cash for any dividend period will accrue and be added to the liquidation preference of the senior preferred stock. In addition, any amounts Treasury pays to us pursuant to its funding commitment under the Purchase Agreement and any quarterly commitment fees that are not paid in cash to Treasury or waived by Treasury will be added to the liquidation preference of the senior preferred stock. As described below, we may make payments to reduce the liquidation preference of the senior preferred stock. Holders of the senior preferred stock are entitled to receive, when, as and if declared by our Board of Directors, cumulative quarterly cash dividends at the annual rate of 10% per year on the then-current liquidation preference of the senior preferred stock. The initial dividend, if declared, will be payable on December 31, 2008 and will be for the period from but not including September 8, 2008 through and including December 31, 2008. If at any time we fail to pay cash dividends in a timely manner, then immediately following such failure and for all dividend periods thereafter until the

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dividend period following the date on which we have paid in cash full cumulative dividends (including any unpaid dividends added to the liquidation preference), the dividend rate will be 12% per year. The senior preferred stock ranks ahead of our common stock and all other outstanding series of our preferred stock, as well as any capital stock we issue in the future, as to both dividends and rights upon liquidation. The senior preferred stock provides that we may not, at any time, declare or pay dividends on, make distributions with respect to, or redeem, purchase or acquire, or make a liquidation payment with respect to, any common stock or other securities ranking junior to the senior preferred stock unless: (1) full cumulative dividends on the outstanding senior preferred stock (including any unpaid dividends added to the liquidation preference) have been declared and paid in cash; and (2) all amounts required to be paid with the net proceeds of any issuance of capital stock for cash (as described in the following paragraph) have been paid in cash. Shares of the senior preferred stock are not convertible. Shares of the senior preferred stock have no general or special voting rights, other than those set forth in the certificate of designation for the senior preferred stock or otherwise required by law. The consent of holders of at least two-thirds of all outstanding shares of senior preferred stock is generally required to amend the terms of the senior preferred stock or to create any class or series of stock that ranks prior to or on parity with the senior preferred stock. We are not permitted to redeem the senior preferred stock prior to the termination of Treasury's funding commitment set forth in the Purchase Agreement; however, we are permitted to pay down the liquidation preference of the outstanding shares of senior preferred stock to the extent of (1) accrued and unpaid dividends previously added to the liquidation preference and not previously paid down; and (2) quarterly commitment fees previously added to the liquidation preference and not previously paid down. In addition, if we issue any shares of capital stock for cash while the senior preferred stock is outstanding, the net proceeds of the issuance must be used to pay down the liquidation preference of the senior preferred stock; however, the liquidation preference of each share of senior preferred stock may not be paid down below $1,000 per share prior to the termination of Treasury's funding commitment. Following the termination of Treasury's funding commitment, we may pay down the liquidation preference of all outstanding shares of senior preferred stock at any time, in whole or in part. If, after termination of Treasury's funding commitment, we pay down the liquidation preference of each outstanding share of senior preferred stock in full, the shares will be deemed to have been redeemed as of the payment date. Issuance of Common Stock Warrant Pursuant to the Purchase Agreement described above, on September 7, 2008, we, through FHFA, in its capacity as Conservator, issued a warrant to purchase common stock to Treasury. The warrant was issued to Treasury in partial consideration of Treasury's commitment to provide up to $100 billion in funds to us under the terms set forth in the Purchase Agreement. The warrant gives Treasury the right to purchase shares of our common stock equal to 79.9% of the total number of shares of our common stock outstanding on a fully diluted basis on the date of exercise. The warrant may be exercised in whole or in part at any time on or before September 7, 2028, by delivery to us of: (a) a notice of exercise; (b) payment of the exercise price of $0.00001 per share; and (c) the warrant. If the market price of one share of our common stock is greater than the exercise price, then, instead of paying the exercise price, Treasury may elect to receive shares equal to the value of the warrant (or portion thereof being canceled) pursuant to the formula specified in the warrant. Upon exercise of the warrant, Treasury may assign the right to receive the shares of common stock issuable upon exercise to any other person. Purchase Agreement Covenants The Purchase Agreement provides that, until the senior preferred stock is repaid or redeemed in full, we may not, without the prior written consent of Treasury:

ù Declare or pay any dividend (preferred or otherwise) or make any other distribution with respect to any Freddie Mac equity securities (other than with respect to the senior preferred stock or warrant);
ù Redeem, purchase, retire or otherwise acquire any Freddie Mac equity securities (other than the senior preferred stock or warrant);
ù Sell or issue any Freddie Mac equity securities (other than the senior preferred stock, the warrant and the common stock issuable upon exercise of the warrant and other than as required by the terms of any binding agreement in effect on the date of the Purchase Agreement);
ù Terminate the conservatorship (other than in connection with a receivership);
ù Sell, transfer, lease or otherwise dispose of any assets, other than dispositions for fair market value: (a) to a limited life regulated entity (in the context of a receivership); (b) of assets and properties in the ordinary course of business, consistent with past practice; (c) in connection with our liquidation by a receiver; (d) of cash or cash equivalents for cash or cash equivalents; or (e) to the extent necessary to comply with the covenant described below relating to the reduction of our portfolio of retained mortgages and mortgage-backed securities beginning in 2010;

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ù Incur indebtedness that would result in our aggregate indebtedness exceeding 110% of our aggregate indebtedness as of June 30, 2008;
ù Issue any subordinated debt;
ù Enter into a corporate reorganization, recapitalization, merger, acquisition or similar event; or
ù Engage in transactions with affiliates unless the transaction is (a) pursuant to the Purchase Agreement, the senior preferred stock or the warrant, (b) upon arm's length terms or (c) a transaction undertaken in the ordinary course or pursuant to a contractual obligation or customary employment arrangement in existence on the date of the Purchase Agreement.

The Purchase Agreement also provides that we may not own mortgage assets in excess of: (a) $850 billion on December 31, 2009; or (b) on December 31 of each year thereafter, 90% of the aggregate amount of our mortgage assets as of December 31 of the immediately preceding calendar year, provided that we are not required to own less than $250 billion in mortgage assets. In addition, the Purchase Agreement provides that we may not enter into any new compensation arrangements or increase amounts or benefits payable under existing compensation arrangements of any named executive officer (as defined by SEC rules) without the consent of the Director of FHFA, in consultation with the Secretary of the Treasury. We are required under the Purchase Agreement to provide annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K to Treasury in accordance with the time periods specified in the SEC's rules. In addition, our designated representative (which, during the conservatorship, is the Conservator) is required to provide quarterly certifications to Treasury certifying compliance with the covenants contained in the Purchase Agreement and the accuracy of the representations made pursuant to the agreement. We also are obligated to provide prompt notice to Treasury of the occurrence of specified events, such as the filing of a lawsuit that would reasonably be expected to have a material adverse effect. Warrant Covenants The warrant we issued to Treasury includes, among others, the following covenants: our SEC filings under the Exchange Act will comply in all material respects as to form with the Exchange Act and the rules and regulations thereunder; we may not permit any of our significant subsidiaries to issue capital stock or equity securities, or securities convertible into or exchangeable for such securities, or any stock appreciation rights or other profit participation rights; we may not take any action that will result in an increase in the par value of our common stock; we may not take any action to avoid the observance or performance of the terms of the warrant and we must take all actions necessary or appropriate to protect Treasury's rights against impairment or dilution; and we must provide Treasury with prior notice of specified actions relating to our common stock, such as setting a record date for a dividend payment granting subscription or purchase rights, authorizing a recapitalization, reclassification, merger or similar transaction, commencing a liquidation of the company or any other action that would trigger an adjustment in the exercise price or number or amount of shares subject to the warrant. Termination Provisions The Purchase Agreement provides that the Treasury's funding commitment will terminate under any the following circumstances: (1) the completion of our liquidation and fulfillment of Treasury's obligations under its funding commitment at that time; (2) the payment in full of, or reasonable provision for, all of our liabilities (whether or not contingent, including mortgage guarantee obligations); and (3) the funding by Treasury of $100 billion under the Purchase Agreement. In addition, Treasury may terminate its funding commitment and declare the Purchase Agreement null and void if a court vacates, modifies, amends, conditions, enjoins, stays or otherwise affects the appointment of the Conservator or otherwise curtails the Conservator's powers. Treasury may not terminate its funding commitment under the agreement solely by reason of our being in conservatorship, receivership or other insolvency proceeding, or due to our financial condition or any adverse change in our financial condition. Waivers and Amendments The Purchase Agreement provides that most provisions of the agreement may be waived or amended by mutual written agreement of the parties; however, no waiver or amendment of the agreement is permitted that would decrease Treasury's aggregate funding commitment or add conditions to Treasury's funding commitment if the waiver or amendment would adversely affect in any material respect the holders of our debt securities or Freddie Mac mortgage guarantee obligations. Third-party Enforcement Rights In the event of our default on payments with respect to our debt securities or Freddie Mac mortgage guarantee obligations, if Treasury fails to perform its obligations under its funding commitment and if we and/or the Conservator are not diligently pursuing remedies in respect of that failure, the holders of these debt securities or Freddie Mac mortgage guarantee obligations may file a claim in the United States Court of Federal Claims for relief requiring Treasury to fund to

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us the lesser of: (1) the amount necessary to cure the payment defaults on our debt and Freddie Mac mortgage guarantee obligations; and (2) the lesser of: (a) the deficiency amount; and (b) $100 billion less the aggregate amount of funding previously provided under the commitment. Any payment that Treasury makes under those circumstances will be treated for all purposes as a draw under the Purchase Agreement that will increase the liquidation preference of the senior preferred stock. Dividends Declared During 2008 On March 7, 2008 and June 6, 2008, our board of directors declared a quarterly dividend on our common stock of $0.25 per share and dividends on our preferred stock consistent with the contractual rates and terms shown in "ITEM 13. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA -- AUDITED CONSOLIDATED FINANCIAL STATEMENTS AND ACCOMPANYING NOTES -- NOTE 8: STOCKHOLDERS' EQUITY -- Table 8.1 -- Preferred Stock" in our Registration Statement. No common or preferred stock dividends were declared in the three months ended September 30, 2008, since dividends on our common stock and preferred stock (other than the senior preferred stock) have been eliminated by FHFA. NOTE 9: REGULATORY CAPITAL On October 9, 2008, FHFA announced that it was suspending capital classification of us during conservatorship in light of the Purchase Agreement. Concurrent with this announcement, FHFA classified us as undercapitalized as of June 30, 2008 based on discretionary authority provided by statute. FHFA noted that although our capital calculations as of June 30, 2008 reflected that we met the statutory and FHFA-directed requirements for capital, the continued market downturn in July and August of 2008 raised significant questions about the sufficiency of our capital. Factors cited by FHFA leading to the downgrade in our capital classification and the need for conservatorship included (a) our accelerated safety and soundness weaknesses, especially with regard to our credit risk, earnings outlook and capitalization, (b) continued and substantial deterioration in equity, debt and mortgage-related securities market conditions, (c) our current and projected financial performance, (d) our inability to raise capital or issue debt according to normal practices and prices, (e) our critical importance in supporting the U.S. residential mortgage markets and (f) concerns over the proportion of intangible assets as part of our core capital. FHFA will continue to closely monitor our capital levels, but the existing statutory and FHFA-directed regulatory capital requirements will not be binding during conservatorship. We will continue to provide our regular submissions to FHFA on both minimum and risk-based capital. FHFA will publish relevant capital figures (minimum capital requirement, core capital, and GAAP net worth) but does not intend to publish our critical capital, risk-based capital or subordinated debt levels during conservatorship. Additionally, FHFA announced it will engage in rule-making to revise our minimum capital and risk-based capital requirements. Table 9.1 summarizes our minimum capital requirements and surpluses, as well as our stockholders' equity position and net worth. Table 9.1 -- Stockholders' Equity (Deficit), Net Worth and Capital

	September 30, 2008	December 31, 2007
	(in millions)	
GAAP stockholders' equity (deficit)(1)	$ (13,795)	$ 26,724
GAAP net worth(1)	$ (13,700)	$ 26,900
Core capital(2),(3)	$ 10,839	$ 37,867
Minimum capital requirement(2)	27,147	26,473
Minimum capital surplus (deficit)(2)	$ (16,308)	$ 11,394

(1) Net worth represents the difference between our assets and liabilities under GAAP. Net worth is substantially the same as stockholders' equity (deficit); however, net worth also includes the minority interests that third parties own in our consolidated subsidiaries, which totaled $95 million at September 30, 2008.
(2) Core capital and minimum capital figures for September 30, 2008 represent Freddie Mac estimates. FHFA is the authoritative source for our regulatory capital.
(3) The liquidation preference of the senior preferred stock is not included in core capital as of September 30, 2008 because the senior preferred does not meet the statutory definition of core capital given the cumulative dividends. The $1 billion decrease to additional-paid-in capital to record the initial senior preferred stock issued to Treasury is reflected as a reduction to core capital as of September 30, 2008.

FHFA has directed us to focus our risk and capital management on maintaining a positive balance of GAAP stockholders' equity while returning to long-term profitability. FHFA is directing us to manage to a positive stockholders' equity position in order to reduce the likelihood that we will need to make a draw on the Purchase Agreement with Treasury. The Purchase Agreement provides that, if FHFA determines as of quarter end that our liabilities have exceeded our assets under GAAP, Treasury will contribute funds to us in an amount equal to the difference between such liabilities and assets; a higher amount may be drawn if Treasury and Freddie Mac mutually agree that the draw should be increased beyond the level by which liabilities exceed assets under GAAP. The maximum aggregate amount that may be funded under the Purchase Agreement is $100 billion. At September 30, 2008, our liabilities exceeded our assets under GAAP while our stockholders' equity (deficit) totaled $(13.8) billion. The Director of FHFA has submitted a request under the Purchase Agreement in the amount of $13.8 billion to Treasury. We expect to receive such funds by November 29, 2008. If the Director of FHFA were to determine in writing that our assets are, and have been for a period of 60 days, less than our obligations to creditors and

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others, FHFA would be required to place us into receivership. If this were to occur, we would be required to obtain funding from Treasury pursuant to its commitment under the Purchase Agreement in order to avoid a mandatory trigger of receivership under the Reform Act. NOTE 10: DERIVATIVES We use derivatives to conduct our risk management activities. We principally use the following types of derivatives:

ù LIBOR- and Euro Interbank Offered Rate, or Euribor-, based interest-rate swaps;
ù LIBOR- and Treasury-based options (including swaptions);
ù LIBOR- and Treasury-based exchange-traded futures; and
ù Foreign-currency swaps.

Our derivative portfolio also includes certain purchase and sale commitments and other contractual agreements, including credit derivatives and swap guarantee derivatives in which we guarantee the sponsor's or the borrower's performance as a counterparty on certain interest-rate swaps. In the first quarter of 2008, we began designating certain derivative positions as cash flow hedges of changes in cash flows associated with our forecasted issuances of debt consistent with our risk management goals. In the periods presented prior to 2008, we only elected cash flow hedge accounting relationships for certain commitments to sell mortgage-related securities. We expanded this hedge accounting strategy in an effort to reduce volatility in our consolidated statements of income. For a derivative accounted for as a cash flow hedge, changes in fair value were reported in AOCI, net of taxes, on our consolidated balance sheets to the extent the hedge was effective. The ineffective portion of changes in fair value is reported as other income on our consolidated statements of income. However, in conjunction with the conservatorship on September 6, 2008, we determined that we can no longer assert that the associated forecasted issuances of debt are probable of occurring and as a result, we discontinued this hedge accounting strategy. While we can no longer assert that the associated forecasted issuances of debt are probable of occurring, we are also unable to assert that the forecasted issuances of debt are probable of not occurring, therefore the previous deferred amounts related to these hedges remain in our AOCI balance. This amount will be recognized into earnings over the expected time period for which the originally forecasted debt were to impact earnings. Any subsequent changes in fair value of those derivative instruments are included in derivative gains (losses) on our consolidated statements of income. As a result of this discontinued hedge accounting strategy, we transferred $27.6 billion in notional amount and $(488) million in market value from open cash-flow hedges to closed cash-flow hedges on September 6, 2008. During the three and nine months ended September 30, 2008, we recognized hedge ineffectiveness gains (losses) related to cash flow hedges of $(20) million and $(16) million, respectively, on our consolidated statements of income. During the three and nine months ended September 30, 2007, we did not recognize any hedge ineffectiveness gains (losses) related to cash flow hedges on our consolidated statements of income. No amounts were excluded from the assessment of hedge effectiveness. We record changes in the fair value of derivatives not in hedge accounting relationships as derivative gains (losses) on our consolidated statements of income. Any associated interest received or paid from derivatives not in hedge accounting relationships is recognized on an accrual basis and also recorded in derivative gains (losses) on our consolidated statements of income. Interest received or paid from derivatives in qualifying cash flow hedges is recognized on an accrual basis and is recorded in net interest income on our consolidated statements of income. The carrying value of our derivatives on our consolidated balance sheets is equal to their fair value, including net derivative interest receivable or payable, net trade/settle receivable or payable and is net of cash collateral held or posted, where allowable by a master netting agreement. Derivatives in a net asset position are reported as derivative assets, net. Similarly, derivatives in a net liability position are reported as derivative liabilities, net. Cash collateral we obtained from counterparties to derivative contracts that has been offset against derivative assets, net at September 30, 2008 and December 31, 2007 was $5.5 billion and $6.5 billion, respectively. Cash collateral we posted to counterparties to derivative contracts that has been offset against derivative liabilities, net at September 30, 2008 and December 31, 2007 was $615 million and $344 million, respectively. At September 30, 2008 and December 31, 2007, there were no amounts of cash collateral that were not offset against derivative assets, net or derivative liabilities, net, as applicable. As shown in Table 10.1 the total AOCI, net of taxes, related to derivatives designated as cash flow hedges was a loss of $3.6 billion and $4.3 billion at September 30, 2008 and 2007, respectively, composed mainly of deferred net losses on closed cash flow hedges. Net change in fair value related to cash flow hedging activities, net of tax, represents the net change in the fair value of the derivatives that were designated as cash flow hedges, after the effects of our federal statutory tax rate of 35%, to the extent the hedges were effective. Net reclassifications of losses to earnings, net of tax, represents the AOCI amount, after the effects of our federal statutory tax rate of 35% and our deferred tax asset valuation allowance, that was recognized in earnings as the originally hedged forecasted transactions affected earnings, unless it was deemed probable that

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the forecasted transaction would not occur. If it is probable that the forecasted transaction will not occur, then the deferred gain or loss associated with the hedge related to the forecasted transaction would be reclassified into earnings immediately. For additional information on our deferred tax asset valuation allowance see "NOTE 12: INCOME TAXES." Over the next 12 months, we estimate that approximately $796 million, net of taxes, of the $3.6 billion of cash flow hedging losses in AOCI, net of taxes, at September 30, 2008 will be reclassified into earnings. The maximum remaining length of time over which we have hedged the exposure related to the variability in future cash flows on forecasted transactions, primarily forecasted debt issuances, is 25 years. However, over 70% and 90% of AOCI, net of taxes, relating to closed cash flow hedges at September 30, 2008, will be reclassified to earnings over the next five and ten years, respectively. Table 10.1 -- AOCI, Net of Taxes, Related to Cash Flow Hedge Relationships

	Nine Months Ended September 30,	
	2008	2007
	(in millions)	
Beginning balance(1)	$ (4,059)	$ (5,032)
Adjustment to initially apply SFAS 159(2)	4	--
Net change in fair value related to cash flow hedging activities, net of tax(3)	(356)	(18)
Net reclassifications of losses to earnings and other, net of tax(4)	857	742
Ending balance(1)	$ (3,554)	$ (4,308)

(1) Represents the effective portion of the fair value of open derivative contracts (i.e., net unrealized gains and losses) and net deferred gains and losses on closed (i.e., terminated or redesignated) cash flow hedges.
(2) Net of tax benefit of $-- for the nine months ended September 30, 2008.
(3) Net of tax benefit of $190 million and $10 million for the nine months ended September 30, 2008 and 2007, respectively.
(4) Net of tax benefit of $366 million and $400 million for the nine months ended September 30, 2008 and 2007, respectively. For the nine months ended September 30, 2008, also includes $177 million increase due to our deferred tax asset valuation allowance adjustment.

NOTE 11: LEGAL CONTINGENCIES We are involved as a party to a variety of legal proceedings arising from time to time in the ordinary course of business including, among other things, contractual disputes, personal injury claims, employment-related litigation and other legal proceedings incidental to our business. We are frequently involved, directly or indirectly, in litigation involving mortgage foreclosures. From time to time, we are also involved in proceedings arising from our termination of a seller/servicer's eligibility to sell mortgages to, and/or service mortgages for us. In these cases, the former seller/servicer sometimes seeks damages against us for wrongful termination under a variety of legal theories. In addition, we are sometimes sued in connection with the origination or servicing of mortgages. These suits typically involve claims alleging wrongful actions of seller/servicers. Our contracts with our seller/servicers generally provide for indemnification against liability arising from their wrongful actions. Litigation and claims resolution are subject to many uncertainties and are not susceptible to accurate prediction. In accordance with SFAS No. 5, "Accounting for Contingencies," or SFAS 5, we reserve for litigation claims and assessments asserted or threatened against us when a loss is probable and the amount of the loss can be reasonably estimated. Putative Securities Class Action Lawsuits. Reimer vs. Freddie Mac, Syron, Cook, Piszel and McQuade ("Reimer") and Ohio Public Employees Retirement System vs. Freddie Mac, Syron, et al ("OPERS"). Two virtually identical putative securities class action lawsuits were filed against Freddie Mac and certain of our current and former officers alleging that the defendants violated federal securities laws by making "false and misleading statements concerning our business, risk management and the procedures we put into place to protect the company from problems in the mortgage industry." Reimer was filed on November 21, 2007 in the U.S. District Court for the Southern District of New York and OPERS was filed on January 18, 2008 in the U.S. District Court for the Northern District of Ohio. On March 10, 2008, the Court in Reimer granted the plaintiff's request to voluntarily dismiss the case, and the case was dismissed. In OPERS, on April 10, 2008, the court appointed OPERS as lead plaintiff and approved its choice of counsel. On September 2, 2008, defendants filed a motion to dismiss plaintiff's amended complaint, which purportedly asserted claims on behalf of a class of purchasers of Company stock between August 1, 2006 and November 20, 2007. On October 27, 2008, the plaintiff filed a motion for leave to file a second amended complaint, which removes insider-trading allegations against Syron, Piszel, and McQuade, thereby leaving insider-trading allegations against only Cook. The proposed second amended complaint also seeks to extend the damages period, but not the class period, to allow the plaintiff to rely on statements made leading up to and following FHFA's appointment as Conservator. The plaintiff is seeking unspecified damages and interest, and reasonable costs and expenses, including attorney and expert fees. At present, it is not possible to predict the probable outcome of the OPERS lawsuit or any potential impact on our business, financial condition, or results of operations. Kuriakose vs. Freddie Mac, Syron, Piszel and Cook. Another putative class action lawsuit was filed against Freddie Mac and certain current and former officers on August 15, 2008 in the United States District Court for the Southern District of New York for alleged violations of federal securities laws purportedly on behalf of a class of purchasers of Company stock from November 21, 2007 through August 5, 2008. The plaintiff claims that defendants made false and misleading

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statements about Freddie Mac's business that artificially inflated the price of Freddie Mac's common stock, and seeks unspecified damages, costs, and attorneys' fees. At present, it is not possible to predict the probable outcome of the lawsuit or any potential impact on our business, financial condition, or results of operations. Shareholder Demand Letters. In late 2007 and early

2008, the board of directors received three letters from purported shareholders of Freddie Mac, which together contain allegations of corporate mismanagement and breaches of fiduciary duty in connection with the company's risk management, alleged false and misleading financial disclosures, and the alleged sale of stock based on material non-public information by certain officers and directors. One letter demands that the board commence an independent investigation into the alleged conduct, institute legal proceedings to recover damages from the responsible individuals, and implement corporate governance initiatives to ensure that the alleged problems do not recur. The second letter demands that Freddie Mac commence legal proceedings to recover damages from responsible board members, senior officers, Freddie Mac's outside auditors, and other parties who allegedly aided or abetted the improper conduct. The third letter demands relief similar to that of the second letter, as well as recovery for unjust enrichment. The board of directors formed a Special Litigation Committee (SLC) to investigate the purported shareholders' allegations, and the investigation commenced and is pending. Pursuant to the conservatorship, FHFA, as the Conservator, has succeeded to the powers of the board of directors, including the power to conduct investigations such as the one conducted by the SLC of the prior board. FHFA is currently reviewing the status of these cases. Shareholder Derivative Lawsuits. A shareholder derivative complaint, purportedly on behalf of Freddie Mac, was filed on March 10, 2008, in the U.S. District Court for the Southern District of New York against certain current and former officers and directors of Freddie Mac and a number of third parties. An amended complaint was filed on August 21, 2008. The complaint, which was filed by Robert Bassman, an individual who had submitted a shareholder demand letter to the board of directors in late 2007, alleges breach of fiduciary duty, negligence, violations of the Sarbanes-Oxley Act of 2002 and unjust enrichment in connection with various alleged business and risk management failures. It also alleges "insider selling" and false assurances by the company regarding our financial exposure in the subprime financing market, our risk management and our internal controls. The plaintiff seeks unspecified damages, declaratory relief, an accounting, injunctive relief, disgorgement, punitive damages, attorneys' fees, interest and costs. On June 16, 2008, we filed a motion to transfer the case to the Eastern District of Virginia, or alternatively to stay the case pending the completion of the investigation of plaintiff's allegations by the Special Litigation Committee appointed by the board of directors. On August 8, 2008, the plaintiff filed a motion to consolidate the case with the Sadowsky derivative action discussed below, and requested that Robert Bassman be named as the lead plaintiff in the consolidated case. The plaintiff in Sadowsky has opposed this motion. At present, it is not possible to predict the probable outcome of the lawsuit or any potential impact on our business, financial condition or results of operations. A second shareholder derivative complaint, purportedly on behalf of Freddie Mac, was filed on June 6, 2008, in the U.S. District Court for the Southern District of New York against certain current and former Freddie Mac officers and directors by Esther Sadowsky Testamentary Trust, which had submitted a shareholder demand letter to the board of directors in late 2007. The complaint alleges that defendants caused the company to violate its charter by engaging in "unsafe, unsound and improper speculation in high risk mortgages to boost near term profits, report growth in the company's retained portfolio and guarantee business, and take market share away from its primary competitor, Fannie Mae." Plaintiff asserts claims for alleged breach of fiduciary duty and declaratory and injunctive relief. Among other things, plaintiff also seeks an accounting, an order requiring that defendants remit all salary and compensation received during the periods they allegedly breached their duties, and an award of pre-judgment and post-judgment interest, attorneys' fees, expert fees and consulting fees, and other costs and expenses. On August 8, 2008, the plaintiff in the Bassman derivative action filed a motion to consolidate the Bassman case with this case, which the plaintiff in this case has opposed. At present, it is not possible to predict the probable outcome of the lawsuit or any potential impact on our business, financial condition or results of operations. In addition, on July 24, 2008, The Adams Family Trust and Kevin Tashjian filed a purported derivative lawsuit in the U.S. District Court for the Eastern District of Virginia against certain current and former officers and directors of Freddie Mac, with Freddie Mac named as a nominal defendant in the action. The Adams Family Trust and Kevin Tashjian had previously sent a derivative demand letter to the board of directors on March 26, 2008 requesting that it commence legal proceedings against senior management and certain directors to recover damages for their alleged wrongdoing. Similar to the two other shareholder derivative actions described above, this complaint alleges that the defendants breached their fiduciary duties by failing to implement and/or maintain sufficient risk management and other controls; failing to adequately reserve for uncollectible loans and other risks of loss; and making false and misleading statements regarding the company's exposure to the sub-prime market, the strength of the company's risk management and internal controls, and the company's underwriting standards in response to alleged abuses in the sub-prime industry. The plaintiffs also allege that current and former officers and directors breached their fiduciary duties and unjustly enriched themselves through their sale of stock based on material non-public information. On October 15, 2008, the Court entered an order consolidating the case with the

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Louisiana Municipal Police Employees Retirement System ("LMPERS") case discussed below. On October 24, 2008, a motion was filed to have LMPERS appointed lead plaintiff. On October 31, 2008, FHFA filed a motion to intervene in its capacity as the Conservator. In that capacity, FHFA also filed a motion to stay all proceedings for a period of 90 days. At present, it is not possible to predict the probable outcome of the lawsuit or any potential impact on our business, financial condition or results of operations. On August 15, 2008, a fourth purported shareholder derivative lawsuit was filed by the Louisiana Municipal Police Employees Retirement System in the U.S. District Court for the Eastern District of Virginia against certain current and former officers and directors of Freddie Mac. The plaintiff alleges that the defendants breached their fiduciary duties and violated federal securities laws in connection with the company's recent losses, including by unjustly enriching themselves with salaries, bonuses, benefits and other compensation, and through their sale of stock based on material non-public information. The plaintiff seeks unspecified damages, constructive trusts on proceeds associated with insider trading and improper payments made to defendants, restitution and disgorgement, an order requiring reform and improvement of corporate governance, costs and attorneys' fees. On October 15, 2008, the Court entered an order consolidating the Adams Family Trust case with this case. At present, it is not possible to predict the probable outcome of the lawsuit or any potential impact on our business, financial condition or results of operations. Antitrust Lawsuits. Consolidated lawsuits were filed against Fannie Mae and Freddie Mac in the U.S. District Court for the District of Columbia, originally filed on January 10, 2005, alleging that both companies conspired to establish and maintain artificially high management and guarantee fees. The complaint covers the period January 1, 2001 to the present and asserts a variety of claims under federal and state antitrust laws, as well as claims under consumer-protection and similar state laws. The plaintiffs seek injunctive relief, unspecified damages (including treble damages with respect to the antitrust claims and punitive damages with respect to some of the state claims) and other forms of relief. We filed a motion to dismiss the action in October 2005. On October 29, 2008, the Court entered an Order granting in part and denying in part our motion to dismiss. Discovery has not yet commenced in the case, and no trial date has been set. At present, it is not possible for us to predict the probable outcome of the consolidated lawsuit or any potential impact on our business, financial condition or results of operations. The New York Attorney General's Investigation. In connection with the New York Attorney General's suit filed against eAppraiseIT and its parent corporation, First American, alleging appraisal fraud in connection with loans originated by Washington Mutual, in November 2007, the New York Attorney General demanded that we either retain an independent examiner to investigate our mortgage purchases from Washington Mutual supported by appraisals conducted by eAppraiseIT, or immediately cease and desist from purchasing or securitizing Washington Mutual loans and any loans supported by eAppraiseIT appraisals. We also received a subpoena from the New York Attorney General's office for information regarding appraisals and property valuations as they relate to our mortgage purchases and securitizations from January 1, 2004 to the present. In March 2008, OFHEO, the New York Attorney General and Freddie Mac reached a settlement in which we agreed to adopt a Home Valuation Protection Code, effective January 1, 2009, to enhance appraiser independence. In addition, we agreed to provide funding for an Independent Valuation Protection Institute. From March 14, 2008 through April 30, 2008, market participants were afforded the opportunity to comment on the implementation and deployment of the Code. We have reviewed and summarized the comments received, which were submitted to and discussed with OFHEO. Under the terms of the agreement, OFHEO (now FHFA), the New York Attorney General and Freddie Mac are reviewing the comments in good faith and will consider any amendments to the Code necessary to avoid any unforeseen consequences. The Director of FHFA has indicated that the January 1, 2009 implementation date will not be effective in light of the ongoing negotiations. Government Investigations and Inquiries. On September 26, 2008, Freddie Mac received a federal grand jury subpoena from the U.S. Attorney's Office for the Southern District of New York. The subpoena sought documents relating to accounting, disclosure and corporate governance matters for the period January 1, 2007 to the present. Subsequently, we were informed that the subpoena was withdrawn, and that an investigation is being conducted by the U.S. Attorney's Office for the Eastern District of Virginia. On September 26, 2008, Freddie Mac received notice from the Staff of the Enforcement Division of the U.S. Securities and Exchange Commission that it is also conducting an inquiry, and directing the company to preserve documents. On October 21, 2008, the SEC issued to the company a request for documents. Freddie Mac will cooperate fully in these matters. By letter dated October 20, 2008, Freddie Mac received a request from the Committee on Oversight and Government Reform of the House of Representatives for documents to assist the Committee in preparing for a hearing, scheduled for later this year, on "the financial collapse of Freddie Mac and {Fannie Mae}, their takeover by the federal government, and their role in the ongoing financial crisis." Freddie Mac will cooperate fully in this matter. Indemnification Request. By letter dated October 17, 2008, Freddie Mac received formal notification of a putative class action securities lawsuit, Mark v. Goldman, Sachs & Co., J.P. Morgan Chase & Co., and Citigroup Global Markets Inc., filed on September 23, 2008, in the U.S. District Court for the Southern District of New York, regarding the

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company's November 29, 2007 public offering of 8.735% Fixed to Floating Rate Non-Cumulative Perpetual Preferred Stock. The plaintiff filed suit against the underwriters claiming that the Offering Circular was materially false in its failure to disclose and properly warn of Freddie Mac's exposure to "massive mortgage-related losses"; its underwriting and risk-management deficiencies; its undercapitalization; and its imminent insolvency. The underwriters gave notice to Freddie Mac of their intention to seek full indemnity and contribution under the Underwriting Agreement, including reimbursement of fees and disbursements of their legal counsel. At present, it is not possible for us to predict the probable outcome of the lawsuit or any potential impact on our business, financial condition or results of operations. Lehman Bankruptcy. On September 15, 2008, Lehman filed a chapter 11 bankruptcy petition in the Bankruptcy Court for the Southern District of New York. Thereafter, virtually all of Lehman's U.S. subsidiaries and affiliates also filed bankruptcy petitions (collectively, the "Lehman Entities"). Freddie Mac has numerous relationships with the Lehman Entities and affiliates, which give rise to various claims that Freddie Mac is and will be pursuing against them. NOTE 12: INCOME TAXES For the nine months ended September 30, 2008 and 2007, we reported an income tax (expense) benefit of $(6.5) billion and $1.3 billion, respectively, representing effective tax rates of (33)% and 66%, respectively. Our effective tax rate was different from the statutory rate of 35% primarily due to our investments in LIHTC partnerships, interest earned on tax-exempt housing-related securities, and the establishment of a $14.1 billion valuation allowance against a portion of our net deferred tax assets in the three months ended September 30, 2008. Deferred Tax Asset Table 12.1 -- Deferred Tax Assets

	September 30, 2008	Adjust for Valuation Allowance	Adjusted September 30, 2008	December 31, 2007
	(dollars in millions)			
Deferred tax assets:				
Deferred fees	$ 2,279	$ (2,279)	--	$ 2,210
Basis differences related to derivative instruments	2,422	(2,422)	--	1,586
Credit-related items and reserve for loan losses	4,738	(4,738)	--	1,854
Basis differences related to assets held for investment	4,471	(4,471)	--	838
Unrealized (gains) losses related to available-for-sale debt securities	11,866	--	11,866	3,791
Other items, net	158	(158)	--	25
Total deferred tax asset	$ 25,934	$ (14,068)	$ 11,866	$ 10,304

We use the asset and liability method of accounting for income taxes pursuant to SFAS 109, "Accounting for Income Taxes." Under this method, deferred tax assets and liabilities are recognized based upon the expected future tax consequences of existing temporary differences between the financial reporting and the tax reporting basis of assets and liabilities using enacted statutory tax rates. Valuation allowances are recorded to reduce net deferred tax assets when it is more likely than not that a tax benefit will not be realized. The realization of our net deferred tax assets is dependent upon the generation of sufficient taxable income or upon our intent and ability to hold available-for-sale debt securities until the recovery of any temporary unrealized losses. On a quarterly basis, our management determines whether a valuation allowance is necessary. In so doing, our management considers all evidence currently available, both positive and negative, in determining whether, based on the weight of that evidence, the net deferred tax asset will be realized and whether a valuation allowance is necessary. Recent events, including those described in "NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- Conservatorship," fundamentally affect our control, management and operations and are likely to affect our future financial condition and results of operations. These events have resulted in a variety of uncertainties regarding our future operations, our business objectives and strategies and our future profitability, the impact of which cannot be reliably forecasted at this time. In evaluating our need for a valuation allowance, we considered all of the events and evidence discussed above, in addition to: (1) our three-year cumulative loss position; (2) our carryback and carryforward availability; (3) our difficulty in predicting potential unsettled circumstances; and (4) our intent and ability to hold available-for sale securities. Based upon a thorough evaluation of all available evidence, we determined that it was more likely than not that a portion of our deferred tax assets would not be realized due to our inability to generate sufficient taxable income. This determination was as a result of the events and developments that occurred during the third quarter of 2008 related to the conservatorship of the company, other recent events in the market, and our difficulty in forecasting future profit levels on a continuing basis. As a result, in the third quarter of 2008, we recorded a $14.1 billion partial valuation allowance against our net deferred tax assets of $25.9 billion. After the valuation allowance, we had a net deferred tax asset of $11.9 billion representing the tax effect of unrealized losses on our available-for-sale debt securities, which management believes is more likely than not of being realized because of our intent and ability to hold these securities until the unrealized losses are recovered.

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At September 30, 2008, we are not in a net operating loss carryforward or tax credit carryforward position. However, we expect that our ability to use all of the tax credits generated by existing or future investments in LIHTC partnerships to reduce our federal income tax liability may be limited by the alternative minimum tax in the future. Unrecognized Tax Benefits At September 30, 2008, we had total unrecognized tax benefits, exclusive of interest, of $551 million. Included in the $551 million are $2 million of unrecognized tax benefits that, if recognized, would favorably affect our effective tax rate. The unrecognized tax benefits changed from $637 million at December 31, 2007 to $551 million at September 30, 2008, primarily due to a settlement with the IRS as discussed below. The settlement had a favorable impact on our effective tax rate. The remaining $549 million of unrecognized tax benefits at September 30, 2008 related to tax positions for which ultimate deductibility is highly certain, but for which there is uncertainty as to the timing of such deductibility. Recognition of these tax benefits, other than applicable interest, would not affect our effective tax rate. We continue to recognize interest and penalties, if any, in income tax expense. As of September 30, 2008, we had total accrued interest receivable, net of tax effect, of $159 million. The total accrued interest receivable changed from $55 million at December 31, 2007 to $159 million at September 30, 2008 primarily relating to the settlement with the IRS. Amounts included in total accrued interest relate to: (a) unrecognized tax benefits; (b) pending claims with the IRS for open tax years; (c) the tax benefit related to tax refund claims; and (d) the impact of payments made to the IRS in prior years in anticipation of potential tax deficiencies. Of the $159 million of accrued interest receivable as of September 30, 2008, approximately $140 million of accrued interest payable, net of tax effect, is allocable to unrecognized tax benefits. We have no amount accrued for penalties. The period for assessment under the statute of limitations for federal income tax purposes is open on corporate income tax returns filed for years 1985 to 2007. Tax years 1985 to 1997 are before the U.S. Tax Court. In June 2008, we reached agreement with the IRS on a settlement regarding the tax treatment of the customer relationship intangible asset recognized upon our transition from non-taxable to taxable status in 1985. As a result of this agreement, we re-measured the tax benefit from this uncertain tax position and recognized $171 million of tax and interest in the second quarter of 2008. This settlement, which was approved by the Joint Committee on Taxation of the U.S. Congress, resolves the last matter to be decided by the U.S. Tax Court in the current litigation. Those matters not resolved by settlement agreement in the case, including the favorable financing intangible asset decided favorably by the Court in 2005, are subject to appeal. The IRS has completed its examinations of years 1998 to 2005 and has begun examining years 2006 and 2007. The principal matter in controversy as the result of the 1998 to 2005 examinations involves questions of timing and potential penalties regarding our tax accounting method for certain hedging transactions. We do not anticipate that significant changes in the gross balance of unrecognized tax benefits will occur within the next 12 months that could have a material impact on income tax expense or benefit in the period the issue is resolved. Effect of Internal Revenue Code Section 382, or Section 382, and IRS Notice 2008-76 on our Tax Positions Section 382 of the Internal Revenue Code limits tax deductions for net operating losses or net unrealized built-in losses after there is a substantial change in ownership in a corporation's stock involving a 50 percentage point increase in ownership by 5% or larger stockholders. Generally, whenever a 5% or greater shareholder increases its stock ownership, which is referred to as a "testing date" under Section 382, a company must look back three years to see if accumulated increases for all 5% or greater shareholders exceed 50 percentage points during this period. It is this "testing date" rule that IRS Notice 2008-76 changes. Under IRS Notice 2008-76, IRS and Treasury announced that they will issue regulations under Section 382(m) of the Internal Revenue Code that address the application of Section 382 in the case of certain acquisitions made pursuant to the Housing and Economic Recovery Act of 2008. These regulations will prescribe that there will be no testing date for acquisitions of stock or an option to acquire stock as part of a purchase made pursuant to the Housing and Economic Recovery Act of 2008. Based on this notice and the resulting revised regulations, the grant of the warrant to Treasury for 79.9% of our common stock did not trigger Section 382 loss limitations. Effect of Internal Revenue Code Section 162(m), or Section 162(m) Section 162(m) of the Internal Revenue Code generally disallows a tax deduction for certain non-performance-based compensation payments made to certain executive officers of publicly held corporations. Because our common stock previously was not required to be registered under the Exchange Act, we were not a publicly-held corporation under Section 162(m) and applicable Treasury regulations. The Housing and Economic Recovery Act of 2008 specifically eliminated the Exchange Act registration exemption for our equity securities. Accordingly, our stock is required to be registered under the Exchange Act, and we are therefore subject to Section 162(m). We are analyzing the extent to which any payments made to executive officers in 2008 may be subject to the deduction disallowance provisions of Section 162(m).

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NOTE 13: EMPLOYEE BENEFITS We maintain a tax-qualified, funded defined benefit pension plan, or Pension Plan, covering substantially all of our employees. We also maintain a nonqualified, unfunded defined benefit pension plan for our officers as part of our Supplemental Executive Retirement Plan. We maintain a defined benefit postretirement health care plan, or Retiree Health Plan, that generally provides postretirement health care benefits on a contributory basis to retired employees age 55 or older who rendered at least 10 years of service (five years of service if the employee was eligible to retire prior to March 1, 2007) and who, upon separation or termination, immediately elected to commence benefits under the Pension Plan in the form of an annuity. Our Retiree Health Plan is currently unfunded and the benefits are paid from our general assets. This plan and our defined benefit pension plans are collectively referred to as the defined benefit plans. Effective January 1, 2008, we adopted the measurement date provisions of SFAS 158. In accordance with SFAS 158, we have changed the measurement date of our defined benefit plan assets and obligations from September 30 to our fiscal year-end date of December 31 using the 15-month transition method. Under this approach, we used the measurements determined in our 2007 consolidated financial statements included in our Registration Statement to estimate the effects of the measurement date change. As a result of adoption, we recognized an $8 million decrease in retained earnings (after tax) at January 1, 2008 and the impact to AOCI (after tax) was immaterial. Table 13.1 presents the components of the net periodic benefit cost with respect to pension and postretirement health care benefits for the three and nine months ended September 30, 2008 and 2007. Net periodic benefit cost is included in salaries and employee benefits in our consolidated statements of income. Table 13.1 -- Net Periodic Benefit Cost Detail

	Three Months Ended September 30, 2008	2007	Nine Months Ended September 30, 2008	2007
	(in millions)			
Pension Benefits				
Service cost	$ 9	$ 8	$ 26	$ 25
Interest cost on benefit obligation	8	8	25	23
Expected (return) loss on plan assets	(10)	(9)	(31)	(28)
Recognized net actuarial (gain) loss	--	1	1	3
Net periodic benefit cost	$ 7	$ 8	$ 21	$ 23
Postretirement Health Care Benefits				
Service cost	$ 2	$ 2	$ 6	$ 6
Interest cost on benefit obligation	2	2	6	6
Recognized net actuarial loss (gain)	--	1	--	1
Recognized prior service (credit) cost	--	(1)	--	(1)
Net periodic benefit cost	$ 4	$ 4	$ 12	$ 12

Cash Flows Related to Defined Benefit Plans Our general practice is to contribute to our Pension Plan an amount at least equal to the minimum required contribution, if any, but no more than the maximum amount deductible for federal income tax purposes each year. During the third quarter of 2008, we made a contribution to our Pension Plan of approximately $16.5 million. NOTE 14: FAIR VALUE DISCLOSURES Fair Value Hierarchy Effective January 1, 2008, we adopted SFAS 157, which establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Observable inputs reflect market data obtained from independent sources. Unobservable inputs reflect assumptions based on the best information available under the circumstances. We use valuation techniques that maximize the use of observable inputs, where available and minimize the use of unobservable inputs. The three levels of the fair value hierarchy under SFAS 157 are described below:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities;

Level 2: Quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; inputs other than quoted market prices that are observable for the asset or liability; and inputs that are derived principally from or corroborated by observable market data for substantially the full term of the assets; and

Level 3: Unobservable inputs for the asset or liability that are supported by little or no market activity and that are significant to the fair values.

As required by SFAS 157, assets and liabilities are classified in their entirety within the fair value hierarchy based on the lowest level input that is significant to the fair value measurement. Table 14.1 sets forth by level within the fair value hierarchy assets and liabilities measured and reported at fair value on a recurring basis in our consolidated balance sheets at September 30, 2008. Table 14.1 -- Assets and Liabilities Measured at Fair Value on a Recurring Basis

	Fair Value at September 30, 2008				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Netting Adjustment(1)	Total
			(in millions)		
Assets:					
Mortgage loans:					
Held-for-sale, at fair value	--	--	$ 95	--	$ 95
Mortgage-related securities:					
Available-for-sale, at fair value	--	349,004	129,409	--	478,413
Trading, at fair value	--	114,427	3,575	--	118,002
Total mortgage-related securities	--	463,431	132,984	--	596,415
Non-mortgage-related securities:					
Available-for-sale, at fair value	--	10,407	3	--	10,410
Derivative assets, net	107	18,847	60	(15,974)	3,040
Guarantee asset, at fair value	--	--	9,679	--	9,679
Total assets carried at fair value on a recurring basis	$ 107	$ 492,685	$ 142,821	$ (15,974)	$ 619,639
Liabilities:					
Debt securities denominated in foreign currencies	--	$ 13,701	--	--	$ 13,701
Derivative liabilities, net	203	12,766	267	(11,877)	1,359
Total liabilities carried at fair value on a recurring basis	$ 203	$ 26,467	$ 267	$ (11,877)	$ 15,060

(1) Represents counterparty netting, cash collateral netting, net trade/settle receivable or payable and net derivative interest receivable or payable. The net cash collateral held and net trade/settle payable were $4.9 billion and $6 million, respectively, at September 30, 2008. The net interest receivable of derivative assets and derivative liabilities was $805 million at September 30, 2008, which was mainly related to interest rate swaps that we have entered into.

Fair Value Measurements (Level 3) Level 3 measurements consist of assets and liabilities that are supported by little or no market activity where observable inputs are not available. The fair value of these assets and liabilities is measured using significant inputs that are considered unobservable. Unobservable inputs reflect assumptions based on the best information available under the circumstances. We use valuation techniques that maximize the use of observable inputs, where available, and minimize the use of unobservable inputs. Our Level 3 items mainly represent non-agency residential mortgage-related securities, our guarantee asset and multifamily mortgage loans held-for-sale. During 2008, the market for non-agency securities backed by subprime and Alt-A mortgage loans became significantly less liquid, which resulted in lower transaction volumes, wider credit spreads and less transparency. We transferred our holdings of these securities into the Level 3 category as inputs that were significant to their valuation became limited or unavailable. We concluded that the prices on these securities received from pricing services and dealers were reflective of significant unobservable inputs. Our guarantee asset is valued either through obtaining dealer quotes on similar securities or through an expected cash flow approach. Because of the broad range of discounts for liquidity applied by dealers to these similar securities and because the expected cash flow valuation approach uses significant unobservable inputs, we classified the guarantee asset as Level 3. See "NOTE 2: FINANCIAL GUARANTEES AND SECURITIZED INTERESTS IN MORTGAGE-RELATED ASSETS" for more information about the valuation of our guarantee asset.

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Table 14.2 provides a reconciliation of the beginning and ending balances for assets and liabilities measured at fair value using significant unobservable inputs (Level 3). Table 14.2 -- Fair Value Measurements of Assets and Liabilities Using Significant Unobservable Inputs

Level 3 at Fair Value for the Three Months Ended September 30, 2008 (in millions)

	Mortgage Loans: Held-for-sale, at fair value	Mortgage-related securities: Available-for-sale, at fair value	Mortgage-related securities: Trading, at fair value	Non-mortgage-related securities: Available-for-sale at fair value	Guarantee asset, at fair value(1)	Net derivatives(2)
Balance, June 30, 2008	--	$ 134,737	$ 3,809	$ 4	$ 11,019	$ (207)
Total realized and unrealized gains (losses):						
Included in earnings(3)(4)(5)	(7)	(8,855)	(575)	--	(1,290)	(11)
Included in other comprehensive income(3)(4)	--	1,877	--	--	--	3
Total realized and unrealized gains (losses)	(7)	(6,978)	(575)	--	(1,290)	(8)
Purchases, issuances, sales and settlements, net	102	(8,406)	463	(1)	(50)	8
Net transfers in	--	10,056	(122)	--	--	--

and/or out of Level 3						
Balance, September 30, 2008	$ 95	$ 129,409	$ 3,575	$ 3	$ 9,679	$ (207)
Unrealized gains (losses) still held(6)	$ (7)	$ (8,861)	$ (555)	--	$ (1,290)	$ (85)

Level 3 at Fair Value for the Nine Months Ended September 30, 2008

	Mortgage Loans: Held-for-sale, at fair value	Mortgage-related securities Available-for-sale, at fair value	Mortgage-related securities Trading, at fair value	Non-mortgage-related securities: Available-for-sale at fair value	Guarantee asset, at fair value(1)	Net derivatives(2)
	(in millions)					
Balance, December 31, 2007	--	$ 19,859	$ 2,710	--	$ 9,591	$ (216)
Impact of SFAS 159	--	(443)	443	--	--	--
Balance, January 1, 2008	--	19,416	3,153	--	9,591	(216)
Total realized and unrealized gains (losses):						
Included in earnings(3)(4)(5)	(7)	(9,689)	(616)	--	(620)	13
Included in other comprehensive income(3)(4)	--	(14,540)	--	--	--	3
Total realized and unrealized gains (losses)	(7)	(24,229)	(616)	--	(620)	16
Purchases, issuances, sales and settlements, net	102	(21,647)	1,123	(2)	708	(7)
Net transfers in and/or out of Level 3	--	155,869	(85)	5	--	--
Balance, September 30, 2008	$ 95	$ 129,409	$ 3,575	$ 3	$ 9,679	$ (207)
Unrealized gains (losses) still held(6)	$ (7)	$ (9,759)	$ (606)	--	$ (620)	$ (68)

(1) We estimate that all amounts recorded for unrealized gains and losses on our guarantee asset relate to those amounts still in position. Cash received on our guarantee asset is presented as settlements in the table. The amounts reflected as included in earnings represent the periodic mark-to-fair value of our guarantee asset.
(2) Net derivatives include derivative assets and derivative liabilities prior to counterparty netting, cash collateral netting, net trade/settle receivable or payable and net derivative interest receivable or payable.
(3) Changes in fair value for available-for-sale investments are recorded in AOCI, net of taxes while gains and losses from sales are recorded in gains (losses) on investment activity on our consolidated statements of income. For mortgage-related securities classified as trading, the realized and unrealized gains (losses) are recorded in gains (losses) on investment activity on our consolidated statements of income.
(4) Changes in fair value of derivatives are recorded in derivative gains

(losses) for those not designated as accounting hedges, and AOCI, net of taxes for those accounted for as a cash flow hedge to the extent the hedge is effective. See "ITEM 13. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA -- AUDITED CONSOLIDATED FINANCIAL STATEMENTS AND ACCOMPANYING NOTES -- NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES" in the Registration Statement for additional information.

(5) Changes in fair value of the guarantee asset are recorded in gains (losses) on guarantee asset on our consolidated statements of income. See "ITEM 13. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA -- AUDITED CONSOLIDATED FINANCIAL STATEMENTS AND ACCOMPANYING NOTES -- NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES" in the Registration Statement for additional information.

(6) Represents the amount of total gains or losses for the period, included in earnings, attributable to the change in unrealized gains (losses) related to assets and liabilities classified as Level 3 that are still held at September 30, 2008. Included in these amounts are other-than-temporary impairments recorded on available-for-sale securities.

Nonrecurring Fair Value Changes Certain assets are measured at fair value on our consolidated balance sheets only if certain conditions exist as of the balance sheet date. We consider the fair value measurement related to these assets to be nonrecurring. These assets include single-family held-for-sale mortgage loans, REO net, as well as impaired held-for-investment multifamily mortgage loans. These assets are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances. These adjustments to fair value usually result from the application of lower-of-cost-or-fair-value accounting or the write-down of individual assets to current fair value amounts due to impairments.

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Table 14.3 -- Assets Measured at Fair Value on a Non-Recurring Basis

	September 30, 2008					
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total	Total Gains (Losses)(1) Three Months Ended September 30, 2008	Nine Months Ended September 30, 2008
			(in millions)			
Assets:						
Mortgage loans:(2)						
Held-for-investment			$ 54	$ 54	$ (2)	$ (4)
Held-for-sale			2,084	2,084	(16)	(13)
REO, net(3)			2,092	2,092	(172)	(404)
Total assets carried at fair value on a non-recurring basis			$ 4,230	$ 4,230	$ (190)	$ (421)

(1) Represents the total gains (losses) recorded on items measured at fair value on a non-recurring basis as of September 30, 2008.
(2) Represent carrying value and related write-downs of loans for which adjustments are based on the fair value amounts. These loans include held-for-sale mortgage loans where the fair value is below cost and impaired multifamily mortgage loans, which are classified as held-for-investment and have related valuation allowance.
(3) Represents the fair value and related losses of foreclosed properties that were measured at fair value subsequent to their initial classification as REO, net. The carrying amount of REO, net was written down to fair value of $2.1 billion, less cost to sell of $165 million (or $1.9 billion) at September 30, 2008.

Fair Value Election On January 1, 2008, we adopted SFAS 159, which permits entities to choose to measure many financial instruments and certain other items at fair value that are not required to be measured at fair value. We elected the fair value option for certain available-for-sale mortgage-related securities, foreign-currency denominated debt and investments in securities classified as available-for-sale securities and identified as in the scope of EITF 99-20. In addition, we elected the fair value option for multifamily held-for-sale mortgage loans in the third quarter of 2008. For additional information regarding the adoption of SFAS 159, see "NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- Change in Accounting Principles." Certain Available-For-Sale Securities with Fair Value Option Elected We elected the fair value option for certain available-for-sale securities held in our retained portfolio to better reflect the natural offset these securities provide to fair value changes recorded on our guarantee asset. We record fair value changes on our guarantee asset through our consolidated statements of income. However, we historically classified virtually all of our securities as available-for-sale and recorded those fair value changes in AOCI. The securities selected for the fair value option include principal only strips and certain pass-through and Structured Securities that contain positive duration features that provide offset to the negative duration associated with our guarantee asset. We will continually evaluate new security purchases to identify the appropriate security mix to classify as trading to match the changing duration features of our guarantee asset and the securities that provide offset. For available-for-sale securities identified as within the scope of EITF 99-20, we elected the fair value option to better reflect the valuation changes that occur subsequent to impairment write-downs recorded on these instruments. Under EITF 99-20 for available-for-sale securities, when an impairment is considered other-than-temporary, the impairment amount is recorded in our consolidated statements of income and subsequently accreted back through interest income as long as the contractual cash flows occur. Any subsequent periodic increases in the value of the security are recognized through AOCI. By electing the fair value option for these instruments, we will reflect valuation changes through our consolidated statements of income in the period they occur, including increases in value. For mortgage-related securities and investments in securities that are selected for the fair value option and classified as trading securities subsequently, the change in fair value for the three and nine months ended September 30, 2008 was recorded in gains (losses) on investment activity in our consolidated statements of income. See "NOTE 4: SECURITIES HELD IN OUR RETAINED PORTFOLIO AND CASH AND INVESTMENTS PORTFOLIO" for additional information regarding the net unrealized gains (losses) on trading securities, which include gains (losses) for other items that are not selected for the fair value option. Related interest income continues to be reported as interest income in our consolidated statements of income using effective interest methods. See "ITEM 13. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA -- AUDITED CONSOLIDATED FINANCIAL STATEMENTS AND ACCOMPANYING NOTES -- NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- Investments in Securities" in our Registration Statement for additional information about the measurement and recognition of interest income on investments in securities. Foreign-Currency Denominated Debt with Fair Value Option Elected In the case of foreign-currency denominated debt, we have entered into derivative transactions that effectively convert these instruments to U.S. dollar denominated floating rate instruments. We have historically recorded the fair value changes on these derivatives through our consolidated statements of income in accordance with SFAS 133. However, the corresponding offsetting change in fair value that occurred in the debt as a result of changes in interest rates was not

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permitted to be recorded in our consolidated statements of income unless we pursued hedge accounting. As a result, our consolidated statements of income reflected only the fair value changes of the derivatives and not the offsetting fair value changes in the debt resulting from changes in interest rates. Therefore, we have elected the fair value option on the debt instruments to better reflect the economic offset that naturally results from the debt due to changes in interest rates. We currently do not issue foreign-currency denominated debt and use of the fair value option in the future for these types of instruments will be evaluated on a case-by-case basis for any new issuances of this type of debt. The changes in fair value of foreign-currency denominated debt of $1.5 billion and $684 million for the three and nine months ended September 30, 2008, respectively, were recorded in unrealized gains (losses) on foreign-currency denominated debt recorded at fair value in our consolidated statements of income. The changes in fair value related to fluctuations in exchange rates and interest rates were $1.4 billion and $458 million for the three and nine months ended September 30, 2008, respectively. The remaining changes in the fair value of $150 million and $226 million for the three and nine months ended September 30, 2008, respectively, were attributable to changes in the instrument-specific credit risk. The changes in fair value attributable to changes in instrument-specific credit risk were determined by comparing the total change in fair value of the debt to the total change in fair value of the interest rate and foreign currency derivatives used to hedge the debt. Any difference in the fair value change of the debt compared to the fair value change in the derivatives is attributed to instrument-specific credit risk. The difference between the aggregate fair value and aggregate unpaid principal balance for foreign-currency denominated debt due after one year is $31 million at September 30, 2008. Related interest expense continues to be reported as interest expense in our consolidated statements of income. See "ITEM 13. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA -- AUDITED CONSOLIDATED FINANCIAL STATEMENTS AND ACCOMPANYING NOTES -- NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- Debt Securities Issued" in our Registration Statement for additional information about the measurement and recognition of interest expense on debt securities issued. Multifamily Held-For-Sale Mortgage Loans with Fair Value Option Elected Beginning in the third quarter of 2008, we elected the fair value option for multifamily mortgage loans that were purchased through our Capital Market Execution program to reflect our strategy in this program. Under this program, we acquire loans we intend to sell. While this is consistent with our overall strategy to expand our multifamily loan holdings, it differs from the traditional buy-and-hold strategy that we have used with respect to multifamily loans. These multifamily mortgage loans were classified as held-for-sale mortgage loans in our consolidated balance sheets to reflect our intent to sell these loans in the future. We recorded $(7) million from the change in fair value in gains (losses) on investment activity in our consolidated statements of income for both the three and nine months ended September 30, 2008. The fair value changes that were attributable to changes in the instrument-specific credit risk were $(8) million for the three and nine months ended September 30, 2008. The gains and losses attributable to changes in instrument specific credit risk were determined primarily from the changes in OAS level. The difference between the aggregate fair value and the aggregate unpaid principal balance for multifamily held-for-sale loans with fair value option elected was $7 million at September

30, 2008. Related interest income continues to be reported as interest income in our consolidated statements of income. See "ITEM 13: FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA -- AUDITED CONSOLIDATED FINANCIAL STATEMENTS AND ACCOMPANYING NOTES -- NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- Mortgage Loans" in our Registration Statement for additional information about the measurement and recognition of interest income on our mortgage loans. Valuation Methods and Assumptions Subject to Fair Value Hierarchy We categorize assets and liabilities in the scope of SFAS 157 within the fair value hierarchy based on the valuation process used to derive the fair value and our judgment regarding the observability of the related inputs. Those judgments are based on our knowledge and observations of the markets relevant to the individual assets and liabilities and may vary based on current market conditions. In applying our judgments, we look to ranges of third party prices, transaction volumes and discussions with pricing service vendors to understand and assess the extent of market benchmarks available and the judgments or modeling required in their processes. Based on these factors, we determine whether the fair values are observable in active markets or that the markets are inactive. We have reviewed FSP SFAS 157-3, "Determining the Fair Value of a Financial Asset When the Market for that Asset is Not Active" for products with inactive markets, and continue to classify these products as Level 3 in the fair-value hierarchy, while still relying on pricing services and dealer quotes. Even though market information is limited due to market inactivity, the sources we use have access to transaction information, bid lists, spread indications, market inquiry information, asset performance, rating agency information and feedback from their clients. We believe leveraging all sources available

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gives us the most access to market information possible, which we then analyze and evaluate, maximizing the quality of information used to determine our fair values. Our Level 1 financial instruments consist of exchange-traded derivatives where quoted prices exist for the exact instrument in an active market. Our Level 2 instruments generally consist of high credit quality agency mortgage-related securities, commercial mortgage-backed securities, non-mortgage-related asset-backed securities, interest-rate swaps, option-based derivatives and foreign-currency denominated debt. These instruments are generally valued through one of the following methods: (a) dealer or pricing service values derived by comparison to recent transactions or similar securities and adjusting for differences in prepayment or liquidity characteristics; or (b) modeled through an industry standard modeling technique that relies upon observable inputs such as discount rates and prepayment assumptions. Our Level 3 assets primarily consist of non-agency residential mortgage-related securities, our guarantee asset and multifamily mortgage loans held-for-sale. While the non-agency mortgage-related securities market has become significantly less liquid, resulting in lower transaction volumes, wider credit spreads and less transparency in 2008, we value our non-agency mortgage-related securities based primarily on prices received from third party pricing services and prices received from dealers. The techniques used to value these instruments generally are either (a) a comparison to transactions of instruments with similar collateral and risk profiles; or (b) industry standard modeling such as the discounted cash flow model. For a description of how we determine the fair value of our guarantee asset, see "NOTE 2: FINANCIAL GUARANTEES AND SECURITIZED INTERESTS IN MORTGAGE-RELATED ASSETS." Mortgage Loans, Held-for-Investment Mortgage loans, held for investment include impaired multifamily mortgage loans, which are not measured at fair value on an ongoing basis but have been written down to fair value due to impairment. We classify these impaired multifamily mortgage loans as Level 3 in the fair value hierarchy as their valuation includes significant unobservable inputs. Mortgage Loans, Held-for-Sale Mortgage loans, held-for-sale represent single-family and multifamily mortgage loans held in our retained portfolio. For single-family mortgage loans, we determine the fair value of these mortgage loans to calculate lower-of-cost-or-fair-value adjustments for mortgages classified as held-for-sale for GAAP purposes, therefore they are measured at fair value on a non-recurring basis and subject to classification under the fair value hierarchy. Beginning in the third quarter of 2008, we elected the fair value option for multifamily mortgage loans that were purchased through our Capital Market Execution program to reflect our strategy in this program. Thus, these multifamily mortgage loans are measured at fair value on a recurring basis. We determine the fair value of single-family mortgage loans, excluding delinquent single-family loans purchased out of pools, based on comparisons to actively traded mortgage-related securities with similar characteristics. For single-family mortgage loans, we include adjustments for yield, credit and liquidity differences to calculate the fair value. For single-family mortgage loans, part of the adjustments for yield, credit and liquidity differences represent an implied management and guarantee fee. To accomplish this, the fair value of the single-family mortgage loans, excluding delinquent single-family loans purchased out of pools, includes an adjustment representing the estimated present value of the additional cash flows on the mortgage coupon in excess of the coupon expected on the notional mortgage-related securities. The implied management and guarantee fee for single-family mortgage loans is also net of the related credit and other components inherent in our guarantee obligation. The process for estimating the related credit and other guarantee obligation components is described in the "Guarantee Obligation" section below. Since the fair values are derived from observable prices with adjustments that may be significant, they are classified as Level 3 under the fair value hierarchy. The fair value of multifamily mortgage loans is generally based on market prices obtained from third-party pricing service providers for similar mortgages, adjusted for differences in contractual terms. However, given the relative illiquidity in the market place for these loans, and differences in contractual terms, we classified these loans as Level 3 in the fair value hierarchy. Mortgage-Related and Non-Mortgage-Related Securities Mortgage-related securities represent pass-throughs and other mortgage-related securities issued by us, Fannie Mae and Ginnie Mae, as well as non-agency mortgage-related securities. They are classified as available-for-sale or trading, and are already reflected at fair value on our GAAP consolidated balance sheets. Effective January 1, 2008, we elected the fair value option for selected mortgage-related securities that were classified as available-for-sale securities and securities identified as in the scope of impairment analysis under EITF 99-20 and classified as available-for-sale securities. In conjunction with our adoption of SFAS 159 we reclassified these securities from available-for-sale securities to trading securities on our GAAP consolidated balance sheets and recorded the changes in fair value during the period for such securities to gains (losses) on investment activities as incurred. For additional information on the election of the fair value option and SFAS 159, see "NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- Change in Accounting Principles."

The fair value of securities with readily available third-party market prices is generally based on market prices obtained from broker/dealers or reliable third-party pricing service providers. Such fair values may be measured by using third-party quotes for similar instruments, adjusted for differences in contractual terms. Generally, these fair values are classified as Level 2 in the fair value hierarchy. For other securities, a market OAS approach based on observable market parameters is used to estimate fair value. OAS for certain securities are estimated by deriving the OAS for the most closely comparable security with an available market price, using proprietary interest-rate and prepayment models. If necessary, our judgment is applied to estimate the impact of differences in prepayment uncertainty or other unique cash flow characteristics related to that particular security. Fair values for these securities are then estimated by using the estimated OAS as an input to the interest-rate and prepayment models and estimating the net present value of the projected cash flows. The remaining instruments are priced using other modeling techniques or by using other securities as proxies. These securities may be classified as Level 2 or 3 depending on the significance of the inputs that are not observable. Certain available-for-sale non-agency mortgage-related securities whose fair value is determined by reference to prices obtained from broker/dealers or pricing services were changed from a Level 2 classification to a Level 3 classification in the first quarter of 2008. Previously, these valuations relied on observed trades, as evidenced by both activity observed in the market, and similar prices obtained from multiple sources. In late 2007, however, the divergence among prices obtained from these sources increased, and became significant in the first quarter of 2008. This, combined with the observed significant reduction in transaction volumes and widening of credit spreads, led us to conclude that the prices received from pricing services and dealers were reflective of significant unobservable inputs. While we believe these prices to be the best available under the fair value hierarchy, the classification was changed to Level 3 and remains as such at September 30, 2008 as these conditions continue to persist. Derivative Assets, Net Derivative assets largely consist of interest-rate swaps, option-based derivatives, futures and forward purchase and sale commitments that we account for as derivatives. The carrying value of our derivatives on our consolidated balance sheets is equal to their fair value, including net derivative interest receivable or payable, trade settle receivable or payable and is net of cash collateral held or posted, where allowable by a master netting agreement. Derivatives in a net unrealized gain position are reported as derivative assets, net. Similarly, derivatives in a net unrealized loss position are reported as derivative liabilities, net. The fair values of interest-rate swaps are determined by using the appropriate yield curves to calculate and discount the expected cash flows for both the fixed-rate and variable-rate components of the swap contracts. Option-based derivatives, which principally include call and put swaptions, are valued using an option-pricing model. This model uses market interest rates and market-implied option volatilities, where available, to calculate the option's fair value. Market-implied option volatilities are based on information obtained from broker/dealers. Since swaps and option-based derivatives fair values are determined through models that use observable inputs, these are generally classified as Level 2 under the fair value hierarchy. To the extent we have determined that any of the significant inputs are considered unobservable, these amounts have been classified as Level 3 under the fair value hierarchy. The fair value of exchange-traded futures and options is based on end-of-day closing prices obtained from third-party pricing services, therefore they are classified as Level 1 under the fair value hierarchy. The fair value of derivative assets considers the impact of institutional credit risk in the event that the counterparty does not honor its payment obligation. Additionally, the fair value of derivative liabilities considers the impact of our institutional credit risk. Our fair value of derivatives is not adjusted for expected credit losses because we obtain collateral from most counterparties, typically within one business day of the daily market value calculation, and substantially all of our credit risk arises from counterparties with investment-grade credit ratings of A or above. Certain purchase and sale commitments are also considered to be derivatives and are classified as Level 2 or Level 3 under the fair value hierarchy, depending on the fair value hierarchy classification of the purchased or sold item, whether security or loan. Such valuation methodologies and fair value hierarchy classifications are further discussed in the "Mortgage-Related and Non-Mortgage-Related Securities" and the "Mortgage Loans, Held-for-Sale" sections above. Guarantee Asset, at Fair Value For a description of how we determine the fair value of our guarantee asset, see "NOTE 2: FINANCIAL GUARANTEES AND SECURITIZED INTERESTS IN MORTGAGE-RELATED ASSETS." Since its valuation technique is model based with significant inputs that are not observable, our guarantee asset is classified as Level 3 in the fair value hierarchy.

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REO, Net For GAAP purposes, REO is subsequently carried at the lower of its carrying amount or fair value less cost to sell. The subsequent fair value less cost to sell is an estimated value based on relevant historical factors, which are considered to be unobservable inputs. As a result REO is classified as Level 3 under the fair value hierarchy. Debt Securities Denominated in Foreign Currencies Foreign-currency denominated debt instruments are measured at fair value pursuant to our fair value option election. We determine the fair value of these instruments by obtaining multiple quotes from dealers. Since the prices provided by the dealers consider only observable data such as interest rates and exchange rates, these fair values are classified as Level 2 under the fair value hierarchy. Derivative Liabilities, Net See discussion under "Derivative Assets, Net" above. Consolidated Fair Value Balance Sheets The supplemental consolidated fair value balance sheets in Table 14.4 present our estimates of the fair value of our recorded financial assets and liabilities and off-balance sheet financial instruments at September 30, 2008 and December 31, 2007. Our consolidated fair value balance sheets include the estimated fair values of financial instruments recorded on our consolidated balance sheets prepared in accordance with GAAP, as well as off-balance sheet financial instruments that represent our assets or liabilities that are not recorded on our GAAP consolidated balance sheets. These off-balance sheet items predominantly consist of: (a) the unrecognized guarantee asset and guarantee obligation associated with our PCs issued through our guarantor swap program prior to the implementation of FIN 45, (b) certain commitments to purchase mortgage loans and (c) certain credit enhancements on manufactured housing asset-backed securities. The fair value balance sheets also include certain assets and liabilities that are not financial instruments (such as property and equipment and real estate owned, which are included in other assets) at their carrying value in accordance with GAAP. The valuations of financial instruments on our consolidated fair value balance sheets are in accordance with GAAP fair value guidelines prescribed by SFAS 107, "Disclosures about Fair Value of Financial Instruments," and other relevant pronouncements. During the nine months ended September 30, 2008, our fair value results were impacted by several changes in our approach for estimating the fair value of certain financial instruments, primarily related to our valuation of our guarantee obligation as a result of the adoption of SFAS 157 on January 1, 2008 and other improvements to our methodology during the first, second and third quarters of 2008. During the third quarter of 2008, we made adjustments to our guarantee obligation model, including increases to our observed delinquency trends. These changes resulted in net after-tax changes in the fair value of total net assets of approximately $4.6 billion, $(1.2) billion and $(1.4) billion at March 31, 2008, June 30, 2008 and September 30, 2008, respectively. For a further discussion of our adoption of SFAS 157 and information concerning our valuation approach related to our guarantee obligation, see "NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- Change in Accounting Principles" and "Valuation Methods and Assumptions Not Subject to Fair Value Hierarchy -- Guarantee Obligation."

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Table 14.4 -- Consolidated Fair Value Balance Sheets(1)

	September 30, 2008 Carrying Amount(2)	September 30, 2008 Fair Value	December 31, 2007 Carrying Amount(2)	December 31, 2007 Fair Value
	(in billions)			
Assets				
Mortgage loans	$ 98.2	$ 92.4	$ 80.0	$ 76.8
Mortgage-related securities	596.4	596.4	629.8	629.8
Retained portfolio	694.6	688.8	709.8	706.6
Cash and cash equivalents	50.2	50.2	8.6	8.6
Non-mortgage-related securities	10.4	10.4	35.1	35.1
Securities purchased under agreements to resell and federal funds sold	8.0	8.0	6.6	6.6
Derivative assets, net	3.0	3.0	0.8	0.8
Guarantee asset(3)	9.7	10.4	9.6	10.4
Other assets	28.5	29.2	23.9	31.8
Total assets	$ 804.4	$ 800.0	$ 794.4	$ 799.9
Liabilities and minority interests				
Total debt securities, net	$ 783.9	$ 789.7	$ 738.6	$ 749.3
Guarantee obligation	13.9	42.8	13.7	26.2
Derivative liabilities, net	1.4	1.4	0.6	0.6
Reserve for guarantee losses on PCs	9.8	--	2.6	--
Other liabilities	9.1	8.5	12.0	11.0
Minority interests in consolidated subsidiaries	0.1	--	0.2	0.2
Total liabilities and minority interests	818.2	842.4	767.7	787.3
Net assets attributable to stockholders				
Senior preferred stockholders	1.0	1.0	--	--
Preferred stockholders	14.1	0.7	14.1	12.3
Common stockholders	(28.9)	(44.1)	12.6	0.3
Total net assets	(13.8)	(42.4)	26.7	12.6
Total liabilities, minority interests and net assets	$ 804.4	$ 800.0	$ 794.4	$ 799.9

(1) The consolidated fair value balance sheets do not purport to present our net realizable, liquidation or market value as a whole. Furthermore, amounts we ultimately realize from the disposition of assets or settlement of liabilities may vary significantly from the fair values presented.
(2) Equals the amount reported on our GAAP consolidated balance sheets.
(3) The fair value of our guarantee asset reported exceeds the carrying value primarily because the fair value includes our guarantee asset related to PCs that were issued prior to the implementation of FIN 45 in 2003 and thus are not recognized on our GAAP consolidated balance sheets.

Limitations Our consolidated fair value balance sheets do not capture all elements of value that are implicit in our operations as a going concern because our consolidated fair value balance sheets only capture the values of the current investment and securitization portfolios. For example, our consolidated fair value balance sheets do not capture the value of new investment and securitization business that would likely replace prepayments as they occur. Thus, the fair value of net assets attributable to stockholders presented on our consolidated fair value balance sheets does not represent an estimate of our net realizable, liquidation or market value as a whole. We report certain assets and liabilities that are not financial instruments (such as property and equipment and real estate owned), as well as certain financial instruments that are not covered by the SFAS 107 disclosure requirements (such as pension liabilities) at their carrying amounts in accordance with GAAP on our consolidated fair value balance sheets. We believe these items do not have a significant impact on our overall fair value results. Other non-financial assets and liabilities on our GAAP consolidated balance sheets represent deferrals of costs and revenues that are amortized in accordance with GAAP, such as deferred debt issuance costs and deferred credit fees. Cash receipts and payments related to these items are generally recognized in the fair value of net assets when received or paid, with no basis reflected on our fair value balance sheets. Valuation Methods and Assumptions Not Subject to Fair Value Hierarchy The following are valuation assumptions and methods for items not subject to the fair value hierarchy either because they are not measured at fair value other than on the fair value balance sheet or are only measured at fair value at inception. Mortgage Loans Mortgage loans represent single-family and multifamily mortgage loans held in our retained portfolio. For GAAP purposes, we must determine the fair value of these mortgage loans to calculate lower-of-cost-or-fair-value adjustments for single-family mortgages classified as held-for-sale. For fair value balance sheet purposes, we use a similar approach when determining the fair value of mortgage loans, including those held-for-investment. The fair value of multifamily mortgage loans is generally based on market prices obtained from reliable third-party pricing service providers for similar mortgages, adjusted for differences in contractual terms.

Cash and Cash Equivalents Cash and cash equivalents largely consists of highly liquid investment securities with an original maturity of three months or less used for cash management purposes, as well as cash collateral posted by our derivative counterparties. Given that these assets are short-term in nature with limited market value volatility, the carrying amount on our GAAP consolidated balance sheets is deemed to be a reasonable approximation of fair value. Securities Purchased Under Agreements to Resell and Federal Funds Sold Securities purchased under agreements to resell and federal funds sold principally consists of short-term contractual agreements such as reverse repurchase agreements involving Treasury and agency securities, federal funds sold and Eurodollar time deposits. Given that these assets are short-term in nature, the carrying amount on our GAAP consolidated balance sheets is deemed to be a reasonable approximation of fair value. Other Assets Other assets consists of investments in qualified LIHTC partnerships that are eligible for federal tax credits, credit enhancement contracts related to PCs and Structured Securities (pool insurance and recourse and/or indemnification agreements), financial guarantee contracts for additional credit enhancements on certain manufactured housing asset-backed securities, REO, property and equipment and other miscellaneous assets. Our investments in LIHTC partnerships, reported as consolidated entities or equity method investments in the GAAP financial statements, are not within the scope of SFAS 107 disclosure requirements. However, we present the fair value of these investments in other assets on our consolidated fair value balance sheets. For the LIHTC partnerships, the fair value of expected tax benefits is estimated using expected cash flows discounted using our estimated cost of funds. For the credit enhancement contracts related to PCs and Structured Securities (pool insurance and recourse and/or indemnification agreements), fair value is estimated using an expected cash flow approach, and is intended to reflect the estimated amount that a third party would be willing to pay for the contracts. On our consolidated fair value balance sheets, these contracts are reported at fair value at each balance sheet date based on current market conditions. On our GAAP consolidated balance sheets, these contracts are initially recorded at fair value at inception, then amortized to expense. For the credit enhancements on manufactured housing asset-backed securities, the fair value is based on the difference between the market price of non-credit-impaired manufactured housing securities and credit-impaired manufactured housing securities that are likely to produce future credit losses, as adjusted for our estimate of a risk premium attributable to the financial guarantee contracts. The value of the contracts, over time, will be determined by the actual credit-related losses incurred and, therefore, may have a value that is higher or lower than our market-based estimate. On our GAAP consolidated financial statements, these contracts are recognized as cash is received. The other categories of assets that comprise other assets are not financial instruments required to be valued at fair value under SFAS 107, such as property and equipment. For the majority of these non-financial instruments in other assets, we use the carrying amounts from our GAAP consolidated balance sheets as the reported values on our consolidated fair value balance sheets, without any adjustment. These assets represent an insignificant portion of our GAAP consolidated balance sheets. Certain non-financial assets in other assets on our GAAP consolidated balance sheets are assigned a zero value on our consolidated fair value balance sheets. This treatment is applied to deferred items such as deferred debt issuance costs. We adjust the GAAP-basis deferred taxes reflected on our consolidated fair value balance sheets to include estimated income taxes on the difference between our consolidated fair value balance sheets net assets attributable to common stockholders, including deferred taxes from our GAAP consolidated balance sheets, and our GAAP consolidated balance sheets equity attributable to common stockholders. To the extent the adjusted deferred taxes are a net asset, this amount is included in other assets. In addition, if our deferred tax asset on our consolidated fair value balance sheet, calculated as described above, exceeds our deferred tax asset on our GAAP consolidated balance sheet that has been reduced by a valuation allowance, our deferred tax asset on our consolidated fair value balance sheet is limited to the amount of our deferred tax asset on our GAAP consolidated balance sheet. If the adjusted deferred taxes are a net liability, this amount is included in other liabilities. Total Debt Securities, Net Total debt securities, net represent short-term and long-term debt used to finance our assets. On our consolidated GAAP balance sheets, debt securities, excluding debt securities denominated in foreign currencies, are reported at amortized cost, which is net of deferred items, including premiums, discounts and hedging-related basis adjustments. This item includes both non-callable and callable debt, as well as short-term zero-coupon discount notes. The fair value of the short-term zero-coupon discount notes is based on a discounted cash flow model with market inputs. The valuation of other debt securities represents the proceeds that we would receive from the issuance of debt and is generally based on market prices obtained from broker/dealers, reliable third-party pricing service providers or direct market observations. We elected the fair value

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option for debt securities denominated in foreign currencies and reported them at fair value on our GAAP consolidated balance sheets effective January 1, 2008. Guarantee Obligation We did not establish a guarantee obligation for GAAP purposes for PCs and Structured Securities that were issued through our guarantor swap program prior to adoption of FIN 45. In addition, after it is initially recorded at fair value the guarantee obligation is not subsequently carried at fair value for GAAP purposes. On our consolidated fair value balance sheets, the guarantee obligation reflects the fair value of our guarantee obligation on all PCs regardless of when they were issued. Additionally, for fair value balance sheet purposes, our guarantee obligation is valued using a model that is calibrated to entry pricing information to estimate the fair value on our seasoned guarantee obligation. Entry pricing information used in our model includes the spot delivery fee and management and guarantee fee used to determine the amount charged to customers for executing our new securitizations. For information concerning our valuation approach and accounting policies related to our guarantees of mortgage assets for GAAP purposes, see "NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES" and "NOTE 2: FINANCIAL GUARANTEES AND SECURITIZED INTERESTS IN MORTGAGE-RELATED ASSETS."

Reserve for Guarantee Losses on PCs The carrying amount of the reserve for guarantee losses on PCs on our GAAP consolidated balance sheets represents the contingent losses contained in the loans that back our PCs. This line item has no basis on our consolidated fair value balance sheets, because the estimated fair value of all expected default losses (both contingent and non-contingent) is included in the guarantee obligation reported on our consolidated fair value balance sheets. Other Liabilities Other liabilities principally consist of funding liabilities associated with investments in LIHTC partnerships, accrued interest payable on debt securities and other miscellaneous obligations of less than one year. We believe the carrying amount of these liabilities is a reasonable approximation of their fair value, except for funding liabilities associated with investments in LIHTC partnerships, for which fair value is estimated using expected cash flows discounted at a market-based yield. Furthermore, certain deferred items reported as other liabilities on our GAAP consolidated balance sheets are assigned zero value on our consolidated fair value balance sheets, such as deferred credit fees. Also, as discussed in "Other Assets," other liabilities may include a deferred tax liability adjusted for fair value balance sheet purposes. Minority Interests in Consolidated Subsidiaries Minority interests in consolidated subsidiaries primarily represent preferred stock interests that third parties hold in our two majority-owned real estate investment trust, or REIT subsidiaries. In accordance with GAAP, we consolidated the REITs. The preferred stock interests are not within the scope of SFAS 107 disclosure requirements. However, we present the fair value of these interests on our consolidated fair value balance sheets. The fair value of the third-party minority interests in these REITs was based on the estimated value of the underlying REIT preferred stock we determined based on a valuation model. Net Assets Attributable to Senior Preferred Stockholders The fair value of our senior preferred stock, issued in connection with the Purchase Agreement, is at liquidation preference, which is our best estimate of fair value. Net Assets Attributable to Preferred Stockholders To determine the preferred stock fair value, we use a market-based approach incorporating quoted dealer prices. Net Assets Attributable to Common Stockholders Net assets attributable to common stockholders is equal to the difference between the fair value of total assets and the sum of total liabilities and minority interests reported on our consolidated fair value balance sheets, less the fair value of net assets attributable to senior preferred stockholders and preferred stockholders. NOTE 15: CONCENTRATION OF CREDIT AND OTHER RISKS Mortgages and Mortgage-Related Securities Our business activity is to participate in and support the residential mortgage market in the United States, which we pursue by both issuing guaranteed mortgage securities and investing in mortgage loans and mortgage-related securities. Table 15.1 summarizes the geographical concentration of mortgages and mortgage-related securities that we held in our retained portfolio or that underlie our guaranteed PCs and Structured Securities, held by third parties, excluding:

ù $1.1 billion and $1.3 billion of mortgage-related securities issued by Ginnie Mae that back Structured Securities at September 30, 2008 and December 31, 2007, respectively, because these securities do not expose us to meaningful amounts of credit risk;

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ù $57.1 billion and $47.8 billion of agency mortgage-related securities at September 30, 2008 and December 31, 2007, respectively, because these securities do not expose us to meaningful amounts of credit risk; and
ù $204.5 billion and $233.8 billion of non-agency mortgage-related securities held in our retained portfolio at September 30, 2008 and December 31, 2007, respectively, because geographic information regarding these securities is not available. With respect to these securities, we look to third-party credit enhancements (e.g., bond insurance) or other credit enhancements resulting from the securitization structure supporting such securities (e.g., subordination levels) as a primary means of managing credit risk.

See "NOTE 4: SECURITIES HELD IN OUR RETAINED PORTFOLIO AND CASH AND INVESTMENTS PORTFOLIO" for more information about the securities we hold.

Table 15.1 -- Concentration of Credit Risk(1)

	September 30, 2008		December 31, 2007	
	Amount	Percentage	Amount	Percentage
	(dollars in millions)			
By Region(2)				
West	$ 500,975	26%	$ 455,051	25%
Northeast	471,988	24	443,813	24
North Central	359,517	19	353,522	19
Southeast	354,456	18	335,386	19
Southwest	246,682	13	231,951	13
	$ 1,933,618	100%	$ 1,819,723	100%
By State				
California	$ 271,315	14%	$ 243,225	13%
Florida	129,975	7	124,092	7
Texas	98,112	5	91,130	5
New York	96,960	5	90,686	5
Illinois	96,733	5	91,835	5
All others	1,240,523	64	1,178,755	65
	$ 1,933,618	100%	$ 1,819,723	100%

(1) Based on unpaid principal balances.
(2) Region designation: West (AK, AZ, CA, GU, HI, ID, MT, NV, OR, UT, WA); Northeast (CT, DE, DC, MA, ME, MD, NH, NJ, NY, PA, RI, VT, VA, WV); North Central (IL, IN, IA, MI, MN, ND, OH, SD, WI); Southeast (AL, FL, GA, KY, MS, NC, PR, SC, TN, VI); Southwest (AR, CO, KS, LA, MO, NE, NM, OK, TX, WY).

Higher-Risk Mortgage Loans There are residential loan products originated in recent years that are designed to offer borrowers greater choices in their payment terms. For example, interest-only mortgages allow the borrower to pay only interest for a fixed period of time before the loan begins to amortize. Option ARM loans permit a variety of repayment options, which include minimum, interest-only, fully amortizing 30-year and fully amortizing 15-year payments. The minimum payment alternative for option ARM loans allows the borrower to make monthly payments that may be less than the interest accrued for the period. The unpaid interest, known as negative amortization, is added to the principal balance of the loan, which increases the outstanding loan balance. At both September 30, 2008 and December 31, 2007, interest-only and option ARM loans collectively represented approximately 10% of loans underlying our single-family issued guaranteed PCs and Structured Securities. In addition to these products, there are also types of residential mortgage loans originated in the market with lower or alternative documentation requirements than full documentation mortgage loans. These reduced documentation mortgages have been categorized in the mortgage industry as Alt-A loans. We have classified mortgage loans as Alt-A if the lender that delivers them to us has classified the loans as Alt-A, or if the loans had reduced documentation requirements that indicate that the loans should be classified as Alt-A. At September 30, 2008 and December 31, 2007, approximately 10% and 11% of our single-family PCs and Structured Securities were backed by Alt-A mortgage loans, respectively. Mortgage Lenders, or Seller/Servicers A significant portion of our single-family mortgage purchase volume is generated from several key mortgage lenders with whom we have entered into business arrangements. These arrangements generally involve a lender's commitment to sell a significant proportion of its conforming mortgage origination volume to us. We are exposed to institutional credit risk arising from the insolvency or non-performance by our seller/servicers, including non-performance of their repurchase obligations arising from the representations and warranties made to us for loans that they underwrote and sold to us. Our seller/servicers also have a significant role in servicing single-family loans in our retained portfolio and those underlying our PCs, which includes having an active role in our loss mitigation efforts. During the nine months ended September 30, 2008, three mortgage lenders, Bank of America, N.A. (including Countrywide Home Loans, Inc. which it purchased on July 1, 2008), Wells Fargo Bank, N.A. (including Wachovia Corporation, the parent of our customers Wachovia Bank, N.A. and Wachovia Mortgage, FSB which Wells Fargo purchased in September 2008) and JPMorgan Chase and its subsidiary Chase

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Home Finance LLC, our customer, (including Washington Mutual Bank which was acquired by JPMorgan Chase in September 2008), each accounted for 10% or more of our mortgage purchase volume, and collectively accounted for approximately 61% of our total single-family mortgage purchase volume. These top lenders are among the largest mortgage loan originators in the U.S. in the single-family market. We are exposed to the risk that we could lose purchase volume to the extent these arrangements are terminated without replacement from other lenders. We also have exposure to seller/servicers to the extent we fail to realize the anticipated benefits of our loss mitigation plans, or that we experience a lower realized rate of seller/servicer repurchases. Either of these conditions could lead to default rates that exceed our current estimates and could cause our losses to be significantly higher than those estimated within our loan loss reserves. Due to the current challenging market conditions, the financial condition and performance of many of our seller/servicers has deteriorated. Many of these seller/servicers have experienced multiple ratings downgrades and liquidity constraints. In July 2008, one of these seller/servicers, IndyMac Bank, FSB, or IndyMac, was closed by the Office of Thrift Supervision, with the Federal Deposit Insurance Corporation, or FDIC, named as receiver. The FDIC then rechartered IndyMac and is currently operating it as a conservator. IndyMac's lending division accounted for 0.4% of our mortgage purchase volume in 2008. In September 2008, Washington Mutual Bank, which accounted for 7% of our single-family mortgage purchase volume during the nine months ended September 30, 2008, was closed by the Office of Thrift Supervision and the FDIC was named receiver and all of its deposits, assets and certain liabilities of its banking operations were acquired by JPMorgan Chase Bank, NA. JPMorgan Chase has asserted that, as successor servicer of mortgages for us and formerly serviced by Washington Mutual, JPMorgan Chase will not be responsible for Washington Mutual's existing and future obligations to repurchase mortgages sold to us by Washington Mutual and later found to be inconsistent with representations and warranties made at the time of sale. We have informed JPMorgan Chase that we are unwilling to consent to it being successor servicer unless it assumes the Washington Mutual repurchase obligations. Chase Home Finance LLC, a subsidiary of JPMorgan Chase, is also a significant seller/servicer and provided 9% of our single-family mortgage purchase volume during the nine months ended September 30, 2008. In addition, Wachovia Corporation, the parent of our customers Wachovia Bank, N.A. and Wachovia Mortgage, FSB, which together accounted for 2% of our single-family mortgage purchase volume during the nine months ended September 30, 2008, agreed to be acquired by Wells Fargo & Company in September 2008. Wells Fargo Bank N.A., a subsidiary of Wells Fargo & Company, is also a significant seller/servicer and provided 20% of our single-family mortgage purchase volume during the nine months ended September 30, 2008. We are monitoring these developments and are working to ensure that our servicing arrangements, in accordance with their terms, will not be affected, although there are unresolved issues relating to some servicing arrangements. Similarly, in cases where we have long-term mortgage purchase commitment contracts in place with both of the merged parties, the agreements continue until their stated expiration date. During the nine months ended September 30, 2008, our top four multifamily lenders each accounted for more than 9% of our mortgage purchase volume, and represented approximately 45% of our multifamily purchase volume. These top lenders are among the largest mortgage loan originators in the U.S. in the multifamily markets. We are exposed to the risk that we could lose purchase volume to the extent these arrangements are terminated without replacement from other lenders. In addition, we are exposed to risk from our mortgage seller/services for credit losses realized on mortgages. In order to manage this risk, we rely on primary mortgage insurance, our right to demand repurchase of mortgages that are inconsistent with representations and warranties made by seller/servicers when we purchased the loans, and, to a lesser extent, recourse agreements (under which we may require a lender to repurchase delinquent loans) and indemnification agreements (under which we may require a lender to reimburse us for credit losses on mortgages), as well as pool insurance. Mortgage and Bond Insurers We have institutional credit risk relating to the potential insolvency or non-performance of mortgage insurers that insure mortgages we purchase or guarantee. At September 30, 2008, these insurers provided coverage, with maximum loss limits of $66 billion, for $345 billion of unpaid principal balances in connection with our single-family mortgage portfolio, excluding those backing Structured Transactions. Excluding bond insurers, which provide loss insurance for our non-agency mortgage-related securities portfolio, our top five mortgage insurer counterparties, Mortgage Guaranty Insurance Corporation (or MGIC), Radian Guaranty Inc. (or Radian), Genworth Mortgage Insurance Corporation, PMI Mortgage Insurance Co. (or PMI), and United Guaranty Residential Insurance Co. (or UGRI), each accounted for more than 9% of our maximum exposure to mortgage insurers at September 30, 2008. Recently, many mortgage insurers have had financial difficulty and have received several downgrades in their credit rating by nationally recognized statistical rating organizations. Triad Guaranty Insurance Corporation (or Triad), one of our mortgage insurance counterparties, announced that it ceased issuing new insurance effective July 15, 2008. In accordance with our insurer eligibility requirements, we suspended Triad as a Freddie Mac-approved insurer and informed our customers that mortgages with commitments of insurance from Triad dated after July 14, 2008 are not eligible for sale to us. Several of our mortgage insurance counterparties, including MGIC, Radian,

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UGRI and PMI, were also downgraded below the AA rating category. To date, no mortgage insurer has failed to meet its obligations to us. We also obtain bond insurance as an additional credit enhancement with either primary or secondary policies to cover non-agency securities held in either our retained or non-mortgage investment portfolio. At September 30, 2008, we had coverage, including secondary policies on securities, totaling $18 billion of unpaid principal balance. At September 30, 2008, the top four of our bond insurers, Ambac Assurance Corporation, Financial Guaranty Insurance Company, Financial Security Assurance Inc., and MBIA Insurance Corp., each accounted for more than

10% of our overall bond insurance coverage and collectively represented approximately 91% of our total coverage. Three of our bond insurers have had their credit rating downgraded below investment grade by at least one major rating agency. Based upon currently available information, we expect that most of our mortgage and bond insurance counterparties possess adequate financial strength and capital to meet their obligations to us for the near term. For our exposure to mortgage insurers, we evaluate the recovery from insurance policies for mortgage loans in our retained portfolio as well as loans underlying our PCs and Structured Securities as part of the estimate of our loan loss reserves. We evaluate the recovery from primary monoline bond insurance policies as part of our impairment analysis for our investments in securities. We recognized significant impairment losses on certain of these securities covered by bond insurance during the second and third quarters of 2008. If a monoline bond insurer fails to meet its obligations on securities in our retained portfolio, then the fair values of our securities would further decline and result in additional financial losses to us, which could have a material adverse effect on our earnings, financial condition and capital position. To date, none of our bond insurers has failed to meet its obligations concerning any of our non-agency securities. Derivative Portfolio On an ongoing basis, we review the credit fundamentals of all of our derivative counterparties to confirm that they continue to meet our internal standards. We assign internal ratings, credit capital and exposure limits to each counterparty based on quantitative and qualitative analysis, which we update and monitor on a regular basis. We conduct additional reviews when market conditions dictate or events affecting an individual counterparty occur. Six of our derivative counterparties each accounted for greater than 10% and collectively accounted for 85% of our net uncollateralized exposure, excluding commitments, at September 30, 2008. These counterparties included The Royal Bank of Scotland, Bank of America, N.A., Barclays Bank PLC, Citibank N.A., JP Morgan Chase Bank and UBS AG, all rated AA, except The Royal Bank of Scotland and UBS AG, which were rated AAW22; at November 10, 2008. An entity affiliated with Lehman was our counterparty in certain swap transactions. We terminated the transactions and requested payment of the settlement amount, which the entity failed to pay. We then exercised our right to seize collateral previously posted by the entity in connection with the transactions. The collateral was insufficient to cover the settlement amount, leaving a shortfall of approximately $30 million, plus interest. During the third quarter of 2008, we recorded a $27 million reduction to our derivative assets which represents an estimate of the probable loss on this transaction. Other Risks As part of our role as trust administrator for the trusts associated with our PCs and Structured Securities, we periodically make short-term investments using funds of the trusts. The amount we invest each month varies with the size of interest and principal repayments on the related mortgage loans underlying these securities. Our exposure to the trust and its institutional counterparties for any investment losses is for the full amount of these investments for the trust. We have also provided liquidity guarantees to third-parties associated with our issuance of multifamily housing revenue bonds for which we have off-balance sheet exposure to credit risk. See "NOTE 2 -- FINANCIAL GUARANTEES AND SECURITIZED INTEREST IN MORTGAGE RELATED ASSETS" for more information about our exposures from these activities. NOTE 16: SEGMENT REPORTING Effective December 1, 2007, management determined that our operations consist of three reportable segments. As discussed below, we use Segment Earnings to measure and assess the financial performance of our segments. Segment Earnings is calculated for the segments by adjusting GAAP net income (loss) for certain investment-related activities and credit guarantee-related activities. The Segment Earnings measure is provided to the chief operating decision maker. Prior to December 1, 2007, we reported as a single segment using GAAP-basis income. We have revised the financial information and disclosures for prior periods to reflect the segment disclosures as if they had been in effect throughout all periods reported. We conduct our operations solely in the U.S. and its territories. Therefore, we do not generate any revenue from geographic locations outside of the U.S. and its territories. Segments Our business operations include three reportable segments, which are based on the type of business activities each performs -- Investments, Single-family Guarantee and Multifamily. Certain activities that are not part of a segment are included in the All Other category, which primarily includes certain unallocated corporate items, such as costs associated

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with remediating our internal controls and near-term restructuring costs, costs related to the resolution of certain legal matters and certain income tax items. We evaluate our performance and allocate resources based on Segment Earnings, which we describe and present in this note, subject to the conduct of our business under the direction of the Conservator. See "NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- Conservatorship" for further information about the conservatorship. We do not consider our assets by segment when making these evaluations or allocations. Investments Segment In this segment, we invest principally in mortgage-related securities and single-family mortgage loans through our mortgage-related investment portfolio. Segment Earnings consists primarily of the returns on these investments, less the related financing costs and administrative expenses. Within this segment, our activities may include the purchase of mortgage loans and mortgage-related securities with less attractive investment returns and with high incremental risk in order to achieve our affordable housing goals and subgoals. We maintain a cash and a non-mortgage-related securities investment portfolio in this segment to help manage our liquidity. We finance these activities primarily through issuances of short- and long-term debt in the public markets. Results also include derivative transactions we enter into to help manage interest-rate and other market risks associated with our debt financing and mortgage-related investment portfolio. Single-Family Guarantee Segment In this segment, we guarantee the payment of principal and interest on single-family mortgage-related securities, including those held in our retained portfolio, in exchange for management and guarantee fees received over time and other up-front compensation. Earnings for this segment consist of management and guarantee fee revenues and trust management income less the related credit costs (i.e., provision for credit losses) and operating expenses. Also included is the interest earned on assets held in our Investments segment related to single-family guarantee activities, net of allocated funding costs. Multifamily Segment In this segment, we purchase multifamily mortgages for our retained portfolio and guarantee the payment of principal and interest on multifamily mortgage-related securities and mortgages underlying multifamily housing revenue bonds. These activities support our mission to supply financing for affordable rental housing. This segment includes certain equity investments in various limited partnerships that sponsor low- and moderate-income multifamily rental apartments, which benefit from LIHTCs. Also included is the interest earned on assets held in our Investments segment related to multifamily guarantee activities, net of allocated funding costs. All Other All Other includes corporate-level expenses not allocated to any of our reportable segments such as costs associated with remediating our internal controls and near-term restructuring as well as costs related to the resolution of certain legal matters and certain income tax items. Segment Allocations Results of each reportable segment include directly attributable revenues and expenses. Administrative expenses that are not directly attributable to a segment are allocated ratably using alternative, quantifiable measures such as headcount distribution or segment usage if considered semi-direct or on a pre-determined basis if considered indirect. Expenses not allocated to segments consist primarily of costs associated with remediating our internal controls and near-term restructuring costs and are included in the All Other category. Net interest income for each segment includes an allocation related to investments and debt based on each segment's assets and off-balance sheet obligations. The LIHTC partnerships tax benefit is allocated to the Multifamily segment. All remaining taxes are calculated based on a 35% federal statutory rate as applied to Segment Earnings. Segment Earnings In managing our business, we present the operating performance of our segments using Segment

Earnings. Segment Earnings differs significantly from and should not be used as a substitute for GAAP net income (loss) before cumulative effect of change in accounting principle or net income (loss) as determined in accordance with GAAP. There are important limitations to using Segment Earnings as a measure of our financial performance. Among them, our regulatory capital measures are based on our GAAP results, as is the need to obtain funding under the Purchase Agreement. Segment Earnings adjusts for the effects of certain gains and losses and mark-to-fair-value items, which depending on market circumstances, can significantly affect, positively or negatively, our GAAP results and have in recent periods caused us to record significant GAAP net losses. GAAP net losses will adversely impact our GAAP stockholders' equity (deficit), as well as our need for funding under the Purchase Agreement, regardless of results reflected in Segment Earnings. Also, our definition of Segment Earnings may differ from similar measures used by other companies. However, we believe that the presentation of Segment Earnings highlights the results from ongoing operations and the underlying results of the segments in a manner that is useful to the way we manage and evaluate the performance of our business.

Segment Earnings present our results on an accrual basis as the cash flows from our segments are earned over time. The objective of Segment Earnings is to present our results in a manner more consistent with our business models. The business model for our investment activity is one where we generally buy and hold our investments in mortgage-related assets for the long term, fund our investments with debt and use derivatives to minimize interest rate risk, thus generating net interest income in line with our return on equity objectives. We believe it is meaningful to measure the performance of our investment business using long-term returns, not short-term value. The business model for our credit guarantee activity is one where we are a long-term guarantor in the conforming mortgage markets, manage credit risk and generate guarantee and credit fees, net of incurred credit losses. As a result of these business models, we believe that this accrual-based metric is a meaningful way to present our results as actual cash flows are realized, net of credit losses and impairments. We believe Segment Earnings provides us with a view of our financial results that is more consistent with our business objectives and helps us better evaluate the performance of our business, both from period-to-period and over the longer term. As described below, Segment Earnings is calculated for the segments by adjusting GAAP net income (loss) for certain investment-related activities and credit guarantee-related activities. Segment Earnings includes certain reclassifications among income and expense categories that have no impact on net income (loss) but provide us with a meaningful metric to assess the performance of each segment and our company as a whole. Investment Activity-Related Adjustments The most significant risk inherent in our investing activities is interest-rate risk, including duration, convexity and volatility. We actively manage these risks through asset selection and structuring, financing asset purchases with a broad range of both callable and non-callable debt and the use of interest-rate derivatives, designed to economically hedge a significant portion of our interest-rate exposure. Our interest-rate derivatives include interest-rate swaps, exchange-traded futures and both purchased and written options (including swaptions). GAAP-basis earnings related to investment activities of our Investments segment, and to a lesser extent, our Multifamily segment, are subject to significant period-to-period variability, which we believe is not necessarily indicative of the risk management techniques that we employ and the performance of these segments. Our derivative instruments not in hedge accounting relationships are adjusted to fair value under GAAP with resulting gains or losses recorded in GAAP-basis income. Certain other assets are also adjusted to fair value under GAAP with resulting gains or losses recorded in

GAAP-basis income. These assets consist primarily of mortgage-related securities classified as trading and mortgage-related securities classified as available-for-sale when a decline in fair value of available-for-sale securities is deemed to be other than temporary. To help us assess the performance of our investment-related activities, we make the following adjustments to earnings as determined under GAAP. We believe this measure of performance, which we call Segment Earnings, enhances the understanding of operating performance for specific periods, as well as trends in results over multiple periods, as this measure is consistent with assessing our performance against our investment objectives and the related risk-management activities.

ù Derivative and foreign-currency denominated debt-related adjustments:

ù Fair value adjustments on derivative positions, recorded pursuant to GAAP, are not recognized in Segment Earnings as these positions economically hedge the volatility in fair value of our investment activities and debt financing that are not recognized in GAAP earnings.
ù Payments or receipts to terminate derivative positions are amortized prospectively into Segment Earnings on a straight-line basis over the associated term of the derivative instrument.
ù The accrual of periodic cash settlements of all derivatives not in qualifying hedge accounting relationships is reclassified from derivative gains (losses) into net interest income for Segment Earnings as the interest component of the derivative is used to economically hedge the interest associated with the debt.
ù Payments of up-front premiums (e.g., payments made to third parties related to purchased swaptions) are amortized prospectively on a straight-line basis into Segment Earnings over the contractual life of the instrument. The up-front payments, primarily for option premiums, are amortized to reflect the periodic cost associated with the protection provided by the option contract.
ù Foreign-currency translation gains and losses as well as the unrealized fair value adjustments associated with foreign-currency denominated debt along with the foreign-currency derivatives gains and losses are excluded from Segment Earnings because the fair value adjustments on the foreign-currency swaps that we use to manage foreign-currency exposure are also excluded through the fair value adjustment on derivative positions as described above as the foreign-currency exposure is economically hedged.

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

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

ù Trading losses or impairments that reflect expected or realized credit losses are recognized immediately pursuant to GAAP and in Segment Earnings since they are not economically hedged. Fair value adjustments to trading securities related to investments that are economically hedged are not included in Segment Earnings. Similarly, non-credit related security impairment losses as well as GAAP-basis accretion income that may result from impairment adjustments are not included in Segment Earnings.

ù Fully taxable-equivalent adjustment:

ù Interest income generated from tax-exempt investments is adjusted in Segment Earnings to reflect its equivalent yield on a fully taxable basis.

We fund our investment assets with debt and derivatives to manage interest-rate risk as evidenced by our Portfolio Market Value Sensitivity, or PMVS, and duration gap metrics. As a result, in situations where we record gains and losses on derivatives, securities or debt buybacks, these gains and losses are offset by economic hedges that we do not mark-to-fair-value for GAAP purposes. For example, when we realize a gain on the sale of a security, the debt which is funding the security has an embedded loss that is not recognized under GAAP, but instead over time as we realize the interest expense on the debt. As a result, in Segment Earnings, we defer and amortize the security gain to interest income to match the interest expense on the debt that funded the asset. Because of our risk management strategies, we believe that amortizing gains or losses on economically hedged positions in the same periods as the offsetting gains or losses is a meaningful way to assess performance of our investment activities. We believe it is useful to measure our performance using long-term returns, not on a short-term fair value basis. Fair value fluctuations in the short-term are not an accurate indication of long-term returns. In calculating Segment Earnings, we make adjustments to our GAAP-basis results that are designed to provide a more consistent view of our financial results, which helps us better assess the performance of our business segments, both from period-to-period and over the longer term. The adjustments we make to present our Segment Earnings are consistent with the financial objectives of our investment activities and related hedging transactions and provide us with a view of expected investment returns and effectiveness of our risk management strategies that we believe is useful in managing and evaluating our investment-related activities. Although we seek to mitigate the interest-rate risk inherent in our investment-related activities, our hedging and portfolio management activities do not eliminate risk. We believe that a relevant measure of performance should closely reflect the economic impact of our risk management activities. Thus, we amortize the impact of terminated derivatives, as well as gains and losses on asset sales and debt retirements, into Segment Earnings. Although our interest-rate risk and asset/liability management processes ordinarily involve active management of derivatives, asset sales and debt retirements, we believe that Segment Earnings, although it differs significantly from, and should not be used as a substitute for GAAP-basis results, is indicative of the longer-term time horizon inherent in our investment-related activities. Credit Guarantee Activity-Related Adjustments Credit guarantee activities consist largely of our guarantee of the payment of principal and interest on mortgages and mortgage-related securities in exchange for management and guarantee and other fees. Over the longer-term, earnings consist almost entirely of our management and guarantee fee revenues, which include management guarantee fees collected throughout the life of the loan and up-front compensation received, trust management fees less related credit costs (i.e., provision for credit losses) and operating expenses. Our measure of Segment Earnings for these activities consists primarily of these elements of revenue and expense. We believe this measure is a relevant indicator of operating performance for specific periods, as well as trends in results over multiple periods because it more closely aligns with how we manage and evaluate the performance of the credit guarantee business. We purchase mortgages from sellers/servicers in order to securitize and issue PCs and Structured Securities. See "ITEM 13. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA -- AUDITED CONSOLIDATED FINANCIAL STATEMENTS AND ACCOMPANYING NOTES -- NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES" in our Registration Statement for a discussion of the accounting treatment of these transactions. In addition to the components of earnings noted above, GAAP-basis earnings for these activities include gains or losses upon the execution of such transactions, subsequent fair value adjustments to the guarantee asset and amortization of the guarantee obligation. Our credit-guarantee activities also include the purchase of significantly past due mortgage loans from loan pools that underlie our guarantees. Pursuant to GAAP, at the time of our purchase the loans are recorded at fair value. To the extent the

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adjustment of a purchased loan to fair value exceeds our own estimate of the losses we will ultimately realize on the loan, as reflected in our loan loss reserve, an additional loss is recorded in our GAAP-basis results. When we determine Segment Earnings for our credit guarantee-related activities, the adjustments we apply to earnings computed on a GAAP-basis include the following:

ù Amortization and valuation adjustments pertaining to the guarantee asset and guarantee obligation are excluded from Segment Earnings. Cash compensation exchanged at the time of securitization, excluding buy-up and buy-down fees, is amortized into earnings.
ù The initial recognition of gains and losses recorded prior to January 1, 2008 and in connection with the execution of either securitization transactions that qualify as sales or guarantor swap transactions, such as losses on certain credit guarantees, is excluded from Segment Earnings.
ù Fair value adjustments recorded upon the purchase of delinquent loans from pools that underlie our guarantees are excluded from Segment Earnings. However, for Segment Earnings reporting, our GAAP-basis loan loss provision is adjusted to reflect our own estimate of the losses we will ultimately realize on such items.

While both GAAP-basis results and Segment Earnings reflect a provision for credit losses determined in accordance with SFAS 5, GAAP-basis results also include, as noted above, measures of future cash flows (the guarantee asset) that are recorded at fair value and, therefore, are subject to significant adjustment from period-to-period as market conditions, such as interest rates, change. Over the longer-term, Segment Earnings and GAAP-basis income both capture the aggregate cash flows associated with our guarantee-related activities. Although Segment Earnings differs significantly from, and should not be used as a substitute for GAAP-basis income, we believe that excluding the impact of changes in the fair value of expected future cash flows from our

Segment Earnings provides a meaningful measure of performance for a given period as well as trends in performance over multiple periods because it more closely aligns with how we manage and evaluate the performance of our credit guarantee business. Table 16.1 reconciles Segment Earnings (loss) to GAAP net income (loss). Table 16.1 -- Reconciliation of Segment Earnings (Loss) to GAAP Net Income (Loss)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(in millions)			
Segment Earnings (loss) after taxes:				
Investments	$ (1,119)	$ 503	$ (213)	$ 1,588
Single-family Guarantee	(3,501)	(483)	(5,347)	(130)
Multifamily	135	83	351	292
All Other	(6)	(45)	134	(104)
Total Segment Earnings (loss), net of taxes	(4,491)	58	(5,075)	1,646
Reconciliation to GAAP net loss:				
Derivative- and foreign-currency denominated debt-related adjustments	(1,292)	(1,725)	(1,959)	(3,278)
Credit guarantee-related adjustments	(1,076)	(925)	568	(596)
Investment sales, debt retirements and fair value-related adjustments	(7,717)	659	(9,288)	349
Fully taxable-equivalent adjustments	(103)	(98)	(318)	(288)
Total pre-tax adjustments	(10,188)	(2,089)	(10,997)	(3,813)
Tax-related adjustments(1)	(10,616)	793	(10,195)	1,525
Total reconciling items, net of taxes	(20,804)	(1,296)	(21,192)	(2,288)
GAAP net loss	$ (25,295)	$ (1,238)	$ (26,267)	$ (642)

(1) Includes a non-cash charge related to the establishment of a partial valuation allowance against our deferred tax assets of $14.3 billion that is not included in Segment Earnings.

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Table 16.2 presents certain financial information for our reportable segments and All Other. Table 16.2 -- Segment Earnings and Reconciliation to GAAP Results

	Three Months Ended September 30, 2008									
	Net Interest Income (Expense)	Management and Guarantee Income	Other Non-Interest Income (Loss)	Administrative Expenses	Provision for Credit Losses	REO Operations Expense	LIHTC Partnerships	Other Non-Interest Expense	LIHTC Partnerships Tax Benefit	Income Tax (Expense Benefi
	(in millions)									
Investments	$ 1,343	--	$ (1,871)	$ (104)	--	--	--	$ (1,089)	--	$ 60
Single-family	52	883	94	(164)	(5,899)	(333)	--	(20)	--	1,88

Guarantee										
Multifamily	120	20	16	(37)	(14)	--	(121)	(3)	147	
All Other	--	--	(3)	(3)	--	--	--	(3)	--	
Total Segment Earnings (loss), net of taxes	1,515	903	(1,764)	(308)	(5,913)	(333)	(121)	(1,115)	147	2,49
Reconciliation to GAAP net income (loss):										
Derivative- and foreign-currency denominated debt-related adjustments	8	--	(1,300)	--	--	--	--	--	--	-
Credit guarantee-related adjustments	20	(124)	(834)	--	169	--	--	(307)	--	-
Investment sales, debt retirements and fair value-related adjustments	140	--	(7,857)	--	--	--	--	--	--	-
Fully taxable-equivalent adjustments	(103)	--	--	--	--	--	--	--	--	-
Reclassifications(1)	264	53	(359)	--	42	--	--	--	--	-
Tax-related adjustments(2)	--	--	--	--	--	--	--	--	--	(10,616
Total reconciling items, net of taxes	329	(71)	(10,350)	--	211	--	--	(307)	--	(10,616
Total per consolidated statement of income	$ 1,844	$ 832	$ (12,114)	$ (308)	$ (5,702)	$ (333)	$ (121)	$ (1,422)	$ 147	$ (8,118

	Nine Months Ended September 30, 2008									
	Net Interest Income (Expense)	Management and Guarantee Income	Other Non-Interest Income (Loss)	Administrative Expenses	Provision for Credit Losses	REO Operations Expense	LIHTC Partnerships	Other Non-Interest Expense	LIHTC Partnerships Tax Benefit	Income Tax (Expense Benefit
	(in millions)									
Investments	$ 3,123	--	$ (1,981)	$ (365)	--	--	--	$ (1,105)	--	$ 1
Single-family Guarantee	187	2,618	301	(580)	(9,878)	(806)	--	(68)	--	2,87
Multifamily	293	54	31	(135)	(30)	--	(346)	(12)	445	5
All Other	--	--	(2)	(29)	--	--	--	(23)	--	18
Total Segment Earnings (loss), net of taxes	3,603	2,672	(1,651)	(1,109)	(9,908)	(806)	(346)	(1,208)	445	3,23
Reconciliation to GAAP net income (loss):										
Derivative- and foreign-currency denominated debt-related adjustments.	(484)	--	(1,475)	--	--	--	--	--	--	-
Credit guarantee-related adjustments	50	(441)	1,224	--	321	--	--	(586)	--	-
Investment sales, debt retirements and fair value-related adjustments	316	--	(9,604)	--	--	--	--	--	--	-
Fully taxable-equivalent	(318)	--	--	--	--	--	--	--	--	-

adjustments										
Reclassifications(1)	1,004	147	(1,259)	--	108	--	--	--	--	-
Tax-related adjustments(2)	--	--	--	--	--	--	--	--	--	(10,195
Total reconciling items, net of taxes	568	(294)	(11,114)	--	429	--	--	(586)	--	(10,195
Total per consolidated statement of income	$ 4,171	$ 2,378	$ (12,765)	$ (1,109)	$ (9,479)	$ (806)	$ (346)	$ (1,794)	$ 445	$ (6,962

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Three Months Ended September 30, 2007

	Net Interest Income (Expense)	Management and Guarantee Income	Other Non-Interest Income (Loss)	Administrative Expenses	Provision for Credit Losses	REO Operations Expense	LIHTC Partnerships	Other Non-Interest Expense	LIHTC Partnerships Tax Benefit	Inco Ta (Expe Bene
	(in millions)									
Investments	$ 909	--	$ (4)	$ (125)	--	--	--	$ (7)	--	$ (
Single-family Guarantee	181	738	27	(203)	(1,417)	(50)	--	(18)	--	
Multifamily	88	14	7	(48)	(16)	(1)	(111)	(4)	129	
All Other	1	--	5	(52)	--	--	--	(17)	--	
Total Segment Earnings (loss), net of taxes	1,179	752	35	(428)	(1,433)	(51)	(111)	(46)	129	
Reconciliation to GAAP net income (loss):										
Derivative- and foreign-currency denominated debt-related adjustments.	(261)	--	(1,464)	--	--	--	--	--	--	
Credit guarantee-related adjustments(3)	11	(41)	141	--	26	--	--	(1,062)	--	
Investment sales, debt retirements and fair value-related adjustments	84	--	575	--	--	--	--	--	--	
Fully taxable-equivalent adjustments	(98)	--	--	--	--	--	--	--	--	
Reclassifications(1)(3)	(154)	7	112	--	35	--	--	--	--	
Tax-related adjustments	--	--	--	--	--	--	--	--	--	
Total reconciling items, net of taxes	(418)	(34)	(636)	--	61	--	--	(1,062)	--	
Total per consolidated statement of income	$ 761	$ 718	$ (601)	$ (428)	$ (1,372)	$ (51)	$ (111)	$ (1,108)	$ 129	$

Nine Months Ended September 30, 2007

	Net Interest Income	Management and Guarantee	Other Non-Interest	Administrative	Provision for Credit	REO Operations	LIHTC	Other Non-Interest	LIHTC Partnerships	Inco Ta (Expe

	(Expense)	Income	Income (Loss)	Expenses	Losses	Expense	Partnerships	Expense	Tax Benefit	Bene
					(in millions)					
Investments	$ 2,801	--	$ 50	$ (386)	--	--	--	$ (22)	--	$ (
Single-family Guarantee	528	2,119	77	(611)	(2,175)	(80)	--	(58)	--	
Multifamily	305	44	16	(142)	(20)	(1)	(354)	(16)	402	
All Other	--	--	7	(134)	--	--	--	(34)	--	
Total Segment Earnings (loss), net of taxes	3,634	2,163	150	(1,273)	(2,195)	(81)	(354)	(130)	402	(
Reconciliation to GAAP net income (loss):										
Derivative- and foreign-currency denominated debt-related adjustments	(910)	--	(2,368)	--	--	--	--	--	--	
Credit guarantee-related adjustments(3)	24	(240)	1,474	--	54	--	--	(1,908)	--	
Investment sales, debt retirements and fair value-related adjustments	198	--	151	--	--	--	--	--	--	
Fully taxable-equivalent adjustments	(288)	--	--	--	--	--	--	--	--	
Reclassifications(1)(3)	(333)	14	245	--	74	--	--	--	--	
Tax-related adjustments	--	--	--	--	--	--	--	--	--	1
Total reconciling items, net of taxes	(1,309)	(226)	(498)	--	128	--	--	(1,908)	--	1
Total per consolidated statement of income	$ 2,325	$ 1,937	$ (348)	$ (1,273)	$ (2,067)	$ (81)	$ (354)	$ (2,038)	$ 402	$

(1) Include the reclassification of: (a) the accrual of periodic cash settlements of all derivatives not in qualifying hedge accounting relationships from other non-interest income (loss) to net interest income (expense) within our Investments segment; (b) implied management and guarantee fees from net interest income (expense) to other non-interest income (loss) within our Single-family Guarantee and Multifamily segments; (c) net buy-up and buy-down fees from management and guarantee income to net interest income (expense) within the Investments segment; (d) interest income foregone on impaired loans from net interest income (expense) to provision for credit losses within our Single-family Guarantee segment; and (e) certain hedged interest benefit (cost) amounts related to trust management income from other non-interest income (loss) to net interest income (expense) within our Investments segment.
(2) Includes a non-cash charge related to the establishment of a partial valuation allowance against our deferred tax assets of $14.3 billion that is not included in Segment Earnings.
(3) Certain prior period amounts within net interest income and provision for credit losses previously reported as a component of credit guarantee-related adjustments have been reclassified to reclassifications to conform to the current period presentation.

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NOTE 17: EARNINGS (LOSS) PER SHARE We have participating securities related to options with dividend equivalent rights that receive dividends as declared on an equal basis with common shares, but are not obligated to participate in undistributed net losses. Consequently, in accordance with EITF 03-6, "Participating Securities and the Two-Class Method under FASB Statement No. 128", we use the "two-class" method of computing earnings per share. Basic earnings per common share are computed by dividing net income (loss) available per common share by weighted average common shares outstanding -- basic for the period. The weighted average common shares outstanding -- basic during the three and nine months ended September 30, 2008 includes the weighted average number of shares during the periods that are associated with the warrant for our common stock issued to Treasury as part of the Purchase Agreement since it is unconditionally exercisable by the holder at a minimal cost. See "NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- Conservatorship" for further information. Diluted earnings (loss) per share are computed as net income (loss) available to common stockholders divided by weighted average common shares outstanding -- diluted for the period, which considers the effect of dilutive common equivalent shares outstanding. For periods with net income the effect of dilutive common equivalent shares outstanding includes: (a) the weighted average shares related to stock options (including the Employee Stock Purchase Plan); and (b) the weighted average of non-vested restricted shares and non-vested restricted stock units. Such items are included in the calculation of weighted average common shares outstanding -- diluted during periods of net income, when the assumed conversion of the share equivalents has a dilutive effect. Such items are excluded from the weighted average common shares outstanding -- basic. Table 17.1 -- Earnings (Loss) Per Common Share -- Basic and Diluted

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(dollars in millions, except per share amounts)			
Net loss	$ (25,295)	$ (1,238)	$ (26,267)	$ (642)
Preferred stock dividends and issuance costs on redeemed preferred stock	(6)	(102)	(509)	(292)
Amounts allocated to participating security option holders(1)	--	(2)	(1)	(4)
Net loss applicable to common shareholders -- basic(2)	$ (25,301)	$ (1,342)	$ (26,777)	$ (938)
Weighted average common shares outstanding -- basic(3) (in thousands)	1,301,430	647,377	866,472	653,825
Dilutive potential common shares (in thousands)	--	--	--	--
Weighted average common shares outstanding -- diluted (in thousands)	1,301,430	647,377	866,472	653,825
Basic loss per common share	$ (19.44)	$ (2.07)	$ (30.90)	$ (1.43)
Diluted loss per common share	$ (19.44)	$ (2.07)	$ (30.90)	$ (1.43)
Antidilutive potential common shares excluded from the computation of dilutive potential common shares (in thousands)	11,462	8,609	10,611	8,580

(1) Represents distributed earnings during periods of net losses.
(2) Includes distributed and undistributed earnings to common shareholders.
(3) Includes the weighted average number of shares during the 2008 periods that are associated with the warrant for our common stock issued to Treasury as part of the Purchase Agreement. This warrant is included in shares

outstanding -- basic, since it is unconditionally exercisable by the holder at a minimal cost of $.00001 per share.

NOTE 18: MINORITY INTERESTS The equity and net earnings attributable to the minority stockholder interests in consolidated subsidiaries are reported on our consolidated balance sheets as minority interests in consolidated subsidiaries and on our consolidated statements of income as minority interests in earnings of consolidated subsidiaries. The majority of the balances in these accounts relate to our two majority-owned REITs. In February 1997, we formed two majority-owned REIT subsidiaries funded through the issuance of common stock (99.9% of which is held by us) and a total of $4.0 billion of perpetual, step-down preferred stock issued to outside investors. The dividend rate on the step-down preferred stock was 13.3% from initial issuance through December 2006 (the initial term). Beginning in 2007, the dividend rate on the step-down preferred stock was reduced to 1.0%. Dividends on this preferred stock accrue in arrears. The balance of the two step-down preferred stock issuances as recorded within minority interests in consolidated subsidiaries on our consolidated balance sheets totaled $88 million and $167 million at September 30, 2008 and December 31, 2007, respectively. The preferred stock continues to be redeemable by the REITs under certain circumstances described in the preferred stock offering documents as a "tax event redemption." On September 19, 2008, the Director of FHFA, as Conservator, advised us of FHFA's determination that no further common or preferred stock dividends should be paid by our REIT subsidiaries. FHFA specifically directed us, as the controlling shareholder of both REIT subsidiaries, and the boards of directors of both companies not to declare or pay any dividends on the step-down preferred stock of the REITs until FHFA directs otherwise. With regard to dividends on the step-

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down preferred stock of the REITs held by third parties, there were $2 million of dividends in arrears as of September 30, 2008. NOTE 19: SUBSEQUENT EVENTS At September 30, 2008, our liabilities exceeded our assets under GAAP by $(13.7) billion while our stockholders' equity (deficit) totaled $(13.8) billion. The Director of FHFA has submitted a request under the Purchase Agreement in the amount of $13.8 billion to Treasury. We expect to receive such funds by November 29, 2008. If the Director of FHFA were to determine in writing that our assets are, and have been for a period of 60 days, less than our obligations to creditors and others, FHFA would be required to place us into receivership. Upon receipt of this draw, the aggregate liquidation preference of the senior preferred stock will increase to $14.8 billion, and our annual aggregate dividend payment to Treasury, at the 10% dividend rate, would increase to $1.5 billion. If we are unable to pay such dividend in cash in any quarter, the unpaid amount will be added to the aggregate liquidation preference of the senior preferred stock and the dividend rate on the unpaid liquidation preference will increase to 12% per year.

PART II -- OTHER INFORMATION ITEM 1. LEGAL PROCEEDINGS We are involved as a party to a variety of legal proceedings arising from time to time in the ordinary course of business. See "NOTE 11: LEGAL CONTINGENCIES" to our consolidated financial statements for more information regarding our involvement as a party to various legal proceedings. ITEM 1A. RISK FACTORS This Form 10-Q should be read together with the "ITEM 1A. RISK FACTORS" section in our Form 10-Q for the quarter ended June 30, 2008 and our Registration Statement, which describes various risks and uncertainties to which we are or may become subject, and is supplemented by the discussion below. These risks and uncertainties could, directly or indirectly, adversely affect our business, financial condition, results of operations, cash flows, strategies and/or prospects. Recent events fundamentally affecting the control, management and operation of the company, including the establishment of the conservatorship, are likely to affect our strategic objectives, as well as our future financial condition and results of operations. We are under the control of FHFA, acting as Conservator, and have a new chief executive officer and a new non-executive chairman of our board of directors, appointed by the Director of FHFA. In announcing the conservatorship, the Director of FHFA stated his conclusion that Freddie Mac could not continue to operate safely and soundly and fulfill its mission without significant action. At the same time, the Secretary of Treasury stated that because Freddie Mac is in conservatorship, it will no longer be managed with a strategy to maximize common shareholder returns. Further, FHFA, as Conservator, has directed the company to focus on managing to a positive stockholders' equity. In view of the conservatorship and the reasons stated by FHFA for its establishment, it is likely that our business model and strategic objectives will change, possibly significantly. Among other things, we could experience significant changes in the size, growth and characteristics of our guarantor and portfolio investment activities, and we could materially change our operational objectives, including our pricing strategy in our core mortgage guarantee business. Accordingly, our strategic and operational focus going forward may not be consistent with the investment objectives of our shareholders. It is possible that we will make material changes to our capital strategy and to our accounting policies, methods, and estimates. It is also possible that the company could be restructured and its statutory mission revised. In addition, we are subject to limitations under the Purchase Agreement that affect the amount of indebtedness we may incur, the size of our retained portfolio and the circumstances in which we may pay dividends, raise capital and pay down the liquidation preference on the senior preferred stock. These changes and other factors could have material effects on, among other things, our portfolio growth, capital, credit losses, net interest income, guarantee fee income, deferred tax assets, and loan loss reserves, and could have a material adverse effect on our future results of operations and financial condition. In light of the significant uncertainty surrounding these changes, there can be no assurances regarding the amount or timing of our future profitability. The conservatorship is indefinite in duration and the timing, conditions and likelihood of our emerging from conservatorship are uncertain. FHFA has stated that there is no exact time frame as to when the conservatorship may end. Under the conservatorship, FHFA controls Freddie Mac and has all rights, titles, powers and privileges of Freddie Mac and of any stockholder, officer, or director of Freddie Mac with respect to Freddie Mac and its assets, as well as title to all books, records, and assets of any other legal custodian of Freddie Mac. While the Director of FHFA has stated that he intends to terminate the conservatorship upon his determination that FHFA's plan to restore Freddie Mac to a safe and solvent condition has been completed successfully, there can be no assurance as to the timing of the completion of such plan, that such plan will be able to be completed successfully or that, upon successful completion Freddie Mac will retain its current structure. Further, it is possible that the company could be placed into receivership by FHFA pursuant to its authority under the Reform Act, which would require the company to be liquidated. Termination of the conservatorship also requires Treasury's consent under the Purchase Agreement. There can be no assurance as to when, and under what circumstances, Treasury would give such consent. In addition to the existing conservatorship, Treasury has the ability to acquire a majority of our common stock by exercising the warrant we issued to it pursuant to the Purchase Agreement. Consequently, the company could effectively remain under the control of the U.S. government even if the conservatorship was ended and the voting rights of common stockholders restored. The warrant held by

Treasury and the senior status of the senior preferred stock issued to Treasury under the Purchase Agreement, if the senior preferred stock has not been redeemed, also could adversely affect our ability to attract new private sector capital in the future should the company be in a position to seek such capital.

Our regulator is authorized to place us into receivership under certain conditions, which would result in the liquidation of our assets and terminate all rights and claims that our shareholders and creditors may have against our assets or under our charter. Under the Regulatory Reform Act, FHFA must place us into receivership if our assets are less than our obligations or if we have not been paying our debts, in either case, for a period of 60 days. In addition, we could be put in receivership at the discretion of the Director of FHFA at any time for other reasons, including conditions that FHFA has already asserted existed at the time the Director of FHFA placed into conservatorship. These include: a substantial dissipation of assets or earnings due to unsafe or unsound practices; the existence of an unsafe or unsound condition to transact business; an inability to meet our obligations in the ordinary course of business; a weakening of our condition due to unsafe or unsound practices or conditions; critical undercapitalization; the likelihood of losses that will deplete substantially all of our capital; or by consent. A receivership would terminate the conservatorship. In addition to the powers FHFA has as Conservator, the appointment of FHFA as our receiver would terminate all rights and claims that our shareholders and creditors may have against our assets or under our charter arising as a result of their status as shareholders or creditors. Unlike a conservatorship, the purpose of which is to conserve our assets and return us to a sound and solvent condition, the purpose of a receivership is to liquidate our assets and resolve claims against us. It should be noted that, even in receivership, the ability to draw on Treasury's funding commitment under the Purchase Agreement remains. In the event of a liquidation of our assets, only after paying the secured and unsecured claims of the company, the administrative expenses of the receiver and the liquidation preference of the senior preferred stock would any liquidation proceeds be available to repay the liquidation preference on any other series of preferred stock. Finally, only after the liquidation preference on all series of preferred stock is repaid would any liquidation proceeds be available for distribution to the holders of our common stock. There can be no assurance that there would be sufficient proceeds to repay the liquidation preference of any series of our preferred stock or to make any distribution to the holders of our common stock. To the extent that we are placed in receivership and do not or cannot fulfill our guarantee to the holders of our mortgage-backed securities, they could become unsecured creditors of our with respect claims made under our guarantee. We have a variety of different, and potentially conflicting, objectives that may adversely affect our ability to maintain a positive net worth and extend the period of time until we might be able to return to profitability. Based our charter, public statements from Treasury officials and guidance from our Conservator, we have a variety of different, and potentially conflicting, objectives. These objectives include providing liquidity, stability and affordability in the mortgage market; immediately providing additional assistance to the struggling housing and mortgage markets; reducing the need to draw funds from Treasury pursuant to the Purchase Agreement; returning to long-term profitability; and protecting the interests of the taxpayers. These objectives create conflicts in strategic and day-to-day decision making that will likely lead to less than optimal outcomes for one or more, or possibly all, of these objectives. Recent events fundamentally affecting the management and operation of the company, including the establishment of the conservatorship and significant turnover in our senior management and board of directors, increases our control risks. With FHFA in a new role as our Conservator, a new Chief Executive Officer and new non-executive Chairman of our Board of Directors, the departure of eight members from our Board of Directors, and other recent changes to our senior management, including the departures of our former Chief Financial Officer and our former Chief Business Officer and the appointment of an Acting Chief Financial Officer and Acting Principal Accounting Officer, control failures may arise from these changes and transitions in the operation of the company and in board and senior management oversight. The magnitude of these changes and the short time interval in which they have occurred add to the risks of an operational failure, including a failure in the effective operation of the company's internal control over financial reporting or its disclosure controls and procedures. As discussed under "CONTROLS AND PROCEDURES," we have determined that we do not have effective independent audit committee oversight of our financial reporting process, and we have not yet updated the design of our disclosure controls and procedures to take account of the conservatorship, which we consider to be material weaknesses in internal control over financial reporting. Such risks could result in material adverse effects on the company's financial condition and results of operations. Legislative and regulatory developments could materially affect our business and prospects. The future status and role of Freddie Mac could be affected by legislative and regulatory action that alters the ownership, structure and mission of the company. The Reform Act provides FHFA with more expansive regulatory authority over us than was held by OFHEO and the manner in which this authority will be implemented currently is unclear. FHFA has stated that it intends to work expeditiously on the many regulations needed to implement the Reform Act, including with respect to capital standards, prudential safety and soundness standards and portfolio limits. These developments, such as the HOPE for Homeowners Program, as well as future legislative actions, could materially affect our operations, our ability or intent to retain investments, the size and growth of our total mortgage portfolio, our capital, future earnings, and the fair value of our assets.

We expect that the financial services and mortgage industries will face increased regulation, whether by legislation or regulatory actions. Our business activities may be directly affected by any such legislative and regulatory actions. We may also be indirectly affected to the extent any such actions affect the activities of banks, savings institutions, insurance companies, securities dealers and other regulated entities that constitute a significant part of our customer base or counterparties. If we are unable to recruit and retain employees with the necessary skills, our ability to conduct our business activities effectively during the conservatorship may be adversely affected and our ability to return to long-term profitability may be impaired. Our ability to recruit and retain employees with the necessary skills to conduct our business may be adversely affected by the conservatorship, the uncertainty regarding its duration and the potential for future legislative or regulatory actions that could significantly affect our status as a GSE and our role in the secondary mortgage market. Although we have established a retention program providing for cash awards that are designed to help retain key employees, we are not currently in a position to offer employees financial incentives that are equity-based and, as a result of this and other factors relating to the conservatorship that may affect our attractiveness as an employer, we may be at a competitive disadvantage compared to other potential employers. Accordingly, we may not be able to retain or replace employees with key skills and our ability to conduct our business effectively could be adversely affected. The Purchase Agreement (in particular additional large draws) could adversely affect our future financial condition. A variety of factors could materially affect the level and volatility of our GAAP stockholders' equity (deficit) in future periods, requiring us to make additional draws under the Purchase Agreement. Key factors include continued deterioration in the housing market, which could increase credit expenses; adverse changes in interest rates, the yield curve, implied volatility or mortgage OAS, which could increase realized and unrealized mark-to-market losses recorded in earnings or AOCI; dividend obligations under the Purchase Agreement; establishment of a valuation allowance against our remaining deferred tax assets; changes in accounting practices or standards; or changes in business practices resulting from legislative and regulatory developments or mission fulfillment activities or as directed by the Conservator. At September 30, 2008, our remaining deferred tax assets, which could be subject to a valuation allowance in future periods, totaled $11.9 billion. In addition, during October 2008 mortgage spreads widened significantly, resulting in additional mark-to-market losses included in stockholders' equity. Given these factors, it is possible that we may make additional large draws under the Purchase Agreement, which would result in considerably higher dividends. The maximum aggregate amount that may be funded under the Purchase Agreement is $100 billion while dividends on the senior preferred stock issued under the Purchase Agreement are cumulative and accrue at a rate of 10% per year or 12% in any quarter in which dividends are not paid in cash. In addition, beginning in 2010, we are obligated to pay a quarterly commitment fee to Treasury in exchange for its continued funding commitment under the Purchase Agreement. This fee has not yet been established and could be substantial. To the extent we are required to make large draws under the Purchase Agreement, our dividend obligation on the senior preferred stock would increase considerably. A substantial increase in our dividend obligation to Treasury will continue indefinitely and there is no assurance that we will be able to pay that obligation in any future period. This combined with potentially substantial commitment fees payable to Treasury and limited flexibility to pay down capital draws could have a significant adverse impact on our future financial condition. The conservatorship and investment by Treasury has had, and will continue to have, a material adverse effect on our common and preferred shareholders. No voting rights during conservatorship. The rights and powers of our shareholders are suspended during the conservatorship. The conservatorship has no specified termination date. During the conservatorship, our common shareholders do not have the ability to elect directors or to vote on other matters unless the conservator delegates this authority to them. Dividends have been eliminated. The conservator has eliminated common and preferred stock dividends (other than dividends on the senior preferred stock) during the conservatorship. In addition, under the terms of the senior preferred stock purchase agreement, dividends may not be paid to common or preferred shareholders (other than the senior preferred stock) without the consent of Treasury, regardless of whether or not we are in conservatorship. No longer managed to maximize shareholder returns. According to a statement made by the Secretary of the Treasury on September 7, 2008, because we are in conservatorship, we "will no longer be managed with a strategy to maximize shareholder returns." Liquidation preference of senior preferred stock. The senior preferred stock ranks prior to our common stock and all other series of our preferred stock, as well as any capital stock we issue in the future, as to both dividends and distributions upon liquidation. Accordingly, if we are liquidated, the senior preferred stock is entitled to its then-current liquidation

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preference, plus any accrued but unpaid dividends, before any distribution is made to the holders of our common stock or other preferred stock. As of November 13, 2008, the liquidation preference on the senior preferred stock was $1 billion, but will increase to $14.8 billion following funding of our draw under the Purchase Agreement. The liquidation preference could increase substantially if we make additional draws under the Purchase Agreement, if we do not pay dividends owed on the senior preferred stock or if we do not pay the quarterly commitment fee under the Purchase Agreement. If we are liquidated, there may not be sufficient funds remaining after payment of amounts to our creditors and to Treasury as holder of the senior preferred stock to make any distribution to holders of our common stock and other preferred stock. Warrant may substantially dilute investment of current shareholders. If Treasury exercises its warrant to purchase shares of our common stock equal to 79.9% of the total number of shares of our common stock outstanding on a fully diluted basis, the ownership interest in the company of our then existing common shareholders will be substantially diluted. It is possible that private shareholders will not own more than 20.1% of our total common equity for the duration of our existence. Market price and liquidity of our common and preferred stock has substantially declined and may decline further. After our entry into conservatorship, the market price for our common stock declined substantially (to a low of less than $1 per share at times) and the investments of our common and preferred shareholders have lost substantial value. Our common and preferred stock may never recover their value and we do not know if or when we will pay dividends in the future. We do not know when or how the conservatorship will be terminated, and if or when the rights and powers of our shareholders, including the voting powers of our common shareholders, will be restored. Moreover, even if the conservatorship is terminated, by their terms, we remain subject to the senior preferred stock purchase agreement, senior preferred stock and warrant. For a description of additional restrictions on and risks to our shareholders, see "Part I -- Item 2 -- MD&A -- Conservatorship and Treasury Agreements -- Effect of Conservatorship and Treasury Agreements on Stockholders." Our limited ability to access the debt capital markets, particularly the long-term debt markets, has had, and may continue to have, a material adverse effect on our ability to fund our operations and on our costs, liquidity, business, results of operations, financial condition and net worth. Our ability to operate our business, meet our obligations and generate net interest income depends primarily on our ability to issue substantial amounts of debt frequently, with a variety of maturities and call features and at attractive rates. Since early July 2008, market concerns about our capital position and the future of our business (including future profitability, future structure, regulatory actions and agency status) and the extent of U.S. government support for our business has adversely affected our access to the unsecured debt markets, particularly for long-term or callable debt. Given our significantly limited ability to issue long-term debt, we are likely to continue to need to meet these refinancing requirements by issuing short-term debt, increasingly exposing us to the risk of increasing interest rates, adverse credit market conditions and insufficient demand for our debt to meet our refinancing needs. Due to current financial market conditions and current market concerns about our business, we currently expect this trend toward dependence on short-term debt and increased rollover risk to continue. In addition, our increasing reliance on short-term debt, combined with limitations on the availability of a sufficient volume of reasonably priced derivative instruments to hedge that short-term debt position, may have an adverse impact on our duration and interest rate risk management positions. If we are unable to issue both short- and long-term debt securities at attractive rates and in amounts sufficient to operate our business and meet our obligations, it would have a continuing material adverse effect on our liquidity, earnings, financial condition and net worth. Market uncertainty and volatility will continue to adversely affect our business, profitability and results of operations. The mortgage credit markets have continued to experience very difficult conditions and volatility in 2008. The deteriorating conditions in these markets have resulted in a decrease in availability of corporate credit and liquidity within the mortgage industry, causing disruptions to normal operations of major mortgage originators, including some of our largest customers, and have resulted in the insolvency, closure or acquisition of a number of major financial institutions. These conditions have also resulted in less liquidity, greater volatility, widening of credit spreads and a lack of price transparency and have contributed to further consolidation within the financial services industry. We operate in these markets and continue to be subject to potential adverse effects on our financial condition and results of operations due to our activities involving securities, mortgages, derivatives and other mortgage commitments with our customers. General economic conditions may continue to contribute to further deterioration in the credit quality of our total mortgage portfolio and could continue to have an adverse impact on our business. During 2008, the U.S. housing market has continued to experience significant adverse trends, including accelerating price depreciation in some markets and rising delinquency and default rates. These conditions have led to significant increases in our loan delinquencies and credit losses and higher provisioning for loan losses that have adversely affected our

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earnings. We expect that housing prices will experience significant further deterioration in the remainder of 2008 continuing into 2009 with further adverse effects on our operating results, business and financial condition. Furthermore, a recession or depression, either in the U.S. as a whole or in specific regions of the country, would be likely to significantly increase the level of delinquencies and credit losses and adversely affect our financial condition and results of operations. Deteriorating market conditions increase the risk that our models will produce unreliable results. We use market-based information as inputs to our models, which are used to make operational decisions as well as derive estimates for use in our financial reporting processes. The turmoil in the housing and credit markets creates additional risk regarding the reliability of our models, particularly since we are making adjustments to our models in response to rapid changes in economic conditions. This may increase the risk that our models could produce unreliable results or estimates that vary widely or prove to be inaccurate. The liquidity crisis in the credit markets may adversely impact the cost of funding available to us. Our profitability may also be adversely affected as we obtain funding under the Purchase Agreement or the Lending Agreement. The current liquidity crisis may increase our funding costs and reduce our earnings. In addition, our funding costs will increase upon further draws under the Purchase Agreement or if we borrow under the Lending Agreement. In addition, our ability to obtain funding in the public debt markets or by pledging mortgage-related securities as collateral to commercial institutions could cease or change rapidly and the cost of the available funding could increase significantly due to changes in market confidence, as well as demand for our obligations as compared to those of other market participants. Our financial condition and results of operations and our ability to return to long-term profitability may be affected by the nature, extent and success of the actions taken by the U.S. government pursuant to the Emergency Economic Stabilization Act of 2008. Conditions in the overall economy and the mortgage markets in particular may be affected in both the short and long-term by the implementation of the Emergency Economic Stabilization Act of 2008, or EESA. The effect that the implementation of this law may have on our business is uncertain. In addition, there can be no assurance as to the actual impact that EESA will have on the financial markets, including the extreme levels of volatility and limited credit availability currently being experienced. The failure of EESA to help stabilize the financial markets and a continuation or worsening of current financial market conditions could materially and adversely affect our business, financial condition, results of operations, or access to the debt markets. The future growth of our retained portfolio is significantly limited under the Purchase Agreement, which will result in greater reliance on our guarantee activities to generate profits. Under the Purchase Agreement, our retained mortgage and mortgage-backed securities portfolio as of December 31, 2009 may not exceed $850 billion, and must decline by 10% per year thereafter until it reaches $250 billion. In addition, without the prior consent of Treasury, we may not increase total indebtedness to more than 110% of our indebtedness as of June 30, 2008 or become liable for any subordinated indebtedness. These limitations will reduce the earnings capacity of our retained portfolio business and require us to place greater emphasis on our guarantee activities to generate earnings. Our financial condition or results of operations may be adversely affected by the financial distress of our derivative and other counterparties. Due to recent market events some of our derivative and other counterparties have experienced various degrees of financial distress, including liquidity constraints, credit downgrades and bankruptcy. Our financial condition and results of operations may be adversely affected by the financial distress of these derivative and other counterparties in the event that they fail to meet their obligations to us. For example, we may incur losses if collateral held by us cannot be realized upon or is liquidated at prices not sufficient to recover the full amount of the loan or derivative exposure due us. In addition, our ability to engage in routine derivatives, funding and other transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial services institutions are interrelated as a result of trading, clearing, counterparty or other relationships. As a result, defaults by, or even rumors or questions about, one or more financial services institutions, or the financial services industry generally, could lead to market-wide disruptions in which it may be difficult for us to find counterparties for such transactions. Our financial condition or results of operations may be adversely affected if mortgage seller/servicers fail to perform their obligations to service loans in our single-family mortgage portfolio as well as to repurchase loans sold to us in breach of representations and warranties. Our seller/servicers have a significant role in servicing loans in our single-family mortgage portfolio, which includes an active role in our loss mitigation efforts. We also require seller/servicers to make certain representations and warranties regarding the loans they sell to us. If loans are sold to us in breach of those representations and warranties, we have the contractual right to require the seller/servicer to repurchase those loans from us. Our institutional credit risk exposure to our

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seller/servicer counterparties includes the risk that they will not perform their obligation to service loans in our single-family mortgage portfolio as well as to repurchase loans, which could adversely affect our financial condition or results of operations. The risk of such a failure has increased as deteriorating market conditions have affected the liquidity and financial condition of some of our largest seller/servicers. The inability to realize the anticipated benefits of our loss mitigation plans, a lower realized rate of seller/servicer repurchases or default rates and severity that exceed our current projections could cause our losses to be significantly higher than those currently estimated. See "PART I -- ITEM 2. MD&A -- CREDIT RISKS -- Institutional Credit Risk -- Mortgage Seller/Servicers" for additional information on our institutional credit risk related to our mortgage seller/servicers and as a result of the recent acquisitions of certain of our seller/servicers by third parties. Mortgage fraud could result in significant financial losses and harm to our reputation. We rely on representations and warranties by seller/servicers about the characteristics of the single-family mortgage loans we purchase and securitize, and we do not independently verify most borrower information that is provided to us. This exposes us to the risk that one or more of the parties involved in a transaction (the borrower, seller, broker, appraiser, title agent, lender or servicer) will engage in fraud by misrepresenting facts about a mortgage loan. We may experience significant financial losses and reputational damage as a result of mortgage fraud. We may be required to establish a valuation allowance against the remainder of our deferred tax assets, which could materially affect our results of operations and capital position in the future. In the third quarter of 2008, we recorded a $14.1 billion partial valuation allowance against our deferred tax assets. As of September 30, 2008, our management determined that a valuation allowance is not necessary for the remainder of our deferred tax assets, which are dependent upon our intent and ability to hold available-for-sale debt securities until the recovery of any temporary unrealized losses. The future status and role of Freddie Mac could be affected by legislative and regulatory action that alters the ownership, structure and mission of the company. The uncertainty of these developments, as well as future legislative actions, could materially affect our operations, including our ability or intent to retain investments until the recovery of any temporary unrealized losses. If future events significantly differ from our current status, a valuation allowance may need to be established for the remaining deferred tax assets. The price and trading liquidity of our common stock and our NYSE-listed issues of preferred stock may be adversely affected if those securities are delisted from the NYSE. Our current compliance with NYSE's continued listing standards is uncertain due to changes in our governance structure resulting from imposition of the conservatorship. If we do not satisfy the minimum share price, corporate governance and other requirements of the continued listing standards of the NYSE, our common stock and NYSE-listed issues of preferred stock could be delisted from the NYSE. During the quarter ended September 30, 2008, the closing price of our common stock on the NYSE was below $1.00 on some days. If the average closing price of our common stock price is below $1.00 over a consecutive 30 trading-day period and we are not able to cure the price deficiency within the six-month period provided by the NYSE's rules, our common stock could be delisted from the NYSE. The delisting of our common stock or NYSE-listed preferred stock would require any trading in these securities to occur in the over-the-counter market and could adversely affect the market prices and liquidity of the markets for these securities. FHFA has eliminated the payment of dividends on our common and preferred stock (other than the senior preferred stock held by Treasury). It is unclear whether or when we may resume paying dividends on our common and preferred stock (other than the senior preferred stock). Under the conservatorship, FHFA has eliminated the payment of dividends on our common and preferred stock (other than the senior preferred stock), adversely affecting the prices for these securities. In addition, under the Purchase Agreement, we may not pay any such dividends unless we receive Treasury's prior written consent. ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS Recent Sales of Unregistered Securities The securities we issue are "exempted securities" under the Securities Act of 1933, as amended. As a result, we do not file registration statements with the SEC with respect to offerings of our securities. In connection with the Purchase Agreement, we issued senior preferred stock with an initial aggregate liquidation preference of $1 billion to Treasury as of September 8, 2008. The terms of the senior preferred stock are set forth in the Certificate of Creation, Designation, Powers, Preferences, Rights, Privileges, Qualifications, Limitations, Restrictions, Terms and Conditions of Variable Liquidation Preference Senior Preferred Stock. In addition, pursuant to the Purchase Agreement, we issued to Treasury on September 7, 2008 a warrant for the purchase of our common stock representing 79.9% of our common stock outstanding on a fully diluted basis at a price of $0.00001 per share.

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We issued the senior preferred stock and the warrant directly to Treasury in consideration of the commitment set forth in the Purchase Agreement, and for no additional consideration. The issuance of the senior preferred stock and warrant to Treasury had no impact on total stockholders' equity (deficit) as the offset was to additional paid-in capital. The senior preferred stock and the warrant were issued without the participation of an underwriter or placement agent. Following the implementation of the conservatorship, we have suspended the operation of our Employee Stock Purchase Plan, or ESPP, and will no longer make grants under our 2004 Stock Compensation Plan, or 2004 Employee Plan, or our 1995 Directors' Stock Compensation Plan, as amended and restated, or Directors' Plan. Under the Purchase Agreement, we cannot issue any new options, rights to purchase, participations or other equity interests without Treasury's prior approval. However, grants outstanding as of the date of the Purchase Agreement remain in effect in accordance with their terms. Prior to the implementation of the conservatorship, we regularly provided stock compensation to our employees and members of our board of directors under the ESPP, the 2004 Employee Plan and the Directors' Plan. Prior to the stockholder approval of the 2004 Employee Plan, employee stock-based compensation was awarded in accordance with the terms of the 1995 Stock Compensation Plan, or 1995 Employee Plan. Although grants are no longer made under the 1995 Employee Plan, we currently have awards outstanding under this plan. We collectively refer to the 2004 Employee Plan and 1995 Employee Plan as the Employee Plans. During the three months ended September 30, 2008, no stock options were granted or exercised under our Employee Plans or Directors' Plan. Under our ESPP, options to purchase 110,112 shares of common stock were exercised and no options to purchase shares of common stock were granted during the three months ended September 30, 2008. Further, for the three months ended September 30, 2008, under the Employee Plans and Directors' Plan, 65,360 restricted stock units were granted and restrictions lapsed on 49,527 restricted stock units. See "ITEM 13. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA -- AUDITED CONSOLIDATED FINANCIAL STATEMENTS AND ACCOMPANYING NOTES -- NOTE 10: STOCK-BASED COMPENSATION" in our Registration Statement for more information. Dividend Restrictions Our payment of dividends is subject to the following restrictions: Restrictions Relating to Conservatorship. As described in "MD&A -- EXECUTIVE SUMMARY -- Legislative and Regulatory Matters," we are currently under conservatorship. As Conservator, FHFA announced on September 7, 2008 that we would not pay any dividends on the common stock or on any series of preferred stock (other than the senior preferred stock). Restrictions Under Purchase Agreement. The Purchase Agreement prohibits us from declaring or paying any dividends on Freddie Mac equity securities without the prior written consent of Treasury. Restrictions Under Reform Act. Under the Reform Act, FHFA has authority to prohibit capital distributions, including payment of dividends, if we fail to meet our capital requirements. If FHFA classifies us as significantly undercapitalized, approval of the Director of FHFA is required for any dividend payment. Under the Reform Act, we are not permitted to make a capital distribution if, after making the distribution, we would be undercapitalized, except the Director of FHFA may permit us to repurchase shares if the repurchase is made in connection with the issuance of additional shares or obligations in at least an equivalent amount and will reduce our financial obligations or otherwise improve our financial condition. Restrictions Relating to Subordinated Debt. During any period in which we defer payment of interest on qualifying subordinated debt, we may not declare or pay dividends on, or redeem, purchase or acquire, our common stock or preferred stock. Our qualifying subordinated debt provides for the deferral of the payment of interest for up to five years if either: (i) our core capital is below 125% of our critical capital requirement; or (ii) our core capital is below our statutory minimum capital requirement, and the U.S. Secretary of the Treasury, acting on our request, exercises his or her discretionary authority pursuant to Section 306(c) of our charter to purchase our debt obligations. In a September 23, 2008 statement concerning the conservatorship, the Director of FHFA stated that we would continue to make interest and principal payments on our subordinated debt, even if we fail to maintain required capital levels. As a result, the terms of any our subordinated debt that provides for us to defer payments of interest under certain circumstances, including its failure to maintain specified capital levels, are no longer applicable. Restrictions Relating to Preferred Stock. Payment of dividends on our common stock is also subject to the prior payment of dividends on our 24 series of preferred stock and one series of senior preferred stock, representing an aggregate of 464,170,000 shares and 1,000,000 shares, respectively, outstanding as of September 30, 2008. Payment of dividends on all outstanding preferred stock, other than the senior preferred stock, is also subject to the prior payment of dividends on the senior preferred stock. No quarterly dividends were declared on the shares of our preferred stock outstanding for the quarter ended September 30, 2008. For a description of our capital requirements, refer to

"ITEM 13. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA -- AUDITED CONSOLIDATED FINANCIAL STATEMENTS AND ACCOMPANYING NOTES -- NOTE 9: REGULATORY CAPITAL" in our Registration Statement.

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Issuer Purchases of Equity Securities We did not repurchase any of our common or preferred stock during the three months ended September 30, 2008. Additionally, we do not currently have any outstanding authorizations to repurchase common or preferred stock. Under the Purchase Agreement, we cannot repurchase our common or preferred stock without Treasury's prior consent, and we may only purchase or redeem the senior preferred stock in certain limited circumstances set forth in the Certificate of Creation, Designation, Powers, Preferences, Rights, Privileges, Qualifications, Limitations, Restrictions, Terms and Conditions of Variable Liquidation Preference Senior Preferred Stock. Information about Certain Securities Issuances by Freddie Mac Pursuant to SEC regulations, public companies are required to disclose certain information when they incur a material direct financial obligation or become directly or contingently liable for a material obligation under an off-balance sheet arrangement. The disclosure must be made in a current report on Form 8-K under Item 2.03 or, if the obligation is incurred in connection with certain types of securities offerings, in prospectuses for that offering that are filed with the SEC. Freddie Mac's securities offerings are exempted from SEC registration requirements. As a result, we are not required to and do not file registration statements or prospectuses with the SEC with respect to our securities offerings. To comply with the disclosure requirements of Form 8-K relating to the incurrence of material financial obligations, we report our incurrence of these types of obligations either in offering circulars (or supplements thereto) that we post on our website or in a current report on Form 8-K, in accordance with a "no-action" letter we received from the SEC Staff. In cases where the information is disclosed in an offering circular posted on our website, the document will be posted on our website within the same time period that a prospectus for a non-exempt securities offering would be required to be filed with the SEC. The website address for disclosure about our debt securities is www.freddiemac.com/debt. From this address, investors can access the offering circular and related supplements for debt securities offerings under Freddie Mac's global debt facility, including pricing supplements for individual issuances of debt securities. Disclosure about our off-balance sheet obligations pursuant to some of the mortgage-related securities we issue can be found at www.freddiemac.com/mbs. From this address, investors can access information and documents about our mortgage-related securities, including offering circulars and related offering circular supplements. We are providing our website addresses and the website address of the SEC solely for your information. Information appearing on our website or on the SEC's website is not incorporated into this Form 10-Q. ITEM 3. DEFAULTS UPON SENIOR SECURITIES On September 19, 2008, the Director of FHFA, acting as Conservator of Freddie Mac, advised the company of FHFA's determination that no further preferred stock dividends should be paid by Freddie Mac's REIT subsidiaries, Home Ownership Funding Corporation and Home Ownership Funding Corporation II. FHFA specifically directed Freddie Mac (as the controlling shareholder of both companies) and the boards of directors of both companies not to declare or pay any dividends on the Step-Down Preferred Stock of the REITs until FHFA directs otherwise. As a result, these companies are in arrears in the payment of dividends with respect to the preferred stock. For more information, see "NOTE 18: MINORITY INTERESTS" to our consolidated financial statements. ITEM 5. OTHER INFORMATION (a) Items Not Reported Under Form 8-K Not applicable. (b) Changes to Procedures for Recommending Nominees to Board of Directors On September 6, 2008, the Director of FHFA appointed FHFA as Conservator of Freddie Mac in accordance with the Reform Act and the Federal Housing

Enterprises Financial Safety and Soundness Act of 1992. During the conservatorship, the Conservator has all powers of the shareholders and Board of Directors of Freddie Mac. As a result, Freddie Mac's common shareholders no longer have the ability to nominate or elect the directors of Freddie Mac pursuant to the procedures outlined in our bylaws. For more information on the conservatorship, refer to "MD&A -- EXECUTIVE SUMMARY -- Legislative and Regulatory Matters." ITEM 6. EXHIBITS The exhibits are listed in the Exhibit Index at the end of this Form 10-Q.

SIGNATURES Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized. Federal Home Loan Mortgage Corporation

By: /s/ David M. Moffett

David M. Moffett Chief Executive Officer Date: November 14, 2008

By: /s/ David B. Kellermann

David B. Kellermann Acting Chief Financial Officer Date: November 14, 2008

EXHIBIT INDEX

Exhibit No.	Description
3 .1	Federal Home Loan Mortgage Corporation Act (12 U.S.C. Section 1451 et seq.), as amended through July 30, 2008
3 .2	Bylaws of the Federal Home Loan Mortgage Corporation, as amended and restated September 4, 2008 (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K as filed on September 4, 2008)
4 .1	Eighth Amended and Restated Certificate of Designation, Powers, Preferences, Rights, Privileges, Qualifications, Limitations, Restrictions, Terms and Conditions of Voting Common Stock (no par value per share), dated September 10, 2008 (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K as filed on September 11, 2008)
4 .2	Certificate of Creation, Designation, Powers, Preferences, Rights, Privileges, Qualifications, Limitations, Restrictions, Terms and

Conditions of Variable Liquidation Preference Senior Preferred Stock (par value $1.00 per share), dated September 7, 2008 (incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K as filed on September 11, 2008)

4 .3 Federal Home Loan Mortgage Corporation Global Debt Facility Agreement, dated July 22, 2008

10 .1 Amended and Restated Senior Preferred Stock Purchase Agreement dated as of September 26, 2008, between the United States Department of the Treasury and Federal Home Loan Mortgage Corporation, acting through the Federal Housing Finance Agency as its duly appointed Conservator

10 .2 Warrant to Purchase Common Stock, dated September 7, 2008 (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K as filed on September 11, 2008)

10 .3 United States Department of the Treasury Lending Agreement dated September 18, 2008 (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K as filed on September 23, 2008)

10 .4 FHFA Conservatorship Retention Program, Executive Vice President and Senior Vice President, Parameters Document, September 2008*

10 .5 Description of Chief Executive Officer's compensation*

10 .6 First Amendment to the Federal Home Loan Mortgage Corporation Executive Deferred Compensation Plan*

10 .7 Form of cash retention award for executive officers for awards in September 2008*

12 .1 Statement re: computation of ratio of earnings to fixed charges

12 .2 Statement re: computation of ratio of earnings to combined fixed charges and preferred stock dividends

31 .1 Certification of Chief Executive Officer pursuant to Securities Exchange Act Rule 13a-14(a)

31 .2 Certification of Acting Chief Financial Officer pursuant to Securities Exchange Act Rule 13a-14(a)

32 .1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350

32 .2 Certification of Acting Chief Financial Officer pursuant to 18 U.S.C. Section 1350

* This exhibit is a management contract or compensatory plan or arrangement.

Exhibit 3.1

FEDERAL HOME LOAN MORTGAGE CORPORATION ACT
Public Law No. 91-351
July 24, 1970
As amended through July 30, 2008

SEC. 301 SHORT TITLE AND STATEMENT OF PURPOSE (12 U.S.C. (s) 1451 note)

(a) This title may be cited as the "Federal Home Loan Mortgage Corporation Act." Short Title

(b) It is the purpose of the Federal Home Loan Mortgage Corporation -- Purpose

(1) to provide stability in the secondary market for residential mortgages;

(2) to respond appropriately to the private capital market;

(3) to provide ongoing assistance to the secondary market for residential mortgages (including activities relating to mortgages on housing for low- and moderate-income families involving a reasonable economic return that may be less than the return earned on other activities) by increasing the liquidity of mortgage investments and improving the distribution of investment capital available for residential mortgage financing; and

(4) to promote access to mortgage credit throughout the Nation (including central cities, rural areas, and underserved areas) by increasing the liquidity of mortgage investments and improving the distribution of investment capital available for residential mortgage financing.

SEC. 302 DEFINITIONS (12 U.S.C. (s) 1451)

As used in this title --

(a) The term "Board of Directors" means the Board of Directors of the Corporation.

(b) The term "Corporation" means the Federal Home Loan Mortgage Corporation created by this chapter.

(c) The term "law" includes any law of the United States or of any State (including any rule of law or of equity).

(d) The term "mortgage" includes such classes of liens as are commonly given or are legally effective to secure advances on, or the unpaid purchase price of, real estate under the laws of the State in which the real estate is located or a manufactured home that is personal

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property under the laws of the State in which the manufactured home is located together with the credit instruments, if any, secured thereby, and includes interests in mortgages.

(e) The term "organization" means any corporation, partnership, association, business trust, or business entity.

(f) The term "prescribe" means to prescribe by regulations or otherwise.

(g) The term "property" includes any property, whether real, personal, mixed, or otherwise, including without limitation on the generality of the foregoing choses in action and mortgages, and includes any interest in any of the foregoing.

(h) The term "residential mortgage" means a mortgage Residential Mortgages which (1) is a mortgage on real estate, in fee simple or under a leasehold having such term as may be prescribed by the Corporation, upon which there is located a structure or structures designed in whole or in part for residential use, or which comprises or includes one or more condominium units or dwelling units (as defined by the Corporation) and (2) has such characteristics and meets such requirements as to amount, term, repayment provisions, number of families, status as a lien on such real estate, and otherwise, as may be prescribed by the Corporation. The term "residential mortgage" also includes a loan or advance of credit insured under title I of the National Housing Act {12 U.S.C. 1702 et seq.} whose original proceeds are applied for in order to finance energy conserving improvements, or the addition of a solar energy system, to residential real estate. The term "residential mortgage" also includes a loan or advance of credit for such purposes, or purchased from any public utility carrying out activities in accordance with the requirements of title II of the National Energy Conservation Policy Act {42 U.S.C. 8211 et seq.} if the residential mortgage to be purchased is a loan or advance of credit the original proceeds of which are applied for in order to finance the purchase and installation of residential energy conservation measures (as defined in section 210(11) of the National Energy Conservation Policy Act) in residential real estate, not having the benefit of such insurance and includes loans made where the lender relies for purposes of repayment primarily on the borrower's general credit standing and forecast of income, with or without other security. The term "residential mortgage" is also deemed to include a secured loan or advance of credit the proceeds of which are intended to finance the rehabilitation, renovation, modernization, refurbishment, or improvement of properties as to which the Corporation may purchase a "residential mortgage" as defined under the first sentence of this subsection. Such term shall also include other secured loans that are secured by a subordinate lien against a property as to which the Corporation may purchase a residential mortgage as defined under the first sentence of this subsection. A "secured loan or advance of credit" is one in which a security interest is taken in the rehabilitated, renovated, modernized, refurbished, or improved property. Such term shall also include a mortgage, lien, or other security interest on the stock or membership certificate issued to a tenant-stockholder or resident-member by a

Energy Loans

Second Mortgages

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cooperative housing corporation, as defined in section 216 of title 26, and on the proprietary lease, occupancy agreement, or right of tenancy in the dwelling unit of the tenant-stockholder or resident-member in such cooperative housing corporation. The term "residential mortgage" also

Cooperatives

includes a loan or advance of credit secured by a mortgage or other lien on a manufactured home that is the principal residence of the borrower, without regard to whether the security property is real, personal, or mixed.

Manufactured Homes

(i) The term "conventional mortgage" means a mortgage other than a mortgage as to which the Corporation has the benefit of any guaranty, insurance or other obligation by the United States or any of its agencies or instrumentalities.
(j) The term "security" has the meaning ascribed to it by section 77b of title 15.
(k) The term "State", whether used as a noun or otherwise, includes the several States, the District of Columbia, the Commonwealth of Puerto Rico, and the territories and possessions of the United States.
(l) The term "mortgage insurance program" includes, in the case of a residential mortgage secured by a manufactured home, any manufactured home lending program under title I of the National Housing Act {12 U.S.C. 1702 et seq.}.
SEC. 303. ESTABLISHMENT OF THE CORPORATION (12 U.S.C. (s) 1452)
(a)(1) There is hereby created the Federal Home Loan Mortgage Corporation, which shall be a body corporate under the direction of a Board of Directors. Within the limitations of law and regulation, the Board of Directors shall determine the general policies that govern the operations of the Corporation. The principal office of the Corporation shall be in the District of Columbia or at any other place determined by the Corporation.
(2)(A) The Board of Directors of the Corporation shall consist of 13 persons, or such other number as the Director determines appropriate, who shall be elected annually by the voting common stockholders. Except to the extent action under section 1377 of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 temporarily results in a lesser number, the Board of Directors shall at all times have as members at least 1 person from the homebuilding industry, at least 1 person from the mortgage lending industry, at least 1 person from the real estate industry, and at least 1 person from an organization that has represented consumer or community interests for not less than 2 years or 1 person who has demonstrated a career commitment to the provision of housing for low-income households.

Composition of Board of Directors

(B) Each member of the Board of Directors shall be elected for

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a term ending on the date of the next annual meeting of the voting common stockholders.
(C) Any seat on the Board of Directors that becomes vacant after the annual election of the directors shall be filled by the Board of Directors, but only for the unexpired portion of the term.
(D) Any member of the Board of Directors who is a full-time officer or employee of the Federal Government shall not, as such member, receive compensation for

services as such a member.

Capital Distributions

(b)(1) Except as provided in paragraph (2), the Corporation may make such capital distributions (as such term is defined in section 4502 of this title) as may be declared by the Board of Directors.

(2) The Corporation may not make any capital distribution that would decrease the total capital of the Corporation (as such term is defined in section 4502 of this title) to an amount less than the risk-based capital level for the Corporation established under section 4611 of this title or that would decrease the core capital of the Corporation (as such term is defined in section 4502 of this title) to an amount less than the minimum capital level for the Corporation established under section 4612 of this title, without prior written approval of the distribution by the Director of the Federal Housing Finance Agency.

Corporate Powers

(c) The Corporation shall have power (1) to adopt, alter, and use a corporate seal; (2) to have succession until dissolved by Act of Congress; (3) to make and enforce such bylaws, rules, and regulations as may be necessary or appropriate to carry out the purposes or provisions of this chapter; (4) to make and perform contracts, agreements, and commitments; (5) to prescribe and impose fees and charges for services by the Corporation; (6) to settle, adjust, and compromise, and with or without consideration or benefit to the Corporation to release or waive in whole or in part, in advance or otherwise, any claim, demand, or right of, by, or against the Corporation; (7) to sue and be sued, complain and defend, in any State, Federal, or other court; (8) to acquire, take, hold, and own, and to deal with and dispose of any property; and (9) to determine its necessary expenditures and the manner in which the same shall be incurred, allowed, and paid, and appoint, employ, and fix and provide for the compensation and benefits of officers, employees, attorneys, and agents as the Board of Directors determines reasonable and comparable with compensation for employment in other similar businesses (including publicly held financial institutions or other major financial services companies) involving similar duties and responsibilities, except that a significant portion of potential compensation of all executive officers (as such term is defined in subsection (h)(3) of this section) of the Corporation shall be based on the performance of the Corporation, all without regard to any other law except as may be provided by the Corporation or by laws hereafter enacted by the Congress expressly in

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limitation of this sentence. The Corporation, with the consent of any such department, establishment, or instrumentality, including any field services thereof, may utilize and act through any such department, establishment, or instrumentality and may avail itself of the use of information, services, facilities, and personnel thereof, and may pay compensation therefor, and all of the foregoing are hereby authorized to provide the same to the

Corporation as it may request.

(d) Funds of the Corporation may be invested in such investments as the Board of Directors may prescribe. Any Federal Reserve bank or Federal home loan bank, or any bank as to which at the time of its designation by the Corporation there is outstanding a designation by the Secretary of the Treasury as a general or other depositary of public money, may be designated by the Corporation as a depositary or custodian or as a fiscal or other agent of the Corporation, and is hereby authorized to act as such depositary, custodian, or agent. When designated for that purpose by the Secretary of the Treasury, the Corporation shall be a depositary of public money, under such regulations as may be prescribed by the Secretary of the Treasury, and may also be employed as fiscal or other agent of the United States, and it shall perform all such reasonable duties as such depositary or agent as may be required of it.

Investment of Corporate Funds

Depositary, Custodian or Fiscal Agent

Tax Exempt Status

(e) The Corporation, including its franchise, activities, capital, reserves, surplus, and income, shall be exempt from all taxation now or hereafter imposed by any territory, dependency, or possession of the United States or by any State, county, municipality, or local taxing authority, except that any real property of the Corporation shall be subject to State, territorial, county, municipal, or local taxation to the same extent according to its value as other real property is taxed.

Civil Actions

(f) Notwithstanding section 1349 of title 28 or any other provision of law, (1) the Corporation shall be deemed to be an agency included in sections 1345 and 1442 of such title 28; (2) all civil actions to which the Corporation is a party shall be deemed to arise under the laws of the United States, and the district courts of the United States shall have original jurisdiction of all such actions, without regard to amount or value; and (3) any civil or other action, case or controversy in a court of a State, or in any court other than a district court of the United States, to which the Corporation is a party may at any time before the trial thereof be removed by the Corporation, without the giving of any bond or security, to the district court of the United States for the district and division embracing the place where the same is pending, or, if there is no such district court, to the district court of the United States for the district in which the principal office of the Corporation is located, by following any procedure for removal of causes in effect at the time of such removal.

Freddie Mac Securities as Legal Investments

(g) All mortgages, obligations, or other securities which are or have been sold by the Corporation pursuant to section 1454 or section 1455 of this title shall be lawful investments, and may be accepted as security for all fiduciary, trust, and public funds, the investment or deposits of which shall be under the authority and control of the United

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States or any officers thereof.

Report on Compensation Policies

(h)(1) Not later than June 30, 1993, and annually thereafter, the Corporation shall submit a report to the Committee on Banking, Finance and Urban Affairs of the House of Representatives and the Committee on Banking, Housing, and Urban Affairs of the Senate on (A) the comparability of the compensation policies of the Corporation with the compensation policies of other similar businesses, (B) in the aggregate, the percentage of total cash compensation and payments under employee benefit plans (which shall be defined in a manner consistent with the Corporation's proxy statement for the annual meeting of shareholders for the preceding year) earned by executive officers of the Corporation during the preceding year that was based on the Corporation's performance, and (C) the comparability of the Corporation's financial performance with the performance of other similar businesses. The report shall include a copy of the Corporation's proxy statement for the annual meeting of shareholders for the preceding year.

Contracts for Termination of Employment

(2) Notwithstanding the first sentence of subsection (c) of this section, after October 28, 1992, the Corporation may not enter into any agreement or contract to provide any payment of money or other thing of current or potential value in connection with the termination of employment of any executive officer of the Corporation, unless such agreement or contract is approved in advance by the Director of the Federal Housing Finance Agency. The Director may not approve any such agreement or contract unless the Director determines that the benefits provided under the agreement or contract are comparable to benefits under such agreements for officers of other public and private entities involved in financial services and housing interests who have comparable duties and responsibilities. For purposes of this paragraph, any renegotiation, amendment, or change after October 28, 1992, to any such agreement or contract entered into on or before October 28, 1992, shall be considered entering into an agreement or contract.

(3) For purposes of this subsection, the term "executive officer" has the meaning given the term in section 4502 of this title.

(4) Notwithstanding any other provision of this section, the Corporation shall not transfer, disburse, or pay compensation to any executive officer, or enter into an agreement with such executive officer, without the approval of the Director, for matters being reviewed under section 1318 of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (12 U.S.C. 4518).

SEC. 304. CAPITALIZATION OF FEDERAL HOME LOAN MORTGAGE CORPORATION (12 U.S.C. (s) 1453)

Common Stock

(a) The common stock of the Corporation shall consist of voting common stock, which shall be issued to such holders in the manner and amount, and subject to any limitations on concentration of ownership, as may be established by the Corporation.

(b) The voting common stock shall have such par value and other characteristics as the Corporation provides. The voting common stock shall be vested with all voting rights, each share being entitled to 1 vote. The free transferability of the voting common stock at all times to any person, firm, corporation or other entity shall not be restricted except that, as to the Corporation, it shall be transferable only on the books of the Corporation.

SEC. 305. PURCHASE AND SALE OF MORTGAGES; RESIDENTIAL MORTGAGES; CONVENTIONAL MORTGAGES; TERMS AND CONDITIONS OF SALE OR OTHER DISPOSITION; AUTHORITY TO ENTER INTO, PERFORM, AND CARRY OUT TRANSACTIONS (12 U.S.C. (s) 1454)

Mortgage Purchase

(a)(1) The Corporation is authorized to purchase, and make commitments to purchase, residential mortgages. The Corporation may hold and deal with, and sell or otherwise dispose of, pursuant to commitments or otherwise, any such mortgage or interest therein. The operations of the Corporation under this section shall be confined so far as practicable to residential mortgages which are deemed by the Corporation to be of such quality, type, and class as to meet generally the purchase standards imposed by private institutional mortgage investors. The Corporation may establish requirements, and impose charges or fees, which may be regarded as elements of pricing, for different classes of sellers or servicers, and for such purposes the Corporation is authorized to classify sellers or servicers according to type, size, location, assets, or, without limitation on the generality of the foregoing, on such other basis or bases of differentiation as the Corporation may consider necessary or appropriate to effectuate the purposes or provisions of this chapter. The Corporation may specify requirements concerning among other things, (A) minimum net worth; (B) supervisory mechanisms; (C) warranty compensation mechanisms; (D) prior approval of facilities; (E) prior origination and servicing experience with respect to different types of mortgages; (F) capital contributions and substitutes; (G) mortgage purchase volume limits; and (H) reduction of mortgage purchases during periods of borrowing. With respect to any particular type of seller, the Corporation shall not be required to make available programs involving prior approval of mortgages, optional delivery of mortgages, and purchase of other than conventional mortgages to an extent greater than the Corporation elects to make such programs available to other types of eligible sellers. Any requirements specified by the Corporation pursuant to the preceding three sentences must bear a rational relationship to the purposes or provisions of this chapter, but will not be considered discriminatory

Authority

Institutional Investor Purchase Standard

Requirements for Classes of Sellers

Availability of Programs

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solely on the grounds of differential effects on types of eligible sellers. Insofar as is practicable, the Corporation shall make reasonable efforts to encourage participation in its programs by each type of eligible seller. Nothing in this section authorizes the Corporation to impose any charge or fee upon any mortgagee approved by the Secretary of Housing and Urban Development for participation in any mortgage insurance program under the National Housing Act {12 U.S.C. 1701 et seq.} solely because of such status.

Loan-to-Value Ratio

(2) No conventional mortgage secured by a property comprising one- to four-family dwelling units shall be purchased under this section if the outstanding principal balance of the mortgage at the time of purchase exceeds 80 per centum of the value of the property securing the mortgage, unless (A) the seller retains a participation of not less than 10 per centum in the mortgage; (B) for such period and under such circumstances as the Corporation may require, the seller agrees to repurchase or replace the mortgage upon demand of the Corporation in the event that the mortgage is in default; or (C) that portion of the unpaid principal balance of the mortgage which is in excess of such 80 per centum is guaranteed or insured by a qualified insurer as determined by the Corporation. The Corporation shall not issue a commitment to purchase a conventional mortgage prior to the date the mortgage is originated, if such mortgage is eligible for purchase under the preceding sentence only by reason of compliance with the requirements of clause (A) of such sentence. The Corporation may purchase a conventional mortgage which was originated more than one year prior to the purchase date only if the seller is the Federal Deposit Insurance Corporation, the Resolution Trust Corporation, the National Credit Union Administration, or any other seller currently engaged in mortgage lending or investing activities. With respect to any transaction in which a seller contemporaneously sells mortgages originated more than one year old prior to the date of sale to the Corporation and receives in payment for such mortgages securities representing undivided interests only in those mortgages, the Corporation shall not impose any fee or charge upon an eligible seller which is not a member of a Federal Home Loan Bank which differs from that imposed upon an eligible seller which is such a member. The Corporation shall establish limitations governing the maximum original principal obligation of conventional mortgages that are purchased by it; in any case in which the Corporation purchases a participation interest in such a mortgage, the limitation shall be calculated with

respect to the total original principal obligation of the mortgage and not merely with respect to the interest purchased by the Corporation. Such limitations shall not exceed $417,000 for a mortgage secured by a single-family residence, $533,850 for a mortgage secured by a 2-family residence, $645,300 for a mortgage secured by a 3-family residence, and $801,950 for a mortgage secured by a 4-family residence, except that such maximum limitations shall be adjusted effective January 1 of each year beginning after the effective date of the Federal Housing Finance Regulatory Reform Act of 2008, subject to the limitations in this paragraph. Each adjustment shall

Requirements

Loan Limitations

Annual Adjustment of Loan Limitations

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be made by adding to each such amount (as it may have been previously adjusted) a percentage thereof equal to the percentage increase, during the most recent 12-month or 4-quarter period ending before the time of determining such annual adjustment, in the housing price index maintained by the Director of the Federal Housing Finance Agency (pursuant to section 1322 of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (12 U.S.C. 4541)). If the change in such house price index during the most recent 12-month or 4-quarter period ending before the time of determining such annual adjustment is a decrease, then no adjustment shall be made for the next year, and the next adjustment shall take into account prior declines in the house price index, so that any adjustment shall reflect the net change in the house price index since the last adjustment. Declines in the house price index shall be accumulated and then reduce increases until subsequent increases exceed prior declines. The foregoing limitations may be increased by not to exceed 50 per centum with respect to properties located in Alaska, Guam, Hawaii, and the Virgin Islands. Such foregoing limitations shall also be increased, with respect to properties of a particular size located in any area for which 115 percent of the median house price for such size residence exceeds the foregoing limitation for such size residence, to the lesser of 150 percent of such limitation for such size residence or the amount that is equal to 115 percent of the median house price in such area for such size residence.

(3) The sale or other disposition by the Corporation of a mortgage under this section may be with or without recourse, and shall be upon such terms and conditions relating to resale, repurchase, guaranty, substitution, replacement, or otherwise as the Corporation may prescribe.

Selling and Guarantee Authority

(4)(A) The Corporation is authorized to purchase, service, sell, lend on the security of, and otherwise

Purchase of Second

deal in (i) residential mortgages that are secured by a subordinate lien against a one- to four-family residence that is the principal residence of the mortgagor; and (ii) residential mortgages that are secured by a subordinate lien against a property comprising five or more family dwelling units. If the Corporation shall have purchased, serviced, sold, or otherwise dealt with any other outstanding mortgage secured by the same residence, the aggregate original amount of such other mortgage and the mortgage authorized to be purchased, serviced, sold, or otherwise dealt with under this paragraph shall not exceed the applicable limitation determined under paragraph (2).

Mortgages

Second Mortgage Loan Limitations

(B) The Corporation shall establish limitations governing the maximum original principal obligation of such mortgages. In any case in which the Corporation purchases a participation interest in such a mortgage, the limitation shall be calculated with respect to the total original principal obligation of such mortgage secured by a subordinate lien and not merely with respect to the interest purchased by the Corporation. Such

Second Mortgage Participations

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limitations shall not exceed (i) with respect to mortgages described in subparagraph (A)(i), 50 per centum of the single-family residence mortgage limitation determined under paragraph (2); and (ii) with respect to mortgages described in subparagraph (A)(ii), the applicable limitation determined under paragraph (2).

(C) No subordinate mortgage against a one- to four-family residence shall be purchased by the Corporation if the total outstanding indebtedness secured by the property as a result of such mortgage exceeds 80 per centum of the value of such property unless (i) that portion of such total outstanding indebtedness that exceeds such 80 per centum is guaranteed or insured by a qualified insurer as determined by the Corporation; (ii) the seller retains a participation of not less than 10 per centum in the mortgage; or (iii) for such period and under such circumstances as the Corporation may require, the seller agrees to repurchase or replace the mortgage upon demand of the Corporation in the event that the mortgage is in default. The Corporation shall not issue a commitment to purchase a subordinate mortgage prior to the date the mortgage is originated, if such mortgage is eligible for purchase under the preceding sentence only by reason of compliance with the requirements of clause (iii) of such sentence.

Second Mortgage Loan-to-Value Ratio Requirements

(5) The Corporation is authorized to lend on the security of, and to make commitments to lend on the

Authority to Lend on the

security of, any mortgage that the Corporation is authorized to purchase under this section. The volume of the Corporation's lending activities and the establishment of its loan ratios, interest rates, maturities, and charges or fees in its secondary market operations under this paragraph, shall be determined by the Corporation from time to time; and such determinations shall be consistent with the objectives that the lending activities shall be conducted on such terms as will reasonably prevent excessive use of the Corporation's facilities, and that the operations of the Corporation under this paragraph shall be within its income derived from such operations and that such operations shall be fully self-supporting. The Corporation shall not be permitted to use its lending authority under this paragraph (A) to advance funds to a mortgage seller on an interim basis, using mortgage loans as collateral, pending the sale of the mortgages in the secondary market; or (B) to originate mortgage loans. Notwithstanding any Federal, State, or other law to the contrary, the Corporation is hereby empowered, in connection with any loan under this paragraph, whether before or after any default, to provide by contract with the borrower for the settlement or extinguishment, upon default, of any redemption, equitable, legal, or other right, title, or interest of the borrower in any mortgage or mortgages that constitute the security for the loan; and with respect to any such loan, in the event of default and pursuant otherwise to the terms of the contract, the mortgages that constitute such security shall become the absolute property of the

Security of Mortgages

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Corporation.

Authority to Deal with

(b) Notwithstanding any other law, authority to enter into and to perform and carry out any transactions or matter referred to in this section is conferred on any Federal home loan bank, the Resolution Trust Corporation, the Federal Deposit Insurance Corporation, the National Credit Union Administration, any Federal savings and loan association, any Federal home loan bank member, and any other financial institution the deposits or accounts of which are insured by an agency of the United States to the extent that Congress has the power to confer such authority.

Freddie Mac Approval for New Programs

(c) The Corporation may not implement any new program (as such term is defined in section 4502 of this title) before obtaining the approval of the Secretary under section 4542 of this title.

SEC. 306. OBLIGATIONS AND SECURITIES OF THE CORPORATION (12 U.S.C. (s) 1455)

Authority to Issue Notes,

(a) The Corporation is authorized, upon such terms and conditions as it may prescribe, to borrow, to give security, to pay interest or other return, and to issue notes, debentures, bonds, or other obligations, or other securities, including without limitation mortgage-backed securities guaranteed by the Government National Mortgage Association in the manner provided in section 1721(g) of this title. Any obligation or security of the Corporation shall be valid and binding notwithstanding that a person or persons purporting to have executed or attested the same may have died, become under disability, or ceased to hold office or employment before the issuance thereof.

Debentures, Bonds, or Other Obligations or Securities

Establishment of Liens

(b) The Corporation may, by regulation or by writing executed by the Corporation, establish prohibitions or restrictions upon the creation of indebtedness or obligations of the Corporation or of liens or charges upon property of the Corporation, including after-acquired property, and create liens and charges, which may be floating liens or charges, upon all or any part or parts of the property of the Corporation, including after-acquired property. Such prohibitions, restrictions, liens, and charges shall have such effect, including without limitation on the generality of the foregoing such rank and priority, as may be provided by regulations of the Corporation or by writings executed by the Corporation, and shall create causes of action which may be enforced by action in the United States District Court for the District of Columbia or in the United States district court for any judicial district in which any of the property affected is located. Process in any such action may run to and be served in any judicial district or any place subject to the jurisdiction of the United States.

Purchase of Obligations by the Secretary of the Treasury

(c)(1) The Secretary of the Treasury may purchase any obligations issued under subsection (a) of this section. For such purpose, the Secretary may use as a public debt transaction the proceeds of the sale of any securities issued under chapter 31 of title 31, and the purposes for which securities may be issued under such chapter are extended to

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include such purpose.
(2) The Secretary of the Treasury shall not at any time purchase any obligations under this subsection if the purchase would increase the aggregate principal amount of the outstanding holdings of obligations under this subsection by the Secretary to an amount greater than $2,250,000,000.
(3) Each purchase of obligations by the Secretary of the Treasury under this subsection shall be upon terms and conditions established to yield a rate of return determined by the Secretary to be appropriate,

taking into consideration the current average rate on outstanding marketable obligations of the United States as of the last day of the month preceding the making of the purchase.
(4) The Secretary of the Treasury may at any time sell, upon terms and conditions and at prices determined by the Secretary, any of the obligations acquired by the Secretary under this subsection.
(5) All redemptions, purchases and sales by the Secretary of the Treasury of obligations under this subsection shall be treated as public debt transactions of the United States.
(d) The provisions of this section and of any restriction, prohibition, lien, or charge referred to in subsection (b) of this section shall be fully effective notwithstanding any other law, including without limitation on the generality of the foregoing any law of or relating to sovereign immunity or priority.

Freddie Mac Securities as Legal Investments

(e)(1) Any person, trust, or organization created pursuant to or existing under the laws of the United States or any State shall be authorized to purchase, hold, and invest in mortgages, obligations, or other securities which are or have been sold by the Corporation pursuant to this section or pursuant to section 1454 of this title to the same extent that such person, trust, or organization is authorized under any applicable law to purchase, hold, or invest in obligations issued by or guaranteed as to principal and interest by the United States or any agency or instrumentality thereof. Where State law limits the purchase, holding, or investment in obligations issued by the United States by such a person, trust, or organization, such Corporation mortgages, obligations, and other securities shall be considered to be obligations issued by the United States for purposes of the limitation.

(2) The provisions of paragraph (1) shall not apply with respect to a particular person, trust, or organization or class thereof in any State which, after December 21, 1979, enacts a statute which specifically names the Corporation and either prohibits or provides for a more limited authority to purchase, hold, or invest in such securities by such person, trust, or organization or class thereof than is provided in paragraph (1). The enactment by any State of any statute of the type described in the preceding sentence shall not affect the validity of any contractual commitment to purchase,

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hold, or invest which was made prior thereto.
(3) Any authority granted by paragraph (1) and not granted by any other Federal statute shall expire as of the end of June 30, 1985. Such expiration shall not affect the validity of any contractual commitment to purchase, hold, or invest which was made prior thereto pursuant to paragraph (1), and shall not affect the

validity of any contractual commitment or other action to purchase, hold, or invest pursuant to any other authorization.

(f) The Corporation may have preferred stock on such terms and conditions as the Board of Directors shall prescribe. Any preferred stock shall not be entitled to vote with respect to the election of any member of the Board of Directors. Preferred Stock

(g) All securities issued or guaranteed by the Corporation (other than securities guaranteed by the Corporation that are backed by mortgages not purchased by the Corporation) shall, to the same extent as securities that are direct obligations of or obligations guaranteed as to principal or interest by the United States, be deemed to be exempt securities within the meaning of the laws administered by the Securities and Exchange Commission. SEC Exemption

(h)(1) The Corporation may not guarantee mortgage-backed securities or mortgage related payment securities backed by mortgages not purchased by the Corporation. Guarantee Restriction

(2) The Corporation shall insert appropriate language in all of the obligations and securities of the Corporation issued under this section and section 1454 of this title clearly indicating that such obligations and securities, together with the interest thereon, are not guaranteed by the United States and do not constitute a debt or obligation of the United States or any agency or instrumentality thereof other than the Corporation. Disclosure Language

(i) Except for fees paid pursuant to sections 1452(c) and 1455(c) of this title and assessments pursuant to section 4516 of this title, no fee or charge may be assessed or collected by the United States (including any executive department, agency, or independent establishment of the United States) on or with regard to the purchase, acquisition, sale, pledge, issuance, guarantee, or redemption of any mortgage, asset, obligation, or other security by the Corporation. No provision of this subsection shall affect the purchase of any obligation by any Federal home loan bank pursuant to section 1452(a) of this title. Fee Limitation

(j)(1) Any notes, debentures, or substantially identical types of unsecured obligations of the Corporation evidencing money borrowed, whether general or subordinated, shall be issued upon the approval of the Secretary of the Treasury and shall have such maturities and bear such rate or rates of interest as may be determined by the Corporation with the approval of the Secretary of the Treasury. Approval by Secretary of the Treasury of Unsecured Obligations

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(2) Any notes, debentures, or substantially identical types of unsecured obligations of the Corporation having maturities of 1 year or less that the Corporation has issued or is issuing as of August 9, 1989, shall be deemed to have been approved by the

Secretary of the Treasury as required by this subsection. Such deemed approval shall expire 365 days after August 9, 1989.

(3) Any notes, debentures, or substantially identical types of unsecured obligations of the Corporation having maturities of more than 1 year that the Corporation has issued or is issuing as of August 9, 1989, shall be deemed to have been approved by the Secretary of the Treasury as required by this subsection. Such deemed approval shall expire 60 days after August 9, 1989.

Approval by Secretary of the Treasury of Mortgage-Related Securities

(k)(1) Any securities in the form of debt obligations or trust certificates of beneficial interest, or both, and based upon mortgages held and set aside by the Corporation, shall be issued upon the approval of the Secretary of the Treasury and shall have such maturities and shall bear such rate or rates of interest as may be determined by the Corporation with the approval of the Secretary of the Treasury.

(2) Any securities in the form of debt obligations or trust certificates of beneficial interest, or both, and based upon mortgages held and set aside by the Corporation, that the Corporation has issued or is issuing as of August 9, 1989, shall be deemed to have been approved by the Secretary of the Treasury as required by this subsection.

(l) TEMPORARY AUTHORITY OF TREASURY TO PURCHASE OBLIGATIONS AND SECURITIES; CONDITIONS. --

(1) AUTHORITY TO PURCHASE. --

Temporary Authority of Secretary of the Treasury to Purchase Obligations and Securities

(A) GENERAL AUTHORITY. -- In addition to the authority under subsection (c) of this section, the Secretary of the Treasury is authorized to purchase any obligations and other securities issued by the Corporation under any section of this Act, on such terms and conditions as the Secretary may determine and in such amounts as the Secretary may determine. Nothing in this subsection requires the Corporation to issue obligations or securities to the Secretary without mutual agreement between the Secretary and the Corporation. Nothing in this subsection permits or authorizes the Secretary, without the agreement of the Corporation, to engage in open market purchases of the common securities of the Corporation.

(B) EMERGENCY DETERMINATION REQUIRED. -- In connection with any use of this authority, the Secretary must determine that such actions are necessary to --

(i) provide stability to the financial markets;

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determine that such actions are necessary to --

(i) provide stability to the financial markets;

(ii) prevent disruptions in the availability of mortgage finance; and

(iii) protect the taxpayer.
(C) CONSIDERATIONS. -- To protect the taxpayers, the Secretary of the Treasury shall take into consideration the following in connection with exercising the authority contained in this paragraph:
(i) The need for preferences or priorities regarding payments to the Government.
(ii) Limits on maturity or disposition of obligations or securities to be purchased.
(iii) The Corporations plan for the orderly resumption of private market funding or capital market access.
(iv) The probability of the Corporation fulfilling the terms of any such obligation or other security, including repayment.
(v) The need to maintain the Corporations status as a private shareholder-owned company.
(vi) Restrictions on the use of Corporation resources, including limitations on the payment of dividends and executive compensation and any such other terms and conditions as appropriate for those purposes.
(D) REPORTS TO CONGRESS. -- Upon exercise of this authority, the Secretary shall report to the Committees on the Budget, Financial Services, and Ways and Means of the House of Representatives and the Committees on the Budget, Finance, and Banking, Housing, and Urban Affairs of the Senate as to the necessity for the purchase and the determinations made by the Secretary under subparagraph (B) and with respect to the considerations required under subparagraph (C), and the size, terms, and probability of repayment or fulfillment of other terms of such purchase.
(2) RIGHTS; SALE OF OBLIGATIONS AND SECURITIES. --
(A) EXERCISE OF RIGHTS. -- The Secretary of the Treasury may, at any time, exercise any rights received in connection with such purchases.
(B) SALE OF OBLIGATION AND SECURITIES. -- The

Secretary of the Treasury may, at any time, subject to the terms of the security or otherwise upon terms and conditions and at prices determined by the Secretary, sell any obligation or security acquired by the Secretary under this subsection.
(C) APPLICATION OF SUNSET TO PURCHASED OBLIGATIONS OR SECURITIES. -- The authority of the Secretary of the Treasury to hold, exercise any rights received in connection with, or sell, any obligations or securities purchased is not subject to the provisions of paragraph (4).
(3) FUNDING. -- For the purpose of the authorities granted in this subsection, the Secretary of the Treasury may use the proceeds of the sale of any securities issued under chapter 31 of Title 31, and the purposes for which securities may be issued under chapter 31 of Title 31 are extended to include such purchases and the exercise of any rights in connection with such purchases. Any funds expended for the purchase of, or modifications to, obligations and securities, or the exercise of any rights received in connection with such purchases under this subsection shall be deemed appropriated at the time of such purchase, modification, or exercise.
(4) TERMINATION OF AUTHORITY. -- The authority under this subsection (1), with the exception of paragraphs (2) and (3) of this subsection, shall expire December 31, 2009.
(5) AUTHORITY OF THE DIRECTOR WITH RESPECT TO EXECUTIVE COMPENSATION. -- The Director shall have the power to approve, disapprove, or modify the executive compensation of

the Corporation, as defined under Regulation S-K, 17 C.F.R. 229.

SEC. 307. IMMUNITY OF CORPORATION; AUDITS AND REPORTING REQUIREMENTS; DATA COLLECTION; HOUSING ADVISORY COUNCIL (12 U.S.C. (s) 1456)

(a) All rights and remedies of the Corporation, including without limitation on the generality of the foregoing any rights and remedies of the Corporation on, under, or with respect to any mortgage or any obligation secured thereby, shall be immune from impairment, limitation, or restriction by or under (1) any law (except laws enacted by the Congress expressly in limitation of this sentence) which becomes effective after the acquisition by the Corporation of the subject or property on, under, or with respect to which such right or remedy arises or exists or would so arise or exist in the absence of such law, or (2) any administrative or other action which becomes effective after such acquisition. The Corporation is authorized to conduct its business without regard to any qualification or similar statute in any State. Remedial Provision

(b)(1) The programs, activities, receipts, expenditures, and financial transactions of the Corporation shall be subject to audit by the Comp- GAO Audit

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troller General of the United States under such rules and regulations as may be prescribed by the Comptroller General. The Representatives of the Government Accountability Office shall have access to all books, accounts, financial records, reports, files and all other papers, things, or property belonging to or in use by the Corporation and necessary to facilitate the audit, and they shall be afforded full facilities for verifying transactions with the balances or securities held by depositaries, fiscal agents, and custodians. A report on each such audit shall be made by the Comptroller General to the Congress. The Corporation shall reimburse the Government Accountability Office for the full cost of any such audit as billed therefor by the Comptroller General.

(2) To carry out this subsection, the representatives of the Government Accountability Office shall have access, upon request to the Corporation or any auditor for an audit of the Corporation under subsection (d) of this section, to any books, accounts, financial records, reports, files, or other papers, things, or property belonging to or in use by the Corporation and used in any such audit and to any papers, records, files, and reports of the auditor used in such an audit.

(c)(1) The Corporation shall submit to the Director of the Federal Housing Finance Agency annual and quarterly reports of the financial condition and operations of the Corporation which shall be in such form, contain such information, and be submitted on such dates as the Director shall require. Reports of Financial Condition

(2) Each such annual report shall include --

(A) financial statements prepared in accordance with generally accepted accounting principles;

(B) any supplemental information or alternative

presentation that the Director may require; and
(C) an assessment (as of the end of the Corporation's most recent fiscal year), signed by the chief executive officer and chief accounting or financial officer of the Corporation, of --
(i) the effectiveness of the internal control structure and procedures of the Corporation; and
(ii) the compliance of the Corporation with designated safety and soundness laws.
(3) The Corporation shall also submit to the Director any other reports required by the Director pursuant to section 1314 of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 {12 U.S.C. 4514}.
(4) Each report of financial condition shall contain a declaration by the president, vice president, treasurer, or any other officer designated by the Board of Directors of the Corporation to make

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such declaration, that the report is true and correct to the best of such officer's knowledge and belief.
(d)(1) The Corporation shall have an annual independent audit made of its financial statements by an independent public accountant in accordance with generally accepted auditing standards.

Annual Independent Audit

(2) In conducting an audit under this subsection, the independent public accountant shall determine and report on whether the financial statements of the Corporation (A) are presented fairly in accordance with generally accepted accounting principles, and (B) to the extent determined necessary by the Director, comply with any disclosure requirements imposed under subsection (c)(2)(B) of this section.
(e)(1) The Corporation shall collect, maintain, and provide to the Director of the Federal Housing Finance Agency in a form determined by the Director, data relating to its mortgages on housing consisting of 1 to 4 dwelling units. Such data shall include --

Mortgage Data Collection Requirements

(A) the income, census tract location, race, and gender of mortgagors under such mortgages;
(B) the loan-to-value ratios of purchased mortgages at the time of origination;
(C) whether a particular mortgage purchased is newly originated or seasoned;
(D) the number of units in the housing subject to the mortgage and whether the units are owner-occupied; and
(E) any other characteristics that the Secretary considers appropriate, to the extent practicable.
(2) The Corporation shall collect, maintain, and provide to the Director of the Federal Housing Finance Agency in a form determined by the Director, data relating to its mortgages on housing consisting of more than 4 dwelling units. Such data shall include --
(A) census tract location of the housing;
(B) income levels and characteristics of tenants of the housing (to the extent practicable);
(C) rent levels for units in the housing;
(D) mortgage characteristics (such as the number of

units financed per mortgage and the amount of loans);
(E) mortgagor characteristics (such as nonprofit, for-profit,

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limited equity cooperatives);
(F) use of funds (such as new construction, rehabilitation, refinancing);
(G) type of originating institution; and
(H) any other information that the Secretary considers appropriate, to the extent practicable.
(3)(A) Except as provided in subparagraph (B), this subsection shall apply only to mortgages purchased by the Corporation after December 31, 1992.
(B) This subsection shall apply to any mortgage purchased by the Corporation after the date determined under subparagraph (A) if the mortgage was originated before such date, but only to the extent that the data referred in paragraph (1) or (2), as applicable, is available to the Corporation.
(f)(1) The Corporation shall submit to the Committee on Banking, Finance and Urban Affairs of the House of Representatives, the Committee on Banking, Housing, and Urban Affairs of the Senate, and the Director of the Federal Housing Finance Agency a report on its activities under subpart B of part 2 of subtitle A of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 {12 U.S.C. 4561 et seq.}.

Reports Related to Housing Goals

(2) The report under this subsection shall --
(A) 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;
(B) 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;
(C) 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;
(D) 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)

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facilitating homeownership opportunities for first-time homebuyers;
(E) include, in aggregate form and by appropriate category, the data provided to the and the Director of the Federal Housing Finance Agency under subsection (e)(1)(B) of this section;
(F) compare the level of securitization versus portfolio activity;
(G) 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;
(H) 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;
(I) 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;
(J) 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;
(K) describe the activities undertaken by the Corporation with nonprofit and for-profit organizations and with State and local governments and housing finance agencies, including how the Corporation's activities support the objectives of comprehensive housing affordability strategies under section 12705 of title 42; and
(L) include any other information that the Director of the Federal Housing Finance Agency considers appropriate.
(3)(A) The Corporation shall make each report under this subsection available to the public at the principal and regional offices of the Corporation.

(B) Before making a report under this subsection available to the public, the Corporation may exclude from the report information the Director of the Federal Housing Finance Agency has determined is proprietary information under section 1326 of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 {12 U.S.C. 4546}.

Affordable Housing

(g)(1) Not later than 4 months after October 28, 1992, the Corporation shall appoint an Affordable Housing Advisory Council to advise the Corporation regarding possible methods for promoting affordable housing for low- and moderate-income families.

Advisory Council

(2) The Affordable Housing Advisory Council shall consist of 15 individuals, who shall include representatives of community-based and other nonprofit and for-profit organizations and State and local government agencies actively engaged in the promotion, development, or financing of housing for low- and moderate-income families.

SEC. 308. PROHIBITED ACTIVITIES; PENALTIES FOR VIOLATIONS BY ORGANIZATIONS, OFFICERS AND MEMBERS OF ORGANIZATIONS, AND INDIVIDUALS (12 U.S.C. (s) 1457)

Exclusive Use of Name

Except as expressly authorized by statute of the United States, no individual or organization (except the Corporation) shall use the term "Federal Home Loan Mortgage Corporation", or any combination of words including the words "Federal", and "Home Loan", and "Mortgage", as a name or part thereof under which any individual or organization does any business, but this sentence shall not make unlawful the use of any name under which business is being done on July 24, 1970. No individual or organization shall use or display (1) any sign, device, or insigne prescribed or approved by the Corporation for use or display by the Corporation or by members of the Federal home loan banks, (2) any copy, reproduction, or colorable imitation of any such sign, device, or insigne, or (3) any sign, device, or insigne reasonably calculated to convey the impression that it is a sign, device, or insigne used by the Corporation or prescribed or approved by the Corporation, contrary to regulations of the Corporation prohibiting, or limiting or restricting, such use or display by such individual or organization. An organization violating this subsection shall for each violation be punished by a fine of not more than $10,000. An officer or member of an organization participating or knowingly acquiescing in any violation of this subsection shall be punished by a fine of not more than $5,000 or imprisonment for not more than one year, or both. An individual violating this subsection shall for each violation be punished as set forth in the sentence next preceding this sentence.

SEC. 309. TERRITORIAL APPLICABILITY (12 U.S.C. (s) 1458)

Notwithstanding any other law, this chapter shall be applicable to the several States, the District of Columbia, the Commonwealth of Puerto

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Rico, and the territories and possessions of the United States.

SEC. 310. SEPARABILITY (12 U.S.C. (s) 1459)

Notwithstanding any other evidences of the intention of Congress, it is hereby declared to be the controlling intent of Congress that if any provision of this chapter, or the application thereof to any person or circumstances, is held invalid, the remainder of this chapter, or the application of such provision to persons or circumstances other than those as to which it is held invalid, shall not be affected thereby.

Exhibit 4.3 FEDERAL HOME LOAN MORTGAGE CORPORATION GLOBAL DEBT FACILITY AGREEMENT AGREEMENT, dated as of July 22, 2008, among the Federal Home Loan Mortgage Corporation ("Freddie Mac") and Holders of Debt Securities (each as hereinafter defined). Whereas: (a) Freddie Mac is a corporation duly organized and existing under and by virtue of the laws of the United States (Title III of the Emergency Home Finance Act of 1970, as amended (the "Freddie Mac Act")) and has full corporate power and authority to enter into this Agreement and to undertake the obligations undertaken by it herein; (b) Pursuant to Section 306(a) of the Freddie Mac Act, Freddie Mac is authorized, upon such terms and conditions as it may prescribe, to borrow, to pay interest or other return, and to issue notes, bonds or other obligations or securities; and (c) To provide funds to permit Freddie Mac to engage in activities consistent with its statutory purposes, Freddie Mac has established a Global Debt Facility (the "Facility") and authorized the issuance, from time to time, pursuant to this Agreement, of unsecured general obligations of Freddie Mac or, if so provided in the applicable Supplemental Agreement (as hereinafter defined), secured obligations or unsecured subordinated obligations of Freddie Mac ("Debt Securities"). NOW, THEREFORE, in consideration of the premises and mutual covenants herein contained, it is hereby agreed that the following terms and conditions of this Agreement (including, as to each issue of the Debt Securities, the applicable Supplemental Agreement) shall govern the Debt Securities and the rights and obligations of Freddie Mac and Holders with respect to the Debt Securities. ARTICLE I Definitions Whenever used in this Agreement, the following words and phrases shall have the following meanings, unless the context otherwise requires. Additional Debt Securities: Debt Securities issued by Freddie Mac with the same terms (other than Issue Date, interest commencement date and issue price) and conditions as Debt Securities for which settlement has previously occurred so as to form a single series of Debt Securities as specified in the applicable Supplemental Agreement. Agreement: This Global Debt Facility Agreement dated as of July 22, 2008, as it may be amended or supplemented from time to time, and successors thereto pursuant to which Freddie Mac issues the Debt Securities. Amortizing Debt Securities: Debt Securities on which Freddie Mac makes periodic payments of principal during the terms of such Debt Securities as described in the related Supplemental Agreement. Beneficial Owner: The entity or individual that beneficially owns a Debt Security.

Bonds: Callable or non-callable Debt Securities with maturities of more than ten years. Book-Entry Rules: The Department of Housing and Urban Development regulations (24 C.F.R. Part 81, Subpart H) applicable to Freddie Mac's book-entry securities and such procedures as to which Freddie Mac and the FRBNY may agree. Business Day: (i) With respect to Fed Book-Entry Debt Securities, any day other than (a) a Saturday, (b) a Sunday, (c) a day on which the FRBNY is closed, (d) as to any Holder of a Fed Book-Entry Debt Security, a day on which the Federal Reserve Bank that maintains the Holder's account is closed, or (e) a day on which Freddie Mac's offices are closed; and (ii) with respect to Registered Debt Securities, any day other than (a) a Saturday, (b) a Sunday, (c) a day on which banking institutions are closed in (1) the City of New York or (2) if the Specified Payment Currency is other than U.S. dollars or euros, the Principal Financial Center of the country of such Specified Payment Currency, (d) if the Specified Payment Currency is euros, a day on which the TARGET system is not open for settlements, or a day on which payments in euros cannot be settled in the international interbank market as determined by the Global Agent, (e) for any required payment, a day on which banking institutions are closed in the place of payment, or (f) a day on which Freddie Mac's offices are closed. Calculation Agent: Freddie Mac or a bank or broker-dealer designated by Freddie Mac in the applicable Supplemental Agreement as the entity responsible for determining the interest rate on a Variable Rate Debt Security. Calculation Date: In each year, each of those days in the calendar year that are specified in the applicable Supplemental Agreement as being the scheduled Interest Payment Dates regardless, for this purpose, of whether any such date is in fact an Interest Payment Date and, for the avoidance of doubt, a "Calculation Date" may occur prior to the Issue Date or after the last Principal Payment Date. Callable Reference Notes: U.S. dollar denominated, callable Reference Securities with maturities of more than one year. Cap: A maximum interest rate at which interest may accrue on a Variable Rate Debt Security during any Interest Reset Period. Citibank -- London: Citibank, N.A., London office, the Global Agent for Registered Debt Securities. Citigroup -- Frankfurt: Citigroup Global Markets Deutschland AG & Co. KGaA, the Registrar for Registered Debt Securities. Clearstream, Luxembourg: Clearstream Banking, societe anonyme, which holds securities for its participants and facilitates the clearance and settlement of securities transactions between its participants through electronic book-entry changes in accounts of its participants. CMS Determination Date: The second New York Banking Day preceding the applicable Reset Date. CMS Rate: The rate for U.S. dollar swap transactions for the applicable Index Currency and applicable Index Maturity, expressed as a percentage, as determined by the Calculation Agent in accordance with Section 2.07(i)(N).

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CMT Determination Date: The second New York Banking Day preceding the applicable Reset Date. CMT Rate: The weekly average yield, expressed as a per annum rate, on U.S. Treasury Securities, adjusted to a specified constant maturity, as determined by the Calculation Agent in accordance with Section 2.07(i)(M). Code: The Internal Revenue Code of 1986, as amended. Common Depositary: The common depositary for Euroclear, Clearstream, Luxembourg and/or any other applicable clearing system, which will hold Other Registered Debt Securities on behalf of Euroclear, Clearstream, Luxembourg and/or any such other applicable clearing system. Currency Exchange Bank: The currency exchange bank specified in the applicable Supplemental Agreement that will convert any amounts paid by Freddie Mac in a Specified Payment Currency on DTC Registered Debt Securities to U.S. Holders into U.S. dollars. CUSIP Number: A unique nine-character designation assigned to each Debt Security by the CUSIP Service Bureau and used to identify each issuance of Debt Securities on the records of the Federal Reserve Banks or DTC, as applicable. Day Rate: The arithmetic mean for each day in a Seven-Day Period as determined by the Calculation Agent in accordance with Section 2.07(i)(P)(2). Debt Securities: Unsecured subordinated or unsubordinated notes, bonds and other debt securities issued from time to time by Freddie Mac under the Facility. Deleverage Factor: A Multiplier of less than one by which an applicable Index is multiplied. Depository: DTC or any successor. Deposits: Deposits commencing on the applicable Reset Date. Designated EURIBOR Reuters Page: The display on Reuters Page 248 or any successor page or such other page (or any successor page) on that service or any successor service specified in the applicable Supplemental Agreement for the purpose of displaying rates for Deposits in euros. Designated EUR-LIBOR Reuters Page: The display on Reuters Page 3750 or any successor page or such other page (or any successor page) on that service or any successor service specified in the applicable Supplemental Agreement for the purpose of displaying rates for Deposits in euros. Designated Reuters Page: The display on Reuters Page 3750 (or where the Index Currency is Australian dollars, Swiss francs or Yen, Page 3740) or any successor page or such other page (or any successor page) on that service or any successor service specified in the applicable Supplemental Agreement for the purpose of displaying British Bankers' Association interest settlement rates for Deposits in the Index Currency Determination Date: The date as of which the rate of interest applicable to an Interest Reset Period is determined. Determination Period: The period from, and including, one Calculation Date to, but excluding, the next Calculation Date.

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DTC: The Depository Trust Company, a limited-purpose trust company, which holds securities for DTC participants and facilitates the clearance and settlement of transactions between DTC participants through electronic book-entry changes in accounts of DTC participants. DTC Registered Debt Securities: Registered Debt Securities registered in the name of a nominee of DTC, which will clear and settle through the system operated by DTC. EC: The European Community. EURIBOR: The rate for Deposits in euros designated as such and sponsored jointly by the European Banking Federation and ACI -- the Financial Market Association (or any company established by the joint sponsors for purposes of compiling and publishing such rates), as determined by the Calculation Agent in accordance with Section 2.07(i)(J) or as provided in the applicable Supplemental Agreement. EURIBOR Determination Date: The second TARGET Business Day preceding the applicable Reset Date, unless EURIBOR is determined in accordance with Section 2.07(i)(J)(3), in which case it means the applicable Reset Date. EUR-LIBOR: The daily average of the London interbank offered rates for Deposits in euros having the Index Maturity, as determined by the Calculation Agent in accordance with Section 2.07(i)(I) or as provided in the applicable Supplemental Agreement. EUR-LIBOR Determination Date: The second TARGET Business Day preceding the applicable Reset Date, unless EUR-LIBOR is determined in accordance with Section 2.07(i)(I)(3), in which case it means the applicable Reset Date. Euroclear: Euroclear System, a depositary that holds securities for its participants and clears and settles transactions between its participants through simultaneous electronic book-entry delivery against payment. Euro Representative Amount: A principal amount of not less than the equivalent of U.S. $1,000,000 in euros that, in the Calculation Agent's sole judgment, is representative for a single transaction in the relevant market at the relevant time. Euro-Zone: The region consisting of member states of the European Union that adopt the single currency in accordance with the Treaty. EMU: European Monetary Union; the convergence of key features of the economies of certain participating European countries, including the adoption of a common monetary unit called the euro. Facility: The Global Debt Facility described in the Offering Circular dated July 22, 2008 under which Freddie Mac issues the Debt Securities. Fed Book-Entry Debt Securities: U.S. dollar denominated Debt Securities issued and maintained in book-entry form on the Fed Book-Entry System. Fed Book-Entry System: The book-entry system of the Federal Reserve Banks which provides book-entry holding and settlement for U.S. dollar denominated securities issued by the U.S. Government, certain of its agencies, instrumentalities, government-sponsored enterprises and international organizations of which the United States is a member.

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Federal Funds Rate (Daily): The rate determined by the Calculation Agent in accordance with Section 2.07(i)(O). Federal Funds Rate (Daily) Determination Date: The applicable Reset Date; provided, however, that if the Reset Date is not a Business Day, then the Federal Funds Rate (Daily) Determination Date means the Business Day immediately following the applicable Reset Date. Federal Funds Rate (Weekly Average): The rate determined by the Calculation Agent in accordance with Section 2.07(i)(P). Federal Reserve Bank: Each U.S. Federal Reserve Bank that maintains Debt Securities in book-entry form. Federal Reserve Banks: Collectively, the Federal Reserve Banks. Fiscal Agency Agreement: The Uniform Fiscal Agency Agreement between Freddie Mac and the FRBNY. Fiscal Agent: The FRBNY is fiscal agent for Fed Book-Entry Debt Securities. Fixed Principal Repayment Amount: An amount equal to 100% of the principal amount of a Debt Security, payable on the applicable Maturity Date or earlier date of redemption or repayment or a specified amount above or below such principal amount, as provided in the applicable Supplemental Agreement. Fixed Rate Debt Securities: Debt Securities that bear interest at a single fixed rate. Fixed/Variable Rate Debt Securities: Debt Securities that bear interest at a single fixed rate during one or more specified periods and at a variable rate determined by reference to one or more Indices, or otherwise, during one or more other periods. As to any such fixed rate period, the provisions of this Agreement relating to Fixed Rate Debt Securities shall apply, and, as to any such variable rate period, the provisions of this

Agreement relating to Variable Rate Debt Securities shall apply. Floor: A minimum interest rate at which interest may accrue on a Debt Security during any Interest Reset Period. Freddie Mac: Federal Home Loan Mortgage Corporation, a stockholder-owned United States government-sponsored enterprise chartered pursuant to the Freddie Mac Act. Freddie Mac Act: Title III of the Emergency Home Finance Act of 1970, as amended, 12 U.S.C. (s) 1451-1459. FRBNY: The Federal Reserve Bank of New York. Global Agency Agreement: The agreement between Freddie Mac, the Global Agent and the Registrar. Global Agent: The entity selected by Freddie Mac to act as its fiscal, transfer and paying agent for Registered Debt Securities. Holder: In the case of Fed Book-Entry Debt Securities, the entity whose name appears on the book-entry records of a Federal Reserve Bank as Holder; in the case of Registered Debt Securities in global registered form, the depository, or its nominee, in whose name the Registered Debt Securities are registered on behalf of a related clearing system; and, in the case

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of Registered Debt Securities in definitive registered form, the person or entity in whose name such Debt Securities are registered in the Register. H.15 (519): The weekly statistical release entitled "Statistical Release H.15 (519)," or any successor publication, published by the Board of Governors of the Federal Reserve System. Holding Institutions: Entities eligible to maintain book-entry accounts with a Federal Reserve Bank. Index: LIBOR, EUR-LIBOR, EURIBOR, Prime Rate, Treasury Rate, CMT Rate, CMS Rate, Federal Funds Rate (Daily), or Federal Funds (Weekly Average) or other specified interest rate, exchange rate or other index, as the case may be. Index Currency: The currency or currency unit specified in the applicable Supplemental Agreement with respect to which an Index will be calculated for a Variable Rate Debt Security; provided, however, that if euros are substituted for such currency or currency unit, the Index Currency will be euros and, with respect to LIBOR, the determination provisions for EUR-LIBOR will apply to such Debt Securities upon such substitution. If no such currency or currency unit is specified in the applicable Supplemental Agreement, the Index Currency will be U.S. dollars. Index Maturity: The period with respect to which an Index will be calculated for a Variable Rate Debt Security that is specified in the applicable Supplemental Agreement. Interest Component: Each future interest payment, or portion thereof, due on or prior to the Maturity Date, or if the Debt Security is subject to redemption or repayment prior to the Maturity Date, the first date on which such Debt Security is subject to redemption or repayment. Interest Payment Date: The date or dates on which interest on Debt Securities will be payable in arrears. Interest Payment Period: Unless otherwise provided in the applicable Supplemental Agreement, the period beginning on (and including) the Issue Date or the most recent Interest Payment Date, as the case may be, and ending on (but excluding) the earlier of the next Interest Payment Date or the Principal Payment Date. Interest Reset Period: The period beginning on the applicable Reset Date and ending on the calendar day preceding the next Reset Date. Issue Date: The date on which Freddie Mac wires an issue of Debt Securities to Holders or other date specified in the applicable Supplemental Agreement. Leverage Factor: A Multiplier of greater than one by which an applicable Index is multiplied. LIBOR: The daily average of the London interbank offered rates for Deposits in the Index Currency having the Index Maturity, as determined by the Calculation Agent in accordance with Section 2.07(i)(H) or as provided in the applicable Supplemental Agreement. LIBOR Determination Date: The second London Banking Day preceding the applicable Reset Date unless the Index Currency is Sterling, in which case it means the applicable Reset Date.

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London Banking Day: Any day on which commercial banks are open for business (including dealings in foreign exchange and deposits in the Index Currency) in London. Maturity Date: The date, one day or longer from the Issue Date, on which a Debt Security will mature unless redeemed or repaid prior thereto. Multiplier: A constant or variable number (which may be greater than or less than one) to be multiplied by the relevant Index for a Variable Rate Debt Security. Non-U.S. Currency: Specified Currency other than U.S. dollars. Notes: Callable or non-callable Debt Securities with maturities of more than one year. New York Banking Day: Any day other than (a) a Saturday, (b) a Sunday, (c) a day on which banking institutions in the City of New York are required or permitted by law or executive order to close, or (d) a day on which the FRBNY is closed. Offering Circular: The Freddie Mac Global Debt Facility Offering Circular dated July 22, 2008 (including any related Offering Circular Supplement) and successors thereto. OID Determination Date: The last day of the last accrual period ending prior to the date of the meeting of Holders (or, for consents not at a meeting, prior to a date established by Freddie Mac). The accrual period will be the same as the accrual period used by Freddie Mac to determine its deduction for accrued original issue discount under section 163 (e) of the Code. Other Registered Debt Securities: Registered Debt Securities that are not DTC Registered Debt Securities, that are deposited with a Common Depositary and that will clear and settle through the systems operated by Euroclear, Clearstream, Luxembourg and/or any such other applicable clearing system other than DTC. Pricing Supplement: A supplement to the Offering Circular that describes the specific terms, of, and provides pricing information and other information for, an issue of Debt Securities or which otherwise amends, modifies or supplements the terms of the Offering Circular. Prime Rate: The arithmetic mean of the U.S. dollar prime rates or base lending rates, as determined by the Calculation Agent in accordance with Section 2.07(i)(K). Prime Rate Determination Date: The New York Banking Day preceding the applicable Reset Date. Principal Component: The principal payment plus any interest payments that are either due after the date specified in, or are specified as ineligible for stripping in, the applicable Supplemental Agreement. Principal Financial Center: The capital city of the country of the Specified Payment Currency, or solely with respect to the calculation of LIBOR, the Index Currency, as the case may be, as specified in the applicable Supplemental Agreement except that with respect to U.S. dollars, Sterling, Yen, the euro and Swiss francs, the Principal Financial Center shall be the City of New York, London, Tokyo, Brussels and Zurich, respectively. Principal Payment Date: The Maturity Date, or the earlier date of redemption or repayment, if any (whether such redemption or repayment is in whole or in part).

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Range Accrual Debt Securities: Debt Securities on which no interest may accrue during periods when the applicable index is outside a specified range as described in the related Supplemental Agreement. Record Date: As to Registered Debt Securities, the fifteenth calendar day preceding an Interest Payment Date. Interest on a Registered Debt Security will be paid to the Holder of such Registered Debt Security as of the close of business on the Record Date. Reference Bonds: U.S. dollar denominated, non-callable Reference Securities with maturities of more than ten years. Reference Notes: U.S. dollar denominated, non-callable Reference Securities with maturities of more than one year. Reference Securities: Scheduled U.S. dollar denominated issues of Debt Securities in large principal amounts, which may be either Callable Reference Notes, Reference Bonds or Reference Notes. Register: A register of the Holders of Registered Debt Securities maintained by the Registrar. Registered Debt Securities: Debt Securities issued and maintained in global registered or definitive registered form on the books and records of the Registrar. Registrar: The entity selected by Freddie Mac to maintain the Register. Reference Treasury Bill Auction: The most recent auction of Treasury Bills prior to a given Reset Date. Representative Amount: A principal amount of not less than U.S. $1,000,000 (or, if the Index Currency is other than U.S. dollars, a principal amount not less than the equivalent in the

Index Currency) that, in the Calculation Agent's sole judgment, is representative for a single transaction in the relevant market at the relevant time. Reset Date: The date on which a new rate of interest on a Debt Security becomes effective. Reuters US PRIME1 Page: The display designated as page "USPRIME1"' on Reuters, or any successor page or such other page (or any successor page) on that service or any successor service specified in the applicable Supplemental Agreement. Reuters US/FEDRATES1 Page: The display designated as page "US/FEDRATES1" on Reuters, or any successor page or such other page (or any successor page) on that service or any successor service specified in the applicable Supplemental Agreement. Senior Obligations: Unsecured general obligations of Freddie Mac having the same priority as all other unsecured and unsubordinated debt of Freddie Mac and ranking senior to any Subordinated Debt Securities. For any Subordinated Debt Securities offering, the Senior Obligations will be identified by category in the applicable Supplemental Agreement. Seven-Day Period: As defined in Section 2.07(i)(P)(1). Singapore Stock Exchange: The Singapore Exchange Securities Trading Limited.

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Specified Currency: The currency or currency unit in which a Debt Security may be denominated and in which payments of principal of and interest on a Debt Security may be made. Specified Interest Currency: The Specified Currency provided for the payment of interest on Debt Securities. Specified Payment Currency: The term to which the Specified Interest Currency and Specified Principal Currency are referred collectively. Specified Principal Currency: The Specified Currency provided for the payment of principal on Debt Securities. Spread: A constant or variable number to be added to or subtracted from the relevant Index for a Variable Rate Debt Security. Step Debt Securities: Debt Securities that bear interest at different fixed rates during different specified periods. Sterling: British pounds sterling. Subordinated Debt Securities: Unsecured subordinated obligations of Freddie Mac ranking junior to any Senior Obligations (as defined in the applicable Supplemental Agreement) and with such other terms, including, but not limited to, terms relating to payment priority or payment suspension, limitation or deferral (if any), as are set forth in the applicable Supplemental Agreement. Supplemental Agreement: An agreement which, as to the related issuance of Debt Securities, supplements the other provisions of this Agreement and identifies and establishes the particular offering of Debt Securities issued in respect thereof. A Supplemental Agreement may be documented by a supplement to this Agreement, a Pricing Supplement, a confirmation or a terms sheet. A Supplemental Agreement may, as to any particular issuance of Debt Securities, modify, amend or supplement the provisions of this Agreement in any respect whatsoever. A Supplemental Agreement shall be effective and binding as of its publication, whether or not executed by Freddie Mac. TARGET: The Trans-European Automated Real-Time Gross Settlement Express Transfer system. TARGET Business Day: A day on which the TARGET system is operating. Targeted Registered Debt Securities: Debt Securities "targeted to foreign markets" under U.S. Treasury regulations and offered or sold solely to persons outside the United States or its territories or possessions. Treaty: The treaty establishing the EC, as amended by the treaty on European Union. Treasury Bills: Direct obligations of the United States. Treasury Department: United States Department of the Treasury. Treasury Rate: The auction average rate for Treasury Bills, as determined by the Calculation Agent in accordance with Section 2.07(i)(L).

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Variable Principal Repayment Amount: The principal amount determined by reference to one or more Indices or otherwise, payable on the applicable

Maturity Date or date of redemption or repayment of a Debt Security, as specified in the applicable Supplemental Agreement. Variable Rate Debt Securities: Debt Securities that bear interest at a variable rate, and reset periodically, determined by reference to one or more Indices or otherwise. Yen: Japanese yen. Zero Coupon Debt Securities: Debt Securities that do not bear interest and are issued at a discount to their principal amount. ARTICLE II Authorization; Certain Terms Section 2.01. Authorization. Debt Securities shall be issued by Freddie Mac in accordance with the authority vested in Freddie Mac by Section 306(a) of the Freddie Mac Act. The indebtedness represented by the Debt Securities shall be unsecured general obligations of Freddie Mac, or, if so provided in the applicable Supplemental Agreement, secured obligations or unsecured subordinated obligations of Freddie Mac. Debt Securities shall be offered from time to time by Freddie Mac in an unlimited amount and shall be known by the designation given them, and have the Maturity Dates stated, in the applicable Supplemental Agreement. Freddie Mac, in its discretion and at any time, may offer Additional Debt Securities having the same terms and conditions as Debt Securities previously offered. The Debt Securities may be issued as Reference Securities, which includes Callable Reference Notes, Reference Notes and Reference Bonds, or may be issued as any other Debt Securities, denominated in U.S. dollars or other currencies, with maturities of one day or longer and may be in the form of Notes or Bonds or otherwise. Issuances may consist of new issues of Debt Securities or reopenings of an existing issue of Debt Securities. Section 2.02. Other Debt Securities Issued Hereunder. Freddie Mac may from time to time create and issue Debt Securities hereunder which contain terms and conditions not specified in this Agreement. Such Debt Securities shall be governed by the applicable Supplemental Agreement and, to the extent that the terms of this Agreement are not inconsistent with Freddie Mac's intent in creating and issuing such Debt Securities, by the terms of this Agreement. Such Debt Securities shall be secured obligations or unsecured subordinated obligations of Freddie Mac. If the Debt Securities are secured obligations of Freddie Mac, the provisions of Article V hereof shall apply to such Debt Securities, and if the Debt Securities are unsecured subordinated obligations of Freddie Mac, the provisions of Article VI hereof shall apply to such Debt Securities. Section 2.03. Specified Currencies and Specified Payment Currencies. (a) Each Debt Security shall be denominated and payable in such Specified Currency as determined by Freddie Mac. Fed Book-Entry Debt Securities will be denominated and payable in U.S. dollars only. (b) Except under the circumstances provided in Section 2.03(c)(i) and (ii) and Article VI hereof, Freddie Mac shall make payments of any interest on Debt Securities in the Specified Interest Currency and shall make payments of the principal of Debt Securities in the Specified

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Principal Currency. The Specified Currency for the payment of interest and principal with respect to any Debt Security shall be set forth in the applicable Supplemental Agreement. (c) European Economic and Monetary Union and Unavailability (i) European Economic and Monetary Union. The Treaty contemplated that EMU would occur in three stages. On January 1, 1999 the third and final stage of the EMU commenced with the irrevocable fixing of the exchange rates of the currencies of the initial 11 participating member states for interbank transfers in a single currency, the "euro". Complete replacement of member currencies was completed in 2002. As of the date of this Agreement, the participating member states in the EMU are Austria, Belgium, Cyprus, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, the Netherlands, Portugal, Slovenia and Spain. (ii) Unavailability. Except as set forth below, if the principal of, premium, if any, or interest on, any Debt Security is payable in a Specified Currency other than U.S. dollars and such Specified Currency is not available to Freddie Mac for making required payments due to the imposition of exchange controls, its replacement or disuse or other circumstances beyond the control of Freddie Mac, then Freddie Mac shall be entitled to satisfy its obligations to Holders of the Debt Securities by making such payments in U.S. dollars on the basis of the noon U.S. dollar buying rate in New York City for cable transfers for such Specified Currency published by the FRBNY on the date of such payment, or, if such currency exchange rate is not available on such date, as of the most recent prior practicable date. Notwithstanding the provisions of the preceding sentence, if euros have replaced such Specified Currency as described under Section 2.03(c)(i) above, Freddie Mac may, at its option (or shall, if so required by applicable law) without the consent of the Holders of such Debt Securities effect the payment of principal of, premium, if any, or interest on, any Debt Security denominated in such Specified Currency in euros in lieu of such Specified Currency, in conformity with legally applicable measures taken pursuant to, or by virtue of the Treaty or other applicable legal or regulatory requirements. Section 2.04. Minimum Denominations. The Debt Securities shall be issued and maintained in the minimum denominations of U.S. $1,000 and additional increments of U.S. $1,000 for U.S. dollar denominated Debt Securities, unless otherwise provided in the applicable Supplemental Agreement and as may be allowed or required from time to time by the relevant regulatory authority or any laws or regulations applicable to the relevant Specified Currency. In the case of Zero Coupon Debt Securities, denominations will be expressed in terms of the principal amount payable on the Maturity Date. Section 2.05. Maturity. (a) Each Debt Security shall mature on its Maturity Date, as provided in the applicable Supplemental Agreement, unless redeemed at the option of Freddie Mac or repaid at the option of the Holder prior thereto in accordance with the provisions described under Section 2.06. Debt Securities may be issued with minimum or maximum maturities or variable maturities allowed or required from time to time by the relevant regulatory or stock exchange authority or clearing systems or any laws or regulations applicable to the Specified Currency.

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(b) The principal amount payable on the Maturity Date of a Debt Security shall be a Fixed Principal Repayment Amount or a Variable Principal Repayment Amount, in each case as provided in the applicable Supplemental Agreement. Section 2.06. Optional Redemption and Optional Repayment. (a) The Supplemental Agreement for any particular issue of Debt Securities shall provide whether such Debt Securities may be redeemed at Freddie Mac's option or repayable at the Holder's option, in whole or in part, prior to their Maturity Date. If so provided in the applicable Supplemental Agreement, an issue of Debt Securities shall be subject to redemption at the option of Freddie Mac, or repayable at the option of the Holders, in whole or in part, on one or more specified dates, at any time on or after a specified date, or during one or more specified periods of time. The redemption or repayment price for such Debt Securities (or such part of such Debt Securities as is redeemed or repaid) shall be an amount provided in, or determined in a manner provided in, the applicable Supplemental Agreement, together with accrued and unpaid interest to the date fixed for redemption or repayment. (b) Unless otherwise provided in the applicable Supplemental Agreement, notice of optional redemption shall be given to Holders of the related Debt Securities not less than 5 Business Days nor more than 60 calendar days prior to the date of redemption in the manner provided in Section 9.07. (c) In the case of a partial redemption of an issue of Fed Book-Entry Debt Securities by Freddie Mac, such Fed Book-Entry Debt Securities shall be redeemed pro rata. In the case of a partial redemption of an issue of Registered Debt Securities by Freddie Mac, one or more of such Registered Debt Securities shall be reduced by the Global Agent in the amount of such redemption, subject to the principal amount of such Registered Debt Securities after redemption remaining in an authorized denomination. The effect of any partial redemption of an issue of Registered Debt Securities on the Beneficial Owners of such Registered Debt Securities will depend on the procedures of the applicable clearing system and, if such Beneficial Owner is not a participant therein, on the procedures of the participant through which such Beneficial Owner owns its interest. (d) If so provided in the applicable Supplemental Agreement, certain Debt Securities shall be repayable, in whole or in part, by Freddie Mac at the option of the relevant Holders thereof, on one or more specified dates, at any time on or after a specified date, or during one or more specified periods of time, upon terms and procedures provided in the applicable Supplemental Agreement. Unless otherwise provided in the applicable Supplemental Agreement, in the case of a Registered Debt Security, to exercise such option, the Holder shall deposit with the Global Agent (i) such Registered Debt Security; and (ii) a duly completed notice of optional repayment in the form obtainable from the Global Agent, in each case not more than the number of days nor less than the number of days specified in the applicable Supplemental Agreement prior to the date fixed for repayment. Unless otherwise specified in the applicable Supplemental Agreement, no such Registered Debt Security (or notice of repayment) so deposited may be withdrawn without the prior consent of Freddie Mac or the Global Agent. Unless otherwise provided in the applicable Supplemental Agreement, in the case of a Fed Book-Entry Debt Security, if the Beneficial Owner wishes to exercise such option, then the Beneficial Owner shall give notice thereof to Freddie Mac through the relevant Holding Institution as provided in the applicable Supplemental Agreement.

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(e) The principal amount payable upon redemption or repayment of a Debt Security shall be a Fixed Principal Repayment Amount or a Variable Principal Repayment Amount, in each case as provided in the applicable Supplemental Agreement. Section 2.07. Payment Terms of the Debt Securities. (a) Debt Securities shall bear interest at one or more fixed rates or variable rates or may not bear interest. If so provided in the applicable Supplemental Agreement, Debt Securities may be separated by a Holder into one or more Interest Components and Principal Components. The Offering Circular or the applicable Supplemental Agreement for such Debt Securities shall specify the procedure for stripping such Debt Securities into such Interest and Principal Components. (b) The applicable Supplemental Agreement shall specify the frequency with which interest, if any, is payable on the related Debt Securities. Interest on Debt Securities shall be payable in arrears on the Interest Payment Dates specified in the applicable Supplemental Agreement and on each Principal Payment Date. (c) Each issue of interest-bearing Debt Securities shall bear interest during each Interest Payment Period. No interest on the principal of any Debt Security will accrue on or after the Principal Payment Date on which such principal is repaid. (d) The determination by the Calculation Agent of the interest rate on, or any Index in relation to, a Variable Rate Debt Security and the determination of any payment on any Debt Security (or any interim calculation in the determination of any such interest rate, index or payment) shall, absent manifest error, be final and binding on all parties. If a principal or interest payment error occurs, Freddie Mac may correct it by adjusting payments to be made on later Interest Payment Dates or Principal Payment Dates (as appropriate) or in any other manner Freddie Mac considers appropriate. If the source of an Index changes in format, but the Calculation Agent determines that the Index source continues to disclose the information necessary to determine the related interest rate substantially as required, the Calculation Agent will amend the procedure for obtaining information from that source to reflect the changed format. All Index values used to determine principal or interest payments are subject to correction within 30 days from the applicable payment. The source of a corrected value must be the same source from which the original value was obtained. A correction might result in an adjustment on a later date to the amount paid to the Holder. (e) Payments on Debt Securities shall be rounded, in the case of U.S. dollars, to the nearest cent or, in the case of a Specified Payment Currency other than U.S. dollars, to the nearest smallest transferable unit (with one-half cent or unit being rounded upwards). (f) In the event that any jurisdiction imposes any withholding or other tax on any payment made by Freddie Mac (or our agent or any other person potentially required to withhold) with respect to a Debt Security, Freddie Mac (or our agent or such other person) will deduct the amount required to be withheld from such payment, and Freddie Mac (or our agent or such other person) will not be required to pay additional interest or other amounts, or redeem or repay the Debt Securities prior to maturity, as a result. (g) Fixed Rate Debt Securities Fixed Rate Debt Securities shall bear interest at a single fixed interest rate. The applicable Supplemental Agreement shall specify the fixed interest rate per annum on a Fixed

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Rate Debt Security. Unless otherwise specified in the applicable Supplemental Agreement, interest on a Fixed Rate Debt Security shall be computed on the basis of a 360-day year consisting of twelve 30-day months. (h) Step Debt Securities Step Debt Securities shall bear interest from their Issue Date to a specified date at their initial fixed interest rate and from that date to their Maturity Date at one or more different fixed interest rates that shall be prescribed as of the Issue Date. A Step Debt Security will have one or more step periods. The applicable Supplemental Agreement shall specify the fixed interest rate per annum payable on Step Debt Securities for each related period from issuance to maturity. Unless otherwise specified in the applicable Supplemental Agreement, interest on a Step Debt Security shall be computed on the basis of a 360-day year consisting of twelve 30-day months. (i) Variable Rate Debt Securities (A) Variable Rate Debt Securities shall bear interest at a variable rate determined on the basis of a direct or an inverse relationship to one or more specified Indices or otherwise, (x) plus or minus a Spread, if any, or (y) multiplied by one or more Leverage or Deleverage Factors, if any, as specified in the applicable Supplemental Agreement. Variable Rate Debt Securities also may bear interest in any other manner described in the applicable Supplemental Agreement. (B) Variable Rate Debt Securities may have a Cap and/or a Floor. (C) The applicable Supplemental Agreement shall specify the accrual method (i.e., the day count convention) for calculating interest or any relevant accrual factor on the related Variable Rate Debt Securities. The accrual method may incorporate one or more of the following defined terms: "Actual/360" shall mean that interest or any other relevant accrual factor shall be calculated on the basis of the actual number of days elapsed in a year of 360 days. "Actual/365 (fixed)" shall mean that interest or any other relevant accrual factor shall be calculated on the basis of the actual number of days elapsed in a year of 365 days, regardless of whether accrual or payment occurs during a calendar leap year. "Actual/Actual" shall mean, unless otherwise indicated in the applicable Supplemental Agreement, that interest or any other relevant accrual factor shall be calculated on the basis of (x) the actual number of days elapsed in the Interest Payment Period divided by 365, or (y) if any portion of the Interest Payment Period falls in a calendar leap year, (A) the actual number of days in that portion divided by 366 plus (B) the actual number of days in the remaining portion divided by 365. If so indicated in the applicable Supplemental Agreement, "Actual/Actual" shall mean interest or any other relevant accrual factor shall be calculated in accordance with the definition of "Actual/Actual" adopted by the International Securities Market Association ("Actual/Actual (ISMA)"), which means a calculation on the basis of the following: (1) where the number of days in the relevant Interest Payment Period is equal to or shorter than the Determination Period during which such Interest Payment Period ends, the number of days in such Interest Payment Period divided by the

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product of (A) the number of days in such Determination Period and (B) the number of Interest Payment Dates that would occur in one calendar year; or (2) where the Interest Payment Period is longer than the Determination Period during which the Interest Payment Period ends, the sum of (A) the number of days in such Interest Payment Period falling in the Determination Period in which the Interest Payment Period begins divided by the product of (X) the number of days in such Determination Period and (Y) the number of Interest Payment Dates that would occur in one calendar year; and (B) the number of days in such Interest Payment Period falling in the next Determination Period divided by the product of (X) the number of days in such Determination Period and (Y) the number of Interest Payment Dates that would occur in one calendar year. (D) The applicable Supplemental Agreement shall specify the frequency with which the rate of interest on the related Variable Rate Debt Securities shall reset. The applicable Supplemental Agreement also shall specify the Reset Date. If the interest rate will reset within an Interest Payment Period, then the interest rate in effect on the sixth Business Day preceding an Interest Payment Date will be the interest rate for the remainder of that Interest Payment Period and the first day of each Interest Payment Period also will be a Reset Date. Variable Rate Debt Securities may bear interest prior to the initial Reset Date at an initial interest rate, if any, specified in the applicable Supplemental Agreement. If so, then the first day of the first Interest Payment Period will not be a Reset Date. The rate of interest applicable to each Interest Reset Period shall be determined as provided below or in the applicable Supplemental Agreement. Except for a Variable Rate Debt Security as to which the rate of interest thereon is determined by reference to LIBOR, EUR-LIBOR, EURIBOR, Prime Rate, Treasury Rate, CMT Rate, CMS Rate, Federal Funds Rate (Daily), or Federal Funds Rate (Weekly Average) or as otherwise set forth in the applicable Supplemental Agreement, the Determination Date for a Variable Rate Debt Security means the second Business Day preceding the Reset Date applicable to an Interest Reset Period. (E) If the rate of interest on a Variable Rate Debt Security is subject to adjustment within an Interest Payment Period, accrued interest shall be calculated by multiplying the principal amount of such Variable Rate Debt Security by an accrued interest factor. Unless otherwise specified in the applicable Supplemental Agreement, this accrued interest factor shall be computed by adding the interest factor calculated for each Interest Reset Period in such Interest Payment Period and rounding the sum to nine decimal places. The interest factor for each such Interest Reset Period shall be computed by (1) multiplying the number of days in the Interest Reset Period by the interest rate (expressed as a decimal) applicable to such Interest Reset Period; and (2) dividing the product by the number of days in the year referred to in the accrual method specified in the applicable Supplemental Agreement. (F) If and so long as an issue of Variable Rate Debt Securities is admitted for trading on the Euro MTF Market and listed on the Official List of the Luxembourg Stock Exchange and/or the Singapore Stock Exchange and such stock exchange or stock exchanges so require, the Calculation Agent shall cause the interest rate for the applicable Interest Reset Period and the amount of interest on the minimum denomination in respect

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of such issue that would accrue through the last day of such Interest Reset Period, as well as the last day of such Interest Reset Period, to be provided to such stock exchange or stock exchanges as soon as practicable, but in no event later than the applicable Reset Date. (G) For each issue of Variable Rate Debt Securities, the Calculation Agent shall also cause the interest rate for the applicable Interest Reset Period and the amount of interest accrued on the minimum denomination specified for such issue to be made available to Holders as soon as practicable after its determination but in no event later than two Business Days thereafter. Such interest amounts so made available may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of an extension or shortening of the Interest Reset Period. (H) If the applicable Supplemental Agreement specifies LIBOR as the applicable Index for determining the rate of interest for the related Variable Rate Debt Security, the following provisions shall apply (unless otherwise specified in the applicable Supplemental Agreement): "LIBOR" shall mean, with respect to any Reset Date (in the following order of priority): (1) the rate (expressed as a percentage per annum) for Deposits in the Index Currency having the Index Maturity that appears on the Designated Reuters Page at 11:00 a.m. (London time) on such LIBOR Determination Date; (2) if such rate does not so appear, the Calculation Agent shall request the principal London offices of four leading banks in the London interbank market selected by the Calculation Agent (after consultation with Freddie Mac, if Freddie Mac is not then acting as Calculation Agent) to provide such banks' offered quotations (expressed as a percentage per annum) to prime banks in the London interbank market for Deposits in the Index Currency having the Index Maturity at 11:00 a.m. (London time) on such LIBOR Determination Date and in a Representative Amount. If at least two quotations are provided, LIBOR shall be the arithmetic mean (if necessary rounded upwards) of such quotations; (3) if fewer than two such quotations are provided as requested in clause (2) above, the Calculation Agent shall request four major banks in the applicable Principal Financial Center selected by the Calculation Agent (after consultation with Freddie Mac, if Freddie Mac is not then acting as Calculation Agent) to provide such banks' offered quotations (expressed as a percentage per annum) to leading European banks for a loan in the Index Currency for a period of time corresponding to the Index Maturity, commencing on such Reset Date, at approximately 11:00 a.m. in the Principal Financial Center on such LIBOR Determination Date and in a Representative Amount. If at least two such quotations are provided, LIBOR shall be the arithmetic mean (if necessary rounded upwards) of such quotations; and (4) if fewer than two such quotations are provided as requested in clause (3) above, LIBOR shall be LIBOR determined with respect to the Reset Date immediately preceding such Reset Date or, in the case of the first Reset Date,

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shall be the rate for Deposits in the Index Currency having the Index Maturity at 11:00 a.m. (London time) on the most recent London Banking Day preceding the related LIBOR Determination Date for which such rate shall have been displayed on the Designated Reuters Page with respect to Deposits commencing on the second London Banking Day following such date (or, if the Index Currency is Sterling, commencing on such date). (I) If the applicable Supplemental Agreement specifies EUR-LIBOR as the applicable Index for determining the rate of interest for the related Variable Rate Debt Security, the following provisions shall apply (unless otherwise specified in the applicable Supplemental Agreement): "EUR-LIBOR" shall mean, with respect to any Reset Date (in the following order of priority): (1) the rate (expressed as a percentage per annum) for Deposits in euros having the Index Maturity that appears on the Designated EUR-LIBOR Reuters Page at 11:00 a.m. (London time) on the related EUR-LIBOR Determination Date; (2) if such rate does not so appear, the Calculation Agent shall request the principal London offices of four leading banks in the London interbank market selected by the Calculation Agent (after consultation with Freddie Mac, if Freddie Mac is not then acting as Calculation Agent) to provide such banks' offered quotations (expressed as a percentage per annum) to prime banks in the London interbank market for Deposits in euros having the Index Maturity at 11:00 a.m. (London time) on such EUR-LIBOR Determination Date and in a Euro Representative Amount. If at least two quotations are provided, EUR-LIBOR shall be the arithmetic mean (if necessary rounded upwards) of such quotations; (3) if fewer than two such quotations are provided as requested in clause (2) above, the Calculation Agent shall request four major banks in London selected by the Calculation Agent (after consultation with Freddie Mac, if Freddie Mac is not then acting as Calculation Agent) to provide such banks' offered quotations (expressed as a percentage per annum) to leading European banks for a loan in euros for a period of time corresponding to the Index Maturity, commencing on such Reset Date, at approximately 11:00 a.m. (London time) on such EUR-LIBOR Determination Date and in a Euro Representative Amount. If at least two such quotations are provided, EUR-LIBOR shall be the arithmetic mean (if necessary rounded upwards) of such quotations; and (4) if fewer than two such quotations are provided as requested in clause (3) above, EUR-LIBOR shall be EUR-LIBOR determined with respect to the Reset Date immediately preceding such Reset Date or, in the case of the first Reset Date, shall be the rate for Deposits in euros having the Index Maturity at 11:00 a.m. (London time) on the most recent TARGET Business Day preceding the related EUR-LIBOR Determination Date for which such rate shall have been displayed on the Designated EUR-LIBOR Reuters Page with respect to Deposits commencing on the second TARGET Business Day following such date.

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(J) If the applicable Supplemental Agreement specifies EURIBOR as the applicable Index for determining the rate of interest for the related Variable Rate Debt Security, the following provisions shall apply (unless otherwise specified in the applicable Supplemental Statement): "EURIBOR" shall mean, with respect to a Reset Date (in the following order of priority): (1) the rate (expressed as a percentage per annum) for Deposits in euros having the Index Maturity that appears on the Designated EURIBOR Reuters Page at 11:00 a.m., Brussels time, on the relevant EURIBOR Determination Date; (2) if such rate does not so appear, then the Calculation Agent will request the principal offices of four major banks in the Euro-Zone selected by the Calculation Agent (after consultation with Freddie Mac, if Freddie Mac is not then acting as Calculation Agent) to provide such banks' offered quotations (expressed as a percentage per annum) to prime banks in the Euro-Zone interbank market for Deposits in euros having the Index Maturity at 11:00 a.m. Brussels time on such EURIBOR Determination Date and in a Euro Representative Amount. If at least two quotations are provided, EURIBOR for that date will be the arithmetic mean (if necessary, rounded upwards) of the quotations; and (3) If fewer than two such quotations are provided as requested, EURIBOR for that date will be the arithmetic mean (if necessary, rounded upwards) of the rates quoted by major banks in the Euro-Zone, selected by the Calculation Agent (after consultation with Freddie Mac, if Freddie Mac is not then acting as Calculation Agent), at approximately 11:00 a.m., Brussels time, on the EURIBOR Determination Date for loans in euros to leading European banks for a period of time corresponding to the Index Maturity and in a Euro Representative Amount. (K) If the applicable Supplemental Agreement specifies the Prime Rate as the applicable Index for determining the rate of interest for the related Variable Rate Debt Securities, the following provisions shall apply: The "Prime Rate" means, with respect to any Reset Date (in the following order of priority): (1) the arithmetic mean, determined by the Calculation Agent, of the rates (after eliminating certain rates, as described below in this clause (1)) that appear, at 11:00 a.m. on the Prime Rate Determination Date, on Reuters USPRIME1 Page as the U.S. dollar prime rate or base lending rate of each bank appearing on that page; provided, that at least three rates appear. In determining the arithmetic mean: (i) if 20 or more rates appear, the highest five rates (or in the event of equality, five of the highest) and the lowest five rates (or in the event of equality, five of the lowest) will be eliminated, (ii) if fewer than 20 but 10 or more rates appear, the highest two rates (or in the event of equality, two of the highest) and the lowest two rates (or in the event of equality, two of the lowest) will be eliminated, or

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(iii) if fewer than 10 but five or more rates appear, the highest rate (or in the event of equality, one of the highest) and the lowest rate (or in the event of equality, one of the lowest) will be eliminated; (2) if fewer than three rates so appear, then the Calculation Agent will request five major banks in the City of New York selected by the Calculation Agent (after consultation with Freddie Mac, if Freddie Mac is not then acting as Calculation Agent) to provide a quotation of such banks' U.S. dollar prime rates or base lending rates on the basis of the actual number of days in the year divided by 360 as of the close of business on the Prime Rate Determination Date. If at least three quotations are provided, then the Prime Rate will be the arithmetic mean determined by the Calculation Agent of the quotations obtained (and, if five quotations are provided, eliminating the highest quotation (or in the event of equality, one of the highest) and the lowest quotation (or in the event of equality, one of the lowest)); (3) if fewer than three quotations are so provided, the

Calculation Agent will request five banks or trust companies organized and doing business under the laws of the United States or any state, each having total equity capital of at least U.S. $500,000,000 and being subject to supervision or examination by federal or state authority, selected by the Calculation Agent (after consultation with Freddie Mac, if Freddie Mac is not then acting as Calculation Agent), to provide a quotation of such banks' or trust companies' U.S. dollar prime rates or base lending rates on the basis of the actual number of days in the year divided by 360 as of the close of business on the Prime Rate Determination Date. In making such selection of five banks or trust companies, the Calculation Agent will include each bank, if any, that provided a quotation as requested in clause (3) above and exclude each bank that failed to provide a quotation as requested in clause (3). If at least three quotations are provided, then the Prime Rate will be the arithmetic mean determined by the Calculation Agent of the quotations obtained; and (4) if fewer than three quotations are so provided, then the Prime Rate will be the Prime Rate determined for the immediately preceding Reset Date. If the applicable Reset Date is the first Reset Date, then the Prime Rate will be the rate calculated pursuant to clause (1) or (2) for the most recent New York Banking Day preceding the Reset Date for which at least three rates appeared at 11:00 a.m. on Reuters USPRIME1 Page. (L) If the applicable Supplemental Agreement specifies the Treasury Rate as the applicable Index for determining the rate of interest for the related Variable Rate, the following provisions shall apply: The "Treasury Rate" means, with respect to any Reset Date (in the following order of priority): (1) the auction average rate for Treasury Bills having the Index Maturity obtained from the applicable Reference Treasury Bill Auction as announced by the Treasury Department in the form of a press release under the heading "Investment Rate" by 3:00 p.m. on such Reset Date;

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(2) if such rate is not so announced, then the Treasury Rate will be the auction average rate for Treasury Bills having the Index Maturity obtained from the Reference Treasury Bill Auction as otherwise announced by the Treasury Department by 3:00 p.m. on the Reset Date as determined by the Calculation Agent; (3) if such rate is not so announced, the Calculation Agent will request five leading primary United States government securities dealers in the City of New York selected by the Calculation Agent (after consultation with Freddie Mac, if Freddie Mac is not then acting as Calculation Agent) to provide a quotation of such dealers' secondary market bid yields, as of 3:00 p.m. on such Reset Date, for Treasury Bills with a remaining maturity closest to the Index Maturity (or, in the event that the remaining maturities are equally close, the longer remaining maturity). If at least three quotations are provided, then the Treasury Rate will be the arithmetic mean determined by the Calculation Agent of the quotations obtained; and (4) if fewer than three quotations are so provided, the Treasury Rate will be the Treasury Rate for the immediately preceding Reset Date. If the applicable Reset Date is the first Reset Date, the Treasury Rate will be the auction average rate for Treasury Bills having the Index Maturity from the most recent auction of Treasury Bills prior to the Reset Date for which such rate was announced by the Treasury Department in the form of a press release under the heading "Investment Rate." The auction average rate for Treasury Bills and the secondary market bid yield for Treasury Bills will be expressed as a bond equivalent on the basis of a year of 365 or 366 days, as applicable (or, if not so expressed, will be converted by the Calculation Agent to such a bond equivalent yield). (M) If the applicable Supplemental Agreement specifies the CMT Rate as the applicable Index for determining the rate of interest for the related Variable Rate, the following provisions shall apply: The "CMT Rate" means, with respect to any Reset Date (in the following order of priority): (1) for any CMT Determination Date, the daily rate for the Index Maturity that appears on page "7051" on Reuters (or any other page that replaces the 7051 page on that service or any successor service) under the heading "...Treasury Constant Maturities. Federal Reserve Board Release H.15...Mondays Approximately 3:45 p.m."; (2) if the applicable rate described in clause (1) is not displayed on Reuters page 7051

at 3:45 p.m., New York City time, on the CMT Determination Date, then the CMT Rate will be the Treasury constant maturity rate applicable for the Index Maturity as published in H.15 (519);

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(3) if the CMT Rate is not determined pursuant to clause (1) and the applicable rate described in clause (2) does not appear in H.15 (519) at 3:45 p.m., New York City time, on the CMT Determination Date, then the CMT Rate will be the Treasury constant maturity rate, or other U.S. Treasury rate, applicable to an Index Maturity with reference to the CMT Determination Date, that: ù is published by the Board of Governors of the Federal Reserve System or the U.S. Department of the Treasury; and ù Freddie Mac has determined to be comparable to the applicable rate formerly displayed on Reuters page 7051 and published in H.15 (519); (4) if the CMT Rate is not determined pursuant to clause (1) or (2) and the rate described in clause (3) above does not appear at 3:45 p.m., New York City time, on the CMT Determination Date, then the CMT Rate will be the yield to maturity of the arithmetic mean of the secondary market offered rates for U.S. Treasury securities with an original maturity longer than the Index Maturity and a remaining term to maturity closest to the Index Maturity, and in a Representative Amount, as of approximately 3:45 p.m., New York City time, on the CMT Determination Date, as quoted by three primary U.S. government securities dealers in New York City that Freddie Mac selects. In selecting these offered rates, Freddie Mac will request quotations from five primary dealers and will disregard the highest quotation or, if there is equality, one of the highest and the lowest quotation or, if there is equality, one of the lowest. If two U.S. Treasury securities with an original maturity longer than the Index Maturity have remaining terms to maturity that are equally close to the Index Maturity, Freddie Mac will obtain quotations for the U.S. Treasury security with the shorter remaining term to maturity; (5) if the CMT Rate is not determined pursuant to clause (1), (2) or (3) and fewer than five but more than two primary dealers are quoting offered rates as described in clause (4), then the CMT Rate for the CMT Determination Date will be based on the arithmetic mean of the offered rates so obtained, and neither the highest nor the lowest of those quotations will be disregarded. (6) if the CMT Rate is not determined pursuant to clause (1), (2), (3) or (4) and two or fewer primary dealers are quoting offered rates as described in clause (5), then the CMT Rate will be the yield to maturity of the arithmetic mean of the secondary market offered rates for U.S. Treasury securities having an original maturity of approximately the Index Maturity and a remaining term to maturity of not less than one year, and in a Representative Amount, as of approximately 3:45 p.m., New York City time, on the CMT Determination Date, as quoted by three primary U.S. government securities dealers in New York City that Freddie Mac selects. In selecting these offered rates, Freddie Mac will request quotations from five primary dealers and will disregard the highest quotation, or, if there is equality, one of the highest and the lowest quotation or, if there is equality, one of

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the lowest; and (7) if Freddie Mac is unable to obtain three quotations of the kind described in clause (6), the CMT Rate in effect for the new Interest Reset Period will be the CMT Rate in effect for the prior Interest Rate Period. (N) If the applicable Supplemental Agreement specifies the CMS Rate as the applicable Index for determining the rate of interest for the related Variable Rate, the following provisions shall apply: The "CMS Rate" means, with respect to any Reset Date: (1) the most recent rate for U.S. dollar swap transactions for the applicable Index Currency and applicable Index Maturity, as specified in the applicable Supplemental Agreement for the Debt Securities, expressed as a percentage, which appears on the Reuters page "ISDAFIX1" (or such other page that may replace that page on that service or a successor service) at 11:00 a.m. (New York City Time) on the applicable CMS Determination Date; (2) if the most recent CMS Rate as described in clause (1) above was first available prior to ten calendar days before the applicable CMS Determination Date, then the CMS Rate will be determined by the Calculation Agent on the basis of the mid-market semi-annual swap rate quotations provided by the five leading swaps dealers in the New York City interbank market (which may include Dealers and their affiliates), and for this purpose, "mid-market semi-annual swap rate" means the arithmetic mean of the bid and offered rate quotations for the semi-annual fixed leg, calculated on a 30/360 day count basis, of a fixed-for-floating United States dollars denominated interest rate swap transaction with the applicable Index Currency and Index Maturity, as specified in the applicable Supplemental Agreement for the Debt Securities, commencing on the Reset Date for the relevant Interest Period, and for a relevant representative amount in the relevant market at the relevant time, with an acknowledged dealer of good credit in the swap market, where the floating leg, calculated on an Actual/360 day count basis, is equivalent to USD-LIBOR-BBA (as defined in the 2006 ISDA Definitions published by the International Swaps and Derivatives Association, Inc.) with a designated maturity of three months. The Calculation Agent will request the principal New York City office of each of the five leading swaps dealers selected by the Calculation Agent to provide a quotation of its rate. If at least five quotations are provided, the rate for that CMS Determination Date will be the arithmetic mean of the quotations, eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest); (3) if two, three or four (and not five) of such swaps dealers are quoting as described in clause (2) above, then the CMS Rate will be based on the arithmetic mean of the bid prices obtained and neither the highest nor lowest of such quotations will be eliminated; and

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(4) if fewer than two rate quotations are provided, then the CMS Rate for the Reset Date will be the CMS Rate in effect on the preceding Reset Date. (O) If the applicable Supplemental Agreement specifies the Federal Funds Rate (Daily) as the applicable Index for determining the rate of interest for the related Variable Rate, the following provisions shall apply: The "Federal Funds Rate (Daily)" means, with respect to any Reset Date: (1) the most recent rate that appears by 5:00 p.m. on the Federal Funds Rate (Daily) Determination Date on Reuters US/FEDRATES1 Page for the Business Day preceding the Federal Funds Rate (Daily) Determination Date; (2) if the most recent rate specified in (1) above does not so appear, the Calculation Agent will request five leading brokers (which may include the related Dealers or their affiliates) of federal funds transactions in the City of New York selected by the Calculation Agent (after consultation with Freddie Mac, if Freddie Mac is not then acting as Calculation Agent) each to provide a quotation of the broker's effective rate for transactions in overnight federal funds arranged by the broker settling on the Business Day preceding the Federal Funds Rate (Daily) Determination Date. If at least two quotations are provided, then the Federal Funds Rate (Daily) will be the arithmetic mean determined by the Calculation Agent of the quotations obtained (and, if five quotations are provided, eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest)); (3) if fewer than two quotations are so provided, then the Calculation Agent will request five leading brokers (which may include the related Dealers or their affiliates) of federal funds transactions in the City of New York selected by the Calculation Agent (after consultation with Freddie Mac, if Freddie Mac is not then acting as Calculation Agent) each to provide a quotation of the broker's rates for the last transaction in overnight federal funds arranged by the broker as of 11:00 a.m. on the Business Day preceding the Federal Funds Rate (Daily) Determination Date. If at least two quotations are provided, then the Federal Funds Rate (Daily) will be the arithmetic mean determined by the Calculation Agent of the quotations obtained (and, if five quotations are

provided, eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest)); and (4) if fewer than two quotations are so provided, then the Federal Funds Rate (Daily) as of such Federal Funds Rate (Daily) Determination Date will be the Federal Funds Rate (Daily) determined for the immediately preceding Reset Date. If the applicable Reset Date is the first Reset Date, then the Federal Funds Rate (Daily) will be the daily federal funds rate that appeared by 5:00 p.m. on the most recent Business Day preceding the Reset Date for which the rate was displayed on Reuters US/FEDRATES1 Page.

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(P) If the applicable Supplemental Agreement specifies the Federal Funds Rate (Weekly Average) as the applicable Index for determining the rate of interest for the related Variable Rate, the following provisions shall apply: The "Federal Funds Rate (Weekly Average)" means, with respect to any Reset Date: (1) the most recent rate published in the latest H.15(519) available by 5:00 p.m. on the Reset Date, opposite the caption "Federal funds (effective)" and under the caption "Week Ending" for the Friday immediately preceding the Reset Date. (As described in the footnotes to the H.15(519), the rate shown for the week ending on a Friday preceding a Reset Date actually will be the rate for the week ending on (and including) the Wednesday preceding the Reset Date (the "Seven-Day Period").); (2) if a rate is not so published, then the Federal Funds Rate (Weekly Average) will be the arithmetic mean determined by the Calculation Agent of the rate, determined in the manner described in subclauses (y) and (z) below (as applicable), for each day in the Seven-Day Period (each a "Day Rate"); provided, that the Calculation Agent determines a Day Rate for each day in the Seven-Day Period; (y) The Day Rate for a Business Day will be the rate that appears, by 5:00 p.m. on the Reset Date, on Reuters US/FEDRATES1 Page for that Business Day. If a rate for that Business Day does not appear on Reuters US/FEDRATES1 Page by 5:00 p.m. on the Reset Date, the Calculation Agent will request five leading brokers (which may include the related Dealers or their affiliates) of federal funds transactions in the City of New York selected by the Calculation Agent (after consultation with Freddie Mac, if Freddie Mac is not then acting as Calculation Agent) each to provide a quotation of the broker's rate for the last transaction in overnight federal funds arranged by the broker as of 11:00 a.m. on that Business Day. If at least two quotations are provided, then the Day Rate will be the arithmetic mean determined by the Calculation Agent of the quotations obtained (and, if five quotations are provided, eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest)); and (z) The Day Rate for a day other than a Business Day will be the rate for the preceding Business Day, whether or not the Business Day falls within the relevant Seven-Day Period, determined in accordance with the provisions of subclause (y) above; and (3) if the Day Rate for each day in the Seven-Day Period is not so determined, then the Federal Funds Rate (Weekly Average) as of such Reset Date will be the Federal Funds Rate (Weekly Average) determined for the immediately preceding Reset Date. If the applicable Reset Date is the first Reset Date, then the Federal Funds Rate (Weekly Average) will be the rate published in the latest H.15(519)

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available by 5:00 p.m. on the Reset Date, opposite the caption "Federal funds (effective)" and under the caption "Week Ending" for the Friday most recently preceding the Reset Date. The Federal Funds Rate (Weekly Average) as published in the H.15(519) is a weekly average, while the Federal Funds Rate (Weekly Average) as calculated under clause (2) is based on an average of daily rates. (j) Fixed/Variable Rate Debt Securities Fixed/Variable Rate Debt Securities shall bear interest at a single fixed rate for one or more specified periods and at a rate determined by reference to one or more Indices, or otherwise, for one or more other specified periods. Fixed/Variable Rate Debt Securities also may bear interest at a rate that Freddie Mac may elect to convert from a fixed rate to a variable rate or from a variable rate to a fixed rate, if so provided in the applicable Supplemental Agreement. If Freddie Mac may convert the interest rate on a Fixed/Variable Rate Debt Security from a fixed rate to a variable rate, or from a variable rate to a fixed rate, accrued interest for each Interest Payment Period may be calculated using an accrued interest factor in the manner described in Section 2.07(i)(E). (k) Zero Coupon Debt Securities Zero Coupon Debt Securities shall not bear interest. (l) Amortizing Debt Securities Amortizing Debt Securities are those on which Freddie Mac makes periodic payments of principal during the terms of such Debt Securities as described in the related Supplemental Agreement. (m) Debt Securities with Variable Principal Repayment Amounts Variable Principal Repayment Amount Debt Securities are those on which the amount of principal payable is determined with reference to an index specified in the related Supplemental Agreement. (n) Range Accrual Debt Securities Range Accrual Debt Securities are those on which no interest may accrue during periods when the applicable index is outside a specified range as described in the related Supplemental Agreement. Section 2.08. Business Day Convention. Unless otherwise specified in the applicable Supplemental Agreement, in any case in which an Interest Payment Date or Principal Payment Date is not a Business Day, payment of any interest on or the principal of the Debt Securities shall not be made on such date but shall be made on the next Business Day with the same force and effect as if made on such Interest Payment Date or Principal Payment Date, as the case may be. Unless otherwise provided in the applicable Supplemental Agreement, no interest on such payment shall accrue for the period from and after such Interest Payment Date or Principal Payment Date, as the case may be, to the actual date of such payment.

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Section 2.09. Subordinated Debt Securities. If so provided in the applicable Supplemental Agreement, the indebtedness represented by the Subordinated Debt Securities and the payment of principal of and interest on such Subordinated Debt Securities will be subordinated to prior payment in full of all Senior Obligations of Freddie Mac, which are due and payable. Such Senior Obligations will be identified by category in the applicable Supplemental Agreement. In addition, there may be other terms applicable to specific offerings of Subordinated Debt Securities that would defer, limit or suspend Freddie Mac's obligation to make any payment of principal of or interest on such Subordinated Debt Securities under certain specified conditions. Any such terms and conditions will be specified in the Supplemental Agreement. Section 2.10. Targeted Registered Issues. Any Debt Securities that are Targeted Registered Debt Securities shall be considered to be "targeted to foreign markets" as provided under U.S. Treasury regulations. Section 2.11. Reopened Issues and Repurchases. Freddie Mac reserves the right, in its discretion and at any time, to offer additional Debt Securities which have the same terms (other than Issue Date, interest commencement date and issue price) and conditions as Debt Securities for which settlement has previously occurred or been scheduled so as to form a single series of Debt Securities as specified in the applicable Supplemental Agreement. Freddie Mac reserves the right, in its discretion and at any time, to purchase Debt Securities or otherwise acquire (either for cash or in exchange for securities) some or all of an issue of Debt Securities at any price or prices in the open market or otherwise. Such Debt Securities may be held, resold or canceled by Freddie Mac. ARTICLE III Form; Clearance and Settlement Procedures Section 3.01. Form of Fed Book-Entry Debt Securities. (a) General Fed Book-Entry Debt Securities shall be issued and maintained only on the Fed Book-Entry System. Fed Book-Entry Debt Securities shall not be exchangeable for definitive Debt Securities. The Book-Entry Rules are applicable to Fed Book-Entry Debt Securities. (b) Title Fed Book-Entry Debt Securities shall be held of record only by Holding Institutions. Such entities whose names appear on the book-entry records of a Federal Reserve Bank as the entities to whose accounts Fed Book-Entry Debt Securities have been deposited shall be the Holders of such Fed Book-Entry Debt Securities. The rights of the Beneficial Owner of a Fed Book-Entry Debt Security with respect to Freddie Mac and the Federal Reserve Banks may be exercised only through the Holder of the Fed Book-Entry Debt Security. Freddie Mac and the Federal Reserve Banks shall have no direct obligation to a Beneficial Owner of a Fed Book-Entry Debt Security that is not also the Holder of the Fed Book-Entry Debt Security. The Federal Reserve Banks shall act only upon the instructions of the Holder in recording transfers of a Debt Security maintained on the Fed Book-Entry System. Freddie Mac and the Federal

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Reserve Banks may treat the Holders as the absolute owners of Fed Book-Entry Debt Securities for the purpose of making payments in respect thereof and for all other purposes, whether or not such Fed Book-Entry Debt Securities shall be overdue and notwithstanding any notice to the contrary. The Holders and each other financial intermediary holding such Fed Book-Entry Debt Securities directly or indirectly on behalf of the Beneficial Owners shall have the responsibility of remitting payments for the accounts of their customers. All payments on Fed Book-Entry Debt Securities shall be subject to any applicable law or regulation. (c) Fiscal Agent The FRBNY shall be the Fiscal Agent for Fed Book-Entry Debt Securities. In acting under the Fiscal Agency Agreement, the FRBNY shall act solely as Fiscal Agent of Freddie Mac and does not assume any obligation or relationship of agency or trust for or with any Holder of a Fed Book-Entry Debt Security. Section 3.02. Form of Registered Debt Securities. (a) General As specified in the applicable Supplemental Agreement, Registered Debt Securities shall be deposited with (i) a custodian for, and registered in the name of a nominee of, DTC, or (ii) a Common Depositary, and registered in the name of such Common Depositary or a nominee of such Common Depositary. (b) Title The person in whose name a Registered Debt Security is registered in the Register shall be the Holder of such Registered Debt Security. Beneficial interests in a Registered Debt Security shall be represented, and transfers thereof shall be effected, only through book-entry accounts of financial institutions acting on behalf of the Beneficial Owners of such Registered Debt Security, as a direct or indirect participant in the applicable clearing system for such Registered Debt Security. Freddie Mac, the Global Agent and the Registrar may treat the Holders as the absolute owners of Registered Debt Securities for the purpose of making payments and for all other purposes, whether or not such Registered Debt Securities shall be overdue and notwithstanding any notice to the contrary. Owners of beneficial interests in a Registered Debt Security shall not be considered by Freddie Mac, the Global Agent or the Registrar as the owner or Holder of such Registered Debt Security and, except as provided in Section 4.02(a), shall not be entitled to have Debt Securities registered in their names and shall not receive or be entitled to receive definitive Debt Securities. Any Beneficial Owner shall rely on the procedures of the applicable clearing system and, if such Beneficial Owner is not a participant therein, on the procedures of the participant through which such Beneficial Owner holds its interest, to exercise any rights of a Holder of such Registered Debt Securities. Payments by DTC participants to Beneficial Owners of DTC Registered Debt Securities held through DTC participants shall be the responsibility of such participants. Payments with respect to Other Registered Debt Securities held through Euroclear, Clearstream, Luxembourg or any other applicable clearing system shall be credited to Euroclear participants, Clearstream,

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Luxembourg participants or participants of any other applicable clearing system in accordance with the relevant system's rules and procedures. (c) Global

Agent In acting under the Global Agency Agreement, the Global Agent acts solely as a fiscal agent of Freddie Mac and does not assume any obligation or relationship of agency or trust for or with any Holder of a Registered Debt Security, except that any moneys held by the Global Agent for payment on a Registered Debt Security shall be held in trust for the Holder as provided in the Global Agency Agreement. (d) Registrar In acting under the Global Agency Agreement, the Registrar does not assume any obligation or relationship of agency or trust for, or with, any Holder of a Registered Debt Security. Section 3.03. Clearance and Settlement Procedures. (a) General Unless otherwise provided in the applicable Supplemental Agreement: (i) Most Debt Securities denominated and payable in U.S. dollars and distributed within the United States shall clear and settle through the Fed Book-Entry System. (ii) Most Debt Securities denominated and payable in U.S. dollars and distributed simultaneously within and outside of the United States, including all Reference Securities, shall clear and settle, within the United States, through the Fed Book-Entry System and, outside of the United States, through the systems operated by Euroclear, Clearstream, Luxembourg and/or any other designated clearing system. (iii) Debt Securities denominated or payable in a Specified Currency other than U.S. dollars (and Debt Securities denominated and payable in U.S. dollars that are not cleared and settled in accordance with clauses (i) and (ii) above) and distributed solely within the United States shall clear and settle through the system operated by DTC. (iv) Debt Securities denominated or payable in a Specified Currency other than U.S. dollars (and Debt Securities denominated and payable in U.S. dollars that are not cleared and settled in accordance with clauses (i) and (ii) above) and distributed simultaneously within and outside of the United States shall clear and settle through the systems operated by DTC, Euroclear, Clearstream, Luxembourg and/or any other designated clearing system. (v) Debt Securities, irrespective of the Specified Currency in which such Debt Securities are denominated or payable, distributed solely outside of the United States shall clear and settle through the systems operated by Euroclear, Clearstream, Luxembourg and/or any other designated clearing system or, in certain cases, DTC. (b) Primary Distribution (i) General. On initial issue, Debt Securities shall be credited through one or more of the systems specified below or any other system specified in the applicable Supplemental Agreement.

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(ii) Federal Reserve Banks. Fed Book-Entry Debt Securities shall be issued and settled through the Fed-Book-Entry System in same-day funds and shall be held by designated Holding Institutions. After initial issue, all Fed Book-Entry Debt Securities shall continue to be held by such Holding Institutions in the Fed Book-Entry System unless arrangements are made for the transfer thereof to another Holding Institution. Fed Book-Entry Debt Securities shall not be exchangeable for definitive Debt Securities. (iii) DTC. DTC participants acting on behalf of investors holding DTC Registered Debt Securities through DTC shall follow the delivery practices applicable to securities eligible for DTC's Same-Day Funds Settlement System. DTC Registered Debt Securities shall be credited to DTC participants' securities accounts following confirmation of receipt of payment to Freddie Mac on the relevant Issue Date. (iv) Euroclear and Clearstream, Luxembourg. Investors holding Other Registered Debt Securities through Euroclear, Clearstream, Luxembourg or such other clearing system shall follow the settlement procedures applicable to conventional Eurobonds in registered form. Such Other Registered Debt Securities shall be credited to Euroclear, Clearstream, Luxembourg or such other clearing system participants' securities accounts either on the relevant Issue Date or on the settlement day following the relevant Issue Date against payment in same-day funds (for value on the relevant Issue Date). (c) Secondary Market Transfers (i) Fed Book-Entry Debt Securities. Transfers of Fed Book-Entry Debt Securities shall take place only in book-entry form on the Fed Book-Entry System. Such transfers shall occur between Holding Institutions in accordance with the rules of the Fed Book-Entry System. (ii) Registered Debt Securities. Transfers of beneficial interests in Registered Debt Securities within the various systems that may be clearing and settling interests therein shall be made in accordance with the usual rules and operating procedures of the relevant system applicable to the Specified Currency in which such Registered Debt Securities are denominated or payable and the nature of the transfer. (iii) Freddie Mac shall not bear responsibility for the performance by any system or the performance of the system's respective direct or indirect participants or accountholders of the respective obligations of such participants or account holders under the rules and procedures governing such system's operations. ARTICLE IV Payments, Exchange for Definitive Debt Securities Section 4.01. Payments. (a) Payments on Fed Book-Entry Debt Securities Payments of principal of and any interest on Fed Book-Entry Debt Securities shall be made in U.S. dollars (except as otherwise provided in the applicable Supplemental Agreement) on the applicable payment dates to Holders thereof as of the end of the Business Day preceding each such payment date. Payments on Fed Book-Entry Debt Securities shall be made by credit of the payment amount to the Holders' accounts at the relevant Federal Reserve Bank. All

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payments to or upon the order of a Holder shall be valid and effective to discharge the liability of Freddie Mac in respect of the related Fed Book-Entry Debt Securities. (b) Payments on Registered Debt Securities (i) Payments in respect of Registered Debt Securities shall be made to DTC, Euroclear, Clearstream, Luxembourg or any other applicable clearing system, or their respective nominees, as the case may be, as the Holders thereof. Except as provided in Section 2.03(c) and Article VII hereof, such payments shall be made in the Specified Payment Currency. All payments to or upon the order of the Holder of a Registered Debt Security shall be valid and effective to discharge the liability of Freddie Mac in respect of such Registered Debt Security. Ownership positions within each system shall be determined in accordance with the normal conventions observed by such system. Freddie Mac, the Global Agent and the Registrar shall not have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in a Registered Debt Security or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests. (ii) Interest on a Registered Debt Security shall be paid on the applicable Interest Payment Date. Such interest payment shall be made to the Holder of such Registered Debt Security as of the close of business on the related Record Date. The first payment of interest on any Registered Debt Security originally issued between a Record Date and the related Interest Payment Date shall be made on the Interest Payment Date following the next Record Date to the Holder on such next Record Date. The principal of each Registered Debt Security, together with accrued and unpaid interest thereon, shall be paid to the Holder thereof against presentation and surrender of such Registered Debt Security. (iii) All payments on Registered Debt Securities are subject to any applicable law or regulation. If a payment outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions, payments in respect of the related Registered Debt Securities shall be made at the office of any paying agent in the United States. Section 4.02. Exchange for Definitive Debt Securities. In the event that Freddie Mac issues definitive Debt Securities in exchange for Registered Debt Securities issued in global form, such definitive Debt Securities shall have terms identical to the Registered Debt Securities for which they were exchanged except as described below. (a) Issuance of Definitive Debt Securities Unless otherwise provided in the applicable Supplemental Agreement, beneficial interests in Registered Debt Securities issued in global form shall be subject to exchange for definitive Debt Securities only if such exchange is permitted by applicable law and (i) in the case of a DTC Registered Debt Security, DTC notifies Freddie Mac that it is no longer willing or able to discharge properly its responsibilities as depositary with respect to such DTC Registered Debt Security, or ceases to be a "clearing agency" registered under the Securities Exchange Act of 1934 (if so required), or is at any time no longer eligible to act as such, and in each case Freddie Mac is unable to locate a successor within 90 calendar days of receiving notice of such ineligibility on the part of DTC; (ii) in the case of any Other Registered Debt Security, if all of

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the systems through which it is cleared or settled are closed for business for a continuous period of 14 calendar days (other than by reason of holidays, statutory or otherwise) or are permanently closed for business or have announced an intention permanently to cease business and in any such situations Freddie Mac is unable to locate a single successor within 90 calendar days of such closure; (iii) a Holder has instituted a judicial proceeding in a court to enforce its rights under such Registered Debt Security and such Holder has been advised by counsel that in connection with such proceeding it is necessary for such Holder to obtain possession of definitive Debt Securities; (iv) Freddie Mac (at its discretion), upon the request of a Holder and at such Holder's expense, elects to issue definitive Debt Securities; or (v) Freddie Mac (at its discretion) elects to issue definitive Debt Securities. In such circumstances, Freddie Mac shall cause sufficient definitive Debt Securities to be executed and delivered as soon as practicable (and in any event within 45 calendar days of Freddie Mac's receiving notice of the occurrence of such circumstances) to the Global Agent or its agent for completion, authentication and delivery to the relevant registered holders of such definitive Debt Securities. A person having an interest in a DTC Registered Debt Security or Other Registered Debt Security issued in global form shall provide Freddie Mac or the Global Agent with a written order containing instructions and such other information as Freddie Mac or the Global Agent may require to complete, execute and deliver such definitive Debt Securities in authorized denominations. (b) Title The person in whose name a definitive Debt Security is registered in the Register shall be the "Holder" of such definitive Debt Security. Freddie Mac, the Global Agent and the Registrar may treat the Holders as the absolute owners of definitive Debt Securities for the purpose of making payments and for all other purposes, whether or not such definitive Debt Securities shall be overdue and notwithstanding any notice to the contrary. (c) Payments Interest on a definitive Debt Security shall be paid on the applicable Interest Payment Date. Such interest payments shall be made by check mailed to the Holder thereof at the close of business on the Record Date preceding such Interest Payment Date at such Holder's address appearing in the Register. The principal of each definitive Debt Security, together with accrued and unpaid interest thereon, shall be due on the Principal Payment Date (subject to the right of the Holder thereof on the related Record Date to receive interest due on an Interest Payment Date that is on or prior to such Principal Payment Date) and shall be paid against presentation and surrender of such definitive Debt Security at the offices of the Global Agent or other paying agent. Payments on the Principal Payment Date shall be made by check provided at the appropriate office of the Global Agent or other paying agent or mailed by the Global Agent to the Holder of such definitive Debt Security. U.S. dollar checks shall be drawn on a bank in the United States. Checks in a Specified Payment Currency other than U.S. dollars shall be drawn on a bank office located outside the United States. Notwithstanding the provisions described in the preceding paragraph relating to payments by check, the Holder of an aggregate principal amount of at least $10,000,000 of an issue of Debt Securities of which definitive Debt Securities form a part (or, in the case of a definitive Debt Security denominated in a Specified Currency other than U.S. dollars, the Specified Currency equivalent of at least $10,000,000) may elect to receive payments thereon by wire transfer of immediately available funds in the Specified Payment Currency to an account in such Specified

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Payment Currency with a bank designated by such Holder that is acceptable to

Freddie Mac; provided, that such bank has appropriate facilities therefor and accepts such transfer and such transfer is permitted by any applicable law or regulation and will not subject Freddie Mac to any liability, requirement or unacceptable charge. In order for such Holder to receive such payments, the relevant paying agent (including the Global Agent) must receive at its office from such Holder (i) in the case of payments on an Interest Payment Date, a written request therefor not later than the close of business on the related Record Date; or (ii) in the case of payments on the Principal Payment Date, a written request therefor not later than the close of business on the date 15 days prior to such Principal Payment Date and the related definitive Debt Security not later than two Business Days prior to such Principal Payment Date. Such written request must be delivered to the relevant paying agent (including the Global Agent) by mail, by hand delivery or by tested or authenticated telex. Any such request shall remain in effect until the relevant paying agent receives written notice to the contrary. All payments on definitive Debt Securities shall be subject to any applicable law or regulation. If a payment outside the United States is illegal or effectively precluded by exchange controls or similar restrictions, payments in respect of the related definitive Debt Securities may be made at the office of any paying agent in the United States. (d) Partial Redemption Definitive Debt Securities subject to redemption in part by Freddie Mac shall be selected by the Global Agent by lot or in such other manner as the Global Agent deems fair and appropriate, subject to the requirement that the principal amount of each outstanding definitive Debt Security after such redemption is in an authorized denomination. (e) Transfer and Exchange Definitive Debt Securities shall be presented for registration of transfer or exchange (with the form of transfer included thereon properly endorsed, or accompanied by a written instrument of transfer, with such evidence of due authorization and guaranty of signature as may be required by the Registrar, duly executed) at the office of the Registrar or any other transfer agent upon payment of any taxes and other governmental charges and other amounts, but without payment of any service charge to the Registrar or such transfer agent for such transfer or exchange. A transfer or exchange shall not be effective unless, and until, recorded in the Register. A transfer or exchange of a definitive Debt Security shall be effected upon satisfying the Registrar with regard to the documents and identity of the person making the request and subject to such reasonable regulations as Freddie Mac may from time to time agree with the Registrar. Such documents may include forms prescribed by U.S. tax authorities to establish the applicability of, or the exemption from, withholding or other taxes regarding the transferee Holder. Definitive Debt Securities may be transferred or exchanged in whole or in part only in the authorized denominations of the DTC Registered Debt Securities or Other Registered Debt Securities issued in global form for which they were exchanged. In the case of a transfer of a definitive Debt Security in part, a new definitive Debt Security in respect of the balance not transferred shall be issued to the transferor. In addition, replacement of mutilated, destroyed, stolen or lost definitive Debt Securities also is subject to the conditions discussed above with respect to transfers and exchanges generally. Each new definitive Debt Security to be issued upon transfer of such a definitive Debt Security, as well as the definitive Debt Security issued in respect of the balance not transferred, shall be mailed to such address as may be specified in the

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form or instrument of transfer at the risk of the Holder entitled thereto in accordance with the customary procedures of the Registrar. ARTICLE V Secured Debt Securities If so provided in the applicable Supplemental Agreement, the indebtedness represented by certain Debt Securities shall be secured obligations of Freddie Mac. In such event, the description of the security interest and the terms of the grant of the security interest shall be set forth in the applicable Supplemental Agreement. ARTICLE VI Subordinated Debt Securities If so provided in the applicable Supplemental Agreement, the indebtedness represented by the Subordinated Debt Securities and the payment of principal of and interest on such Subordinated Debt Securities will be subordinated to prior payment in full of all Senior Obligations of Freddie Mac that are due and payable. Such Senior Obligations will be identified by category in the applicable Supplemental Agreement. In addition, there may be other terms applicable to specific offerings of Subordinated Debt Securities that would defer, limit or suspend Freddie Mac's obligation to make any payment of principal of or interest on such Subordinated Debt Securities under certain specified conditions. Any such terms and conditions will be specified in the Supplemental Agreement. ARTICLE VII Currency Conversions Section 7.01. Currency Conversions for DTC Registered Debt Securities. (a) In the case of DTC Registered Debt Securities whose Specified Payment Currency is other than U.S. dollars, the Currency Exchange Bank specified in the applicable Supplemental Agreement, for Holders of such DTC Registered Debt Securities, shall convert any amounts paid by Freddie Mac in such Specified Payment Currency into U.S. dollars, unless such Holders elect to receive payments in such Specified Payment Currency as hereinafter described. Freddie Mac shall have no responsibility for the conversion of the Specified Payment Currency for such DTC Registered Debt Securities into U.S. dollars. (b) The U.S. dollar amount to be received by a Holder of a DTC Registered Debt Security in respect of which payments are to be converted from the Specified Payment Currency into U.S. dollars shall be determined by the Currency Exchange Bank in the morning of the day that would be considered the date for "spot" settlement of the Specified Payment Currency on the applicable payment date in accordance with market convention (generally two New York business days prior to such payment date) at the market rate determined by the Currency Exchange Bank to accomplish the conversion on such payment date of the aggregate amount of the Specified Payment Currency payable in respect of DTC Registered Debt Securities scheduled to receive payments converted into U.S. dollars. All currency exchange costs shall be borne by the Holders of such DTC Registered Debt Securities (and, accordingly, by the related Beneficial Owners) by deductions from such payments. In the event all or any portion of a Specified Payment Currency is not convertible into U.S. dollars, Holders of such DTC Registered Debt Securities shall receive payment in the Specified Payment Currency.

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(c) A Holder of a DTC Registered Debt Security to be paid in a Specified Payment Currency other than U.S. dollars shall have the option to receive payments of the principal of and any interest on such DTC Registered Debt Security in the Specified Payment Currency by notifying DTC no later than the third New York business day after the related Record Date, in the case of payments on an Interest Payment Date, or the date 12 days prior to the Principal Payment Date, in the case of payments on the Principal Payment Date. ARTICLE VIII Events of Default and Remedies Section 8.01. Events of Default. (a) An Event of Default with respect to a specific issue of Debt Securities (other than Subordinated Debt Securities) shall consist of (i) any failure by Freddie Mac to pay to Holders of such Debt Securities any required payment that continues unremedied for 30 days; (ii) any failure by Freddie Mac to perform in any material respect any other covenant or agreement in this Agreement, which failure continues unremedied for 60 days after the giving of notice of such failure to Freddie Mac by the Holders of not less than 25% of the outstanding principal amount (or notional principal amount) of such Debt Securities; (iii) a court having jurisdiction in the premises shall enter a decree or order for relief in respect of Freddie Mac in an involuntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or appoint a receiver, liquidator, assignee, custodian, or sequestrator (or other similar official) of Freddie Mac or for all or substantially all of its property, or order the winding up or liquidation of its affairs, and such decree or order shall remain unstayed and in effect for a period of 60 consecutive days; or (iv) Freddie Mac shall commence a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or shall consent to the entry of an order for relief in an involuntary case under any such law, or shall consent to the appointment of or taking possession by a receiver, liquidator, assignee, trustee, custodian, or sequestrator (or other similar official) of Freddie Mac or any substantial part of its property, or shall make any general assignment for the benefit of creditors, or shall fail generally to pay its debts as they become due. The appointment of a conservator (or other similar official) by a regulator having jurisdiction over Freddie Mac, whether or not Freddie Mac consents to such appointment, will not constitute an Event of Default. Any payment made in U.S. dollars or in euros as provided under Section 2.03(c)(i) shall not constitute an Event of Default. (b) The Supplemental Agreement for any issue of Subordinated Debt Securities will specify the Events of Default that will apply to any such Subordinated Debt Securities. (c) Any event associated with EMU (an "EMU Event") shall not give rise to an Event of Default. An EMU Event may include, without limitation, each (and any combination) of (i) the fixing of exchange rates between the currency of a member state of the European Union and euros or between the currencies of member states of the European Union; (ii) the introduction of euros as lawful currency in a member state of the European Union; or (iii) the disappearance or replacement of a relevant rate option or other price source for the national currency of any member state of the European Union, or the failure of the agreed sponsor (or a successor sponsor) to publish or display a relevant rate, index, price, page or screen. Section 8.02. Rights Upon Event of Default.

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(a) As long as an Event of Default under this Agreement remains unremedied, Holders of not less than 50% of the outstanding principal amount (or notional principal amount) of an issue of Debt Securities to which such Event of Default relates may, by written notice to Freddie Mac, declare such Debt Securities due and payable and accelerate the maturity of such Debt Securities. Upon such acceleration, the principal amount of such Debt Securities and the interest accrued thereon shall be due and payable. (b) No Holder has any right under this Agreement to institute any action or proceeding at law or in equity or in bankruptcy or otherwise, or for the appointment of a receiver or trustee, or for any other remedy, unless (i) such Holder previously has given to Freddie Mac written notice of an Event of Default and of the continuance thereof; (ii) the Holders of not less than 50% of the outstanding principal amount (or notional principal amount) of an issue of Debt Securities to which such Event of Default relates have given written notice to Freddie Mac of such Event of Default; and (iii) such Event of Default continues uncured for a period of 60 days following such notice. No Holder of an issue of Debt Securities has any right in any manner whatsoever by virtue of or by availing itself of any provision of this Agreement to affect, disturb or prejudice the rights of any other such Holder, or to obtain or seek to obtain preference or priority over any other such Holder or to enforce any right under this Agreement, except in the manner provided in this Agreement and for the ratable and common benefit of all such Holders and except for the priority rights of Holders of Senior Obligations over the rights of Holders of Subordinated Debt Securities. (c) Events of Default that apply to an issue of Senior Obligations may not be Events of Default for an issue of Subordinated Debt Securities. As a result, Holders of an issue of Subordinated Debt Securities may not have the same acceleration rights as Holders of other Debt Securities, as provided in the applicable Supplemental Agreement. (d) Prior to or after the institution of any action or proceeding relating to an issue of Debt Securities, the Holders of not less than 50% of the outstanding principal amount (or notional principal amount) of such Debt Securities may waive an Event of Default, whether or not it has resulted in a declaration of an acceleration of the maturity of such Debt Securities, and may rescind and annul any previously declared acceleration. (e) Whenever in this Agreement it is provided that the Holders of a specified percentage in outstanding principal amount (or notional principal amount) of an issue of Debt Securities may take any action (including the making of any demand or request, or the giving of any authorization, notice, consent or waiver), the fact that at the time of taking any such action the Holders of such specified percentage have joined therein may be evidenced by a writing, or any number of writings of similar tenor, executed by Holders in person, or by an agent or proxy appointed in writing. ARTICLE IX Miscellaneous Provisions Section 9.01. Limitations on Liability of Freddie Mac and Others. Neither Freddie Mac nor any of its directors, officers, employees or agents shall be under any liability to the Holders or Beneficial Owners for any action taken, or not taken, by them in good faith under this Agreement or for errors in judgment. This provision will not protect Freddie Mac or any other related person against any liability which would otherwise be imposed

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by reason of willful misfeasance, bad faith or gross negligence or by reason of reckless disregard of obligations and duties under this Agreement. Freddie Mac and such related persons shall have no liability of whatever nature for special, indirect or consequential damages, lost profits or business, or any other liability or claim (other than for direct damages), even if reasonably foreseeable or Freddie Mac has been advised of the possibility of such loss, damage, liability or claim. In performing its responsibilities under this Agreement, Freddie Mac may employ agents or independent contractors. Except upon an Event of Default (as defined herein), Freddie Mac shall not be subject to the control of Holders in any manner in the discharge of its responsibilities pursuant to this Agreement. Freddie Mac shall not be under any obligation to appear in, prosecute or defend any legal action that is not incidental to its responsibilities under this Agreement and which in its opinion may involve it in any expense or liability. However, Freddie Mac may in its discretion undertake any such legal action which it may deem necessary or desirable in the interests of the Holders. In such event, the legal expenses and costs of such action shall be expenses and costs of Freddie Mac. Section 9.02. Binding Effect of this Agreement. (a) By receiving and accepting a Debt Security, each Holder, financial intermediary and Beneficial Owner of such Debt Security unconditionally agrees, without any signature or further manifestation of assent, to be bound by the terms and conditions of this Agreement, as supplemented, modified or amended pursuant to its terms. (b) This Agreement shall be binding upon and inure to the benefit of any successor to Freddie Mac. Section 9.03. Replacement. Any Registered Debt Security in definitive form that becomes mutilated, destroyed, stolen or lost shall be replaced by Freddie Mac at the expense of the Holder upon delivery to the Global Agent of evidence of the destruction, theft or loss thereof, and an indemnity satisfactory to Freddie Mac and the Global Agent. Upon the issuance of any substituted Registered Debt Security, Freddie Mac or the Global Agent may require the payment by the Holder of a sum sufficient to cover any taxes and expenses connected therewith. Section 9.04. Conditions to Payment, Transfer or Exchange. Freddie Mac, its agent or any other person potentially required to withhold with respect to payments on a Debt Security shall have the right to require a Holder of a Debt Security, as a condition to payment of principal of or interest on such Debt Security, or as a condition to transfer or exchange of such Debt Security, to present at such place as Freddie Mac, its agent or such other person shall designate a certificate in such form as Freddie Mac, its agent or such other person may from time to time prescribe, to enable Freddie Mac, its agent or such other person to determine its duties and liabilities with respect to (i) any taxes, assessments or governmental charges which Freddie Mac, any Federal Reserve Bank, the Global Agent or such other person, as the case may be, may be required to deduct or withhold from payments in respect of such Debt Security under any present or future law of the United States or jurisdiction therein or any regulation or interpretation of any taxing authority thereof; and (ii) any reporting or other requirements under such laws, regulations or interpretations. Freddie Mac, its agent or

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such other person shall be entitled to determine its duties and liabilities with respect to such deduction, withholding, reporting or other requirements on the basis of information contained in such certificate or, if no certificate shall be presented, on the basis of any presumption created by any such law, regulation or interpretation, and shall be entitled to act in accordance with such determination. Section 9.05. Amendment. (a) Freddie Mac may modify, amend or supplement this Agreement and the terms of an issue of Debt Securities, without the consent of the Holders or Beneficial Owners, (i) to cure any ambiguity, or to correct or supplement any defective provision or to make any other provision with respect to matters or questions arising under this Agreement or the terms of any Debt Security that are not inconsistent with any other provision of this Agreement or the Debt Security; (ii) to add to the covenants of Freddie Mac for the benefit of the Holders or surrender any right or power conferred upon Freddie Mac; (iii) to evidence the succession of another entity to Freddie Mac and its assumption of the covenants of Freddie Mac; (iv) to conform the terms of an issue of Debt Securities or cure any ambiguity or discrepancy resulting from any changes in the Book-Entry Rules or any regulation or document that are applicable to book-entry securities of Freddie Mac; (v) to increase the amount of an issue of Debt Securities as contemplated under Section 2.07; or (vi) in any other manner that Freddie Mac may determine and that will not adversely affect in any material respect the interests of Holders or Beneficial Owners at the time of such modification, amendment or supplement. (b) In addition, either (i) with the written consent of the Holders of at least a majority of the aggregate then outstanding principal amount or notional principal amount of an issue of Debt Securities affected thereby, excluding any such Debt Securities owned by Freddie Mac; or (ii) by the adoption of a resolution at a meeting of Holders at which a quorum is present, by the Holders of at least a majority of the aggregate then outstanding principal amount or notional principal amount of an issue of Debt Securities represented at such meeting, excluding any such Debt Securities owned by Freddie Mac, Freddie Mac may from time to time and at any time modify, amend or supplement the terms of an issue of Debt Securities for the purpose of adding any provisions to or changing in any manner or eliminating any provisions of such Debt Securities or modifying in any manner the rights of the Holders; provided, however, that no such modification, amendment or supplement may, without the written consent or affirmative vote of each Holder of a Debt Security; (A) change the Maturity Date or any Interest Payment Date of such Debt Security; (B) materially modify the redemption or repayment provisions, if any, relating to the redemption or repayment price of, or any redemption or repayment date or period for, such Debt Security; (C) reduce the principal amount of, delay the principal payment of, or materially modify the rate of interest or the calculation of the rate of interest on, such Debt Security; (D) in the case of Registered Debt Securities only, change the Specified Payment Currency of such Registered Debt Security; or (E) reduce the percentage of Holders whose consent or affirmative vote is necessary to modify, amend or supplement the terms of the relevant issue of Debt Securities. A quorum at any meeting of Holders called to adopt a resolution shall be Holders entitled to vote a majority of the then aggregate outstanding principal amount or notional principal amount of an issue of such Debt Securities called to such meeting and, at any reconvened meeting adjourned for lack of a quorum, 25% of the then aggregate outstanding principal amount or notional principal amount of such issue of Debt Securities, in both cases excluding any such Debt Securities owned by Freddie Mac. It shall not be necessary

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for the Holders to approve the particular form of any proposed amendment, but it shall be sufficient if such consent or resolution approves the substance of such change. If any modification, amendment or supplement of the terms of an issue of Debt Securities that have been separated into Interest and Principal Components requires the consent of Holders, only the Holders of the Principal Components will be entitled to give or withhold that consent. Holders of Interest Components will have no right to give or withhold such consent. (c)

The "principal amount," for purposes of the preceding paragraph, for a Debt Security that is a Zero Coupon Debt Security or for a Debt Security issued at an "issue price" of 80% or less of its principal amount will be equal to (i) the issue price of such Debt Security; plus (ii) the original issue discount that has accrued from the Issue Date of such Debt Security to the OID Determination Date; minus (iii) any amount considered as part of the "stated redemption price at maturity" of such Debt Security that has been paid from the Issue Date of such Debt Security to the OID Determination Date. The "principal amount," for purposes of the second preceding paragraph, of a Debt Security whose Specified Principal Currency is other than U.S. dollars will be the U.S. dollar equivalent, determined on the Issue Date, of the principal amount (or, in the case of the Debt Securities referred to in the preceding paragraph, the amount determined in accordance with the provisions described in such preceding paragraph) of such Debt Security. The "principal amount" of a Debt Security with principal determined by reference to an Index will be described in the applicable Supplemental Agreement. (d) Freddie Mac may establish a record date for the determination of Holders entitled to vote at any meeting of Holders of Debt Securities, to grant any consent in respect of Debt Securities and to notice with respect to any such meeting or consent. (e) Any instrument given by or on behalf of any Holder of a Debt Security in connection with any consent to any such modification, amendment or supplement shall be irrevocable once given and shall be conclusive and binding on all subsequent Holders of such Debt Security or any Debt Security issued, directly or indirectly, in exchange or substitution therefor, irrespective of whether or not notation in regard thereto is made thereon. Any modification, amendment or supplement of this Agreement or of the terms of Debt Securities shall be conclusive and binding on all Holders of Debt Securities affected thereby, whether or not they have given such consent or were present at any meeting (unless by the terms of this Agreement a written consent or an affirmative vote of such Holders is required), and whether or not notation of such modification, amendment or supplement is made upon the Debt Securities. Section 9.06. Securities Acquired by Freddie Mac. Freddie Mac may, from time to time, repurchase or otherwise acquire (either for cash or in exchange for newly-issued Debt Securities) all or a portion of any issue of Debt Securities. Any Debt Securities owned by Freddie Mac shall have an equal and proportionate benefit under the provisions of this Agreement, without preference, priority or distinction as among such Debt Securities, except that in determining whether the Holders of the required percentage of the outstanding principal amount (or notional principal amount) of an issue of Debt Securities have given any required demand, authorization, notice, consent or waiver under this Agreement, any Debt Securities owned by Freddie Mac or any person directly or indirectly controlling or controlled by or under direct or indirect common control with Freddie Mac shall be disregarded and deemed not to be outstanding for the purpose of such determination.

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Section 9.07. Notice. (a) Any notice, demand or other communication which by any provision of this Agreement is required or permitted to be given to or served upon any Holder may be given or served in writing by deposit thereof, postage prepaid, in the mail, addressed to such Holder as such Holder's name and address may appear in the records of Freddie Mac, a Federal Reserve Bank or the Registrar, as the case may be, or, in the case of a Holder of a Fed Book-Entry Debt Security, by transmission to such Holder through the communication system linking the Federal Reserve Banks. Such notice, demand or other communication to or upon any Holder shall be deemed to have been sufficiently given or made, for all purposes, upon mailing or transmission. (b) If and so long as an issue of Debt Securities is admitted for trading on the Euro MTF Market and listed on the Official List of the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require, notices with respect to such issue of Debt Securities also shall be published in a newspaper of general circulation in Luxembourg or, if such publication is not practical, elsewhere in Europe. If and so long as an issue of Debt Securities is listed on the Singapore Stock Exchange and the rules of the Singapore Stock Exchange so require, notices with respect to such issue of Debt Securities shall be published in a newspaper of general circulation in Singapore or, if such publication is not practical, elsewhere in Asia. Notice by publication shall be deemed to have been given on the date of publication or, if published more than once, on the date of first publication. (c) Any notice, demand or other communication which by any provision of this Agreement is required or permitted to be given to or served upon Freddie Mac shall be given in writing addressed (until another address is published by Freddie Mac) as follows: Federal Home Loan Mortgage Corporation, 8200 Jones Branch Drive, McLean, Virginia 22102 Attention: General Counsel and Secretary. Such notice, demand or other communication to or upon Freddie Mac shall be deemed to have been sufficiently given or made only upon actual receipt of the writing by Freddie Mac. Section 9.08. Governing Law. THIS AGREEMENT AND THE RIGHTS AND OBLIGATIONS OF THE HOLDERS AND FREDDIE MAC WITH RESPECT TO THE DEBT SECURITIES SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAWS OF THE UNITED STATES. INSOFAR AS THERE MAY BE NO APPLICABLE PRECEDENT, AND INSOFAR AS TO DO SO WOULD NOT FRUSTRATE THE PURPOSES OF THE FREDDIE MAC ACT OR ANY PROVISION OF THIS AGREEMENT OR THE TRANSACTIONS GOVERNED THEREBY, THE LAWS OF THE STATE OF NEW YORK SHALL BE DEEMED REFLECTIVE OF THE LAWS OF THE UNITED STATES. Section 9.09. Headings. The Article, Section and Subsection headings are for convenience only and shall not affect the construction of this Agreement. FEDERAL HOME LOAN MORTGAGE CORPORATION

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Exhibit 10.1 EXECUTION VERSION AMENDED AND RESTATED SENIOR PREFERRED STOCK PURCHASE AGREEMENT AMENDED AND RESTATED SENIOR PREFERRED STOCK PURCHASE AGREEMENT (this "Agreement") dated as of September 26, 2008, between the UNITED STATES DEPARTMENT OF THE TREASURY ("Purchaser") and FEDERAL HOME LOAN MORTGAGE CORPORATION ("Seller"), acting through the Federal Housing Finance Agency (the "Agency") as its duly appointed conservator (the Agency in such capacity, "Conservator"). Reference is made to Article 1 below for the meaning of capitalized terms used herein without definition. Background A. The Agency has been duly appointed as Conservator for Seller pursuant to Section 1367(a) of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (as amended, the "FHE Act"). Conservator has determined that entry into this Agreement is (i) necessary to put Seller in a sound and solvent condition; (ii) appropriate to carry on the business of Seller and preserve and conserve the assets and property of Seller; and (iii) otherwise consistent with its powers, authorities and responsibilities. B. Purchaser is authorized to purchase obligations and other securities issued by Seller pursuant to Section 306(l) of the Federal Home Loan Mortgage Corporation Act, as amended (the "Charter Act"). The Secretary of the Treasury has determined, after taking into consideration the matters set forth in Section 306(l)(1)(C) of the Charter Act, that the purchases contemplated herein are necessary to (i) provide stability to the financial markets; (ii) prevent disruptions in the availability of mortgage finance; and (iii) protect the taxpayer. C. Purchaser and Seller executed and delivered the Senior Preferred Stock Purchase Agreement dated as of September 7, 2008 (the "Original Agreement"), and the parties thereto desire to amend and restate the Original Agreement in its entirety as set forth herein. THEREFORE, the parties hereto agree as follows: Terms and Conditions 1. DEFINITIONS As used in this Agreement, the following terms shall have the meanings set forth below: "Affiliate" means, when used with respect to a specified Person (i) any direct or indirect holder or group (as defined in Sections 13(d) and 14(d) of the Exchange Act) of holders of 10.0% or more of any class of capital stock of such Person and (ii) any current or former director or officer of such Person, or any other current or former employee of such Person that currently exercises or formerly exercised a material degree of Control over such Person, including without limitation each current or former Named Executive Officer of such Person.

"Available Amount" means, as of any date of determination, the lesser of (a) the Deficiency Amount as of such date and (b) the Maximum Amount as of such date. "Business Day" means any day other than a Saturday, Sunday or other day on which commercial banks are authorized to close under United States federal law and the law of the State of New York. "Capital Lease Obligations" of any Person shall mean the obligations of such Person to pay rent or other amounts under any lease of (or other similar arrangement conveying the right to use) real or personal property, or a combination thereof, which obligations are required to be classified and accounted for as capital leases on a balance sheet of such Person under GAAP and, for purposes hereof, the amount of such obligations at any time shall be the capitalized amount thereof at such time determined in accordance with GAAP. "Control" shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a Person, whether through the ownership of voting securities, by contract or otherwise. "Deficiency Amount" means, as of any date of determination, the amount, if any, by which (a) the total liabilities of Seller exceed (b) the total assets of Seller (such assets excluding the Commitment and any unfunded amounts thereof), in each case as reflected on the balance sheet of Seller as of the applicable date set forth in this Agreement, prepared in accordance with GAAP; provided, however, that: (i) for the avoidance of doubt, in measuring the Deficiency Amount liabilities shall exclude any obligation in respect of any capital stock of Seller, including the Senior Preferred Stock contemplated herein; (ii) in the event that Seller becomes subject to receivership or other liquidation process or proceeding, "Deficiency Amount" shall mean, as of any date of determination, the amount, if any, by which (a) the total allowed claims against the receivership or other applicable estate (excluding any liabilities of or transferred to any LLRE (as defined in Section 5.4(a)) created by a receiver) exceed (b) the total assets of such receivership or other estate (excluding the Commitment, any unfunded amounts thereof and any assets of or transferred to any LLRE, but including the value of the receiver's interest in any LLRE); (iii) to the extent Conservator or a receiver of Seller, or any statute, rule, regulation or court of competent jurisdiction, specifies or determines that a liability of Seller (including without limitation a claim against Seller arising from rescission of a purchase or sale of a security issued by Seller (or guaranteed by Seller or with respect to which Seller is otherwise liable) or for damages arising from the purchase, sale or retention of such a security) shall be subordinated (other than pursuant to a contract providing for such subordination) to all other liabilities of Seller or shall be treated on par with any class of equity of Seller, then such liability shall be excluded in the calculation of Deficiency Amount; and

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(iv) the Deficiency Amount may be increased above the otherwise applicable amount by the mutual written agreement of Purchaser and Seller, each acting in its sole discretion. "Designated Representative" means Conservator or (a) if Conservator has been superseded by a receiver pursuant to Section 1367(a) of the FHE Act, such receiver, or (b) if Seller is not in conservatorship or receivership pursuant to Section 1367(a) of the FHE Act, Seller's chief financial officer. "Director" shall mean the Director of the Agency. "Effective Date" means the date on which this Agreement shall have been executed and delivered by both of the parties hereto. "Equity Interests" of any Person shall mean any and all shares, interests, rights to purchase or otherwise acquire, warrants, options, participations or other equivalents of or interests in (however designated) equity, ownership or profits of such Person, including any preferred stock, any limited or general partnership interest and any limited liability company membership interest, and any securities or other rights or interests convertible into or exchangeable for any of the foregoing. "Exchange Act" means the Securities Exchange Act of 1934, as amended, and the rules and regulations of the SEC promulgated thereunder. "GAAP" means generally accepted accounting principles in effect in the United States as set forth in the opinions and pronouncements of the Accounting Principles Board and the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board from time to time. "Indebtedness" of any Person means, for purposes of Section 5.5 only, without duplication, (a) all obligations of such Person for money borrowed by such Person, (b) all obligations of such Person evidenced by bonds, debentures, notes or similar instruments, (c) all obligations of such Person under conditional sale or other title retention agreements relating to property or assets purchased by such Person, (d) all obligations of such Person issued or assumed as the deferred purchase price of property or services, other than trade accounts payable, (e) all Capital Lease Obligations of such Person, (f) obligations, whether contingent or liquidated, in respect of letters of credit (including standby and commercial), bankers' acceptances and similar instruments and (g) any obligation of such Person, contingent or otherwise, guaranteeing or having the economic effect of guaranteeing any Indebtedness of the types set forth in clauses (a) through (f) payable by another Person other than Mortgage Guarantee Obligations. "Liquidation End Date" means the date of completion of the liquidation of Seller's assets. "Maximum Amount" means, as of any date of determination, $100,000,000,000 (one hundred billion dollars), less the aggregate amount of funding under the Commitment prior to such date.

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"Mortgage Assets" of any Person means assets of such Person consisting of mortgages, mortgage loans, mortgage-related securities, participation certificates, mortgage-backed commercial paper, obligations of real estate mortgage investment conduits and similar assets, in each case to the extent such assets would appear on the balance sheet of such Person in accordance with GAAP as in effect as of the date hereof (and, for the avoidance of doubt, without giving effect to any change that may be made hereafter in respect of Statement of Financial Accounting Standards No. 140 or any similar accounting standard). "Mortgage Guarantee Obligations" means guarantees, standby commitments, credit enhancements and other similar obligations of Seller, in each case in respect of Mortgage Assets. "Named Executive Officer" has the meaning given to such term in Item 402(a)(3) of Regulation S-K under the Exchange Act, as in effect on the date hereof. "Person" shall mean any individual, corporation, limited liability company, partnership, joint venture, association, joint-stock company, trust, estate, unincorporated organization or government or any agency or political subdivision thereof, or any other entity whatsoever. "SEC" means the Securities and Exchange Commission. "Senior Preferred Stock" means the Variable Liquidation Preference Senior Preferred Stock of Seller, substantially in the form of Exhibit A hereto. "Warrant" means a warrant for the purchase of common stock of Seller representing 79.9% of the common stock of Seller on a fully-diluted basis, substantially in the form of Exhibit B hereto. 2. COMMITMENT 2.1. Commitment. Purchaser hereby commits to provide to Seller, on the terms and conditions set forth herein, immediately available funds in an amount up to but not in excess of the Available Amount, as determined from time to time (the "Commitment"); provided, that in no event shall the aggregate amount funded under the Commitment exceed $100,000,000,000 (one hundred billion dollars). The liquidation preference of the Senior Preferred Stock shall increase in connection with draws on the Commitment, as set forth in Section 3.3 below. 2.2. Quarterly Draws on Commitment. Within fifteen (15) Business Days following the determination of the Deficiency Amount, if any, as of the end of each fiscal quarter of Seller which ends on or before the Liquidation End Date, the Designated Representative may, on behalf of Seller, request that Purchaser provide immediately available funds to Seller in an amount up to but not in excess of the Available Amount as of the end of such quarter. Any such request shall be valid only if it is in writing, is timely made, specifies the account of Seller to which such funds are to be transferred, and contains a certification of the Designated Representative that the requested amount does not exceed the Available Amount as of the end of the applicable quarter. Purchaser shall provide such funds within sixty (60) days of its receipt of such request or, following any determination by the Director that the Director will be mandated by law to appoint a receiver for Seller if such funds are not received sooner, such shorter period as may be necessary

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to avoid such mandatory appointment of a receiver if reasonably practicable taking into consideration Purchaser's access to funds. 2.3. Accelerated Draws on Commitment. Immediately following any determination by the Director that the Director will be mandated by law to appoint a receiver for Seller prior to the Liquidation End Date unless Seller's capital is increased by an amount (the "Special Amount") up to but not in excess of the then current Available Amount (computed based on a balance sheet of Seller prepared in accordance with GAAP that differs from the most recent balance sheet of Seller delivered in accordance with Section 5.9(a) or (b)) on a date that is prior to the date that funds will be available to Seller pursuant to Section 2.2, Conservator may, on behalf of Seller, request that Purchaser provide to Seller the Special Amount in immediately available funds. Any such request shall be valid only if it is in writing, is timely made, specifies the account of Seller to which such funds are to be transferred, and contains certifications of Conservator that (i) the requested amount does not exceed the Available Amount (including computations in reasonable detail and satisfactory to Purchaser of the then existing Deficiency Amount) and (ii) the requested amount is required to avoid the imminent mandatory appointment of a receiver for Seller. Purchaser shall provide such funds within thirty (30) days of its receipt of such request or, if reasonably practicable taking into consideration Purchaser's access to funds, any shorter period as may be necessary to avoid mandatory appointment of a receiver. 2.4. Final Draw on Commitment. Within fifteen (15) Business Days following the determination of the Deficiency Amount, if any, as of the Liquidation End Date (computed based on a balance sheet of Seller as of the Liquidation End Date prepared in accordance with GAAP), the Designated Representative may, on behalf of Seller, request that Purchaser provide immediately available funds to Seller in an amount up to but not in excess of the Available Amount as of the Liquidation End Date. Any such request shall be valid only if it is in writing, is timely made, specifies the account of Seller to which such funds are to be transferred, and contains a certification of the Designated Representative that the requested amount does not exceed the Available Amount (including computations in reasonable detail and satisfactory to Purchaser of the Deficiency Amount as of the Liquidation End Date). Purchaser shall provide such funds within sixty (60) days of its receipt of such request. 2.5. Termination of Purchaser's Obligations. Subject to earlier termination pursuant to Section 6.7, all of Purchaser's obligations under and in respect of the Commitment shall terminate upon the earliest of: (a) if the Liquidation End Date shall have occurred, (i) the payment in full of Purchaser's obligations with respect to any valid request for funds pursuant to Section 2.4 or (ii) if there is no Deficiency Amount on the Liquidation End Date or if no such request pursuant to Section 2.4 has been made, the close of business on the 15th Business Day following the determination of the Deficiency Amount, if any, as of the Liquidation End Date; (b) the payment in full of, defeasance of or other reasonable provision for all liabilities of Seller, whether or not contingent, including payment of any amounts that may become payable on, or expiry of or other provision for, all Mortgage Guarantee Obligations and provision for unmatured debts; and (c) the funding by Purchaser under the Commitment of an aggregate of $100,000,000,000 (one hundred billion dollars). For the avoidance of doubt, the Commitment shall not be terminable by Purchaser solely by reason of (i) the conservatorship, receivership or other insolvency proceeding of Seller or (ii) the Seller's financial condition or any adverse change in Seller's financial condition.

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3. PURCHASE OF SENIOR PREFERRED STOCK AND WARRANT; FEES 3.1. Initial Commitment Fee. In consideration of the Commitment, and for no additional consideration, on the Effective Date (or as soon thereafter as is practicable) Seller shall sell and issue to Purchaser, and Purchaser shall purchase from Seller, (a) one million (1,000,000) shares of Senior Preferred Stock, with an initial liquidation preference equal to $1,000 per share ($1,000,000,000 (one billion dollars) liquidation preference in the aggregate), and (b) the Warrant. 3.2. Periodic Commitment Fee. (a) Commencing March 31, 2010, Seller shall pay to Purchaser quarterly, on the last day of March, June, September and December of each calendar year (each a "Periodic Fee Date"), a periodic commitment fee (the "Periodic Commitment Fee"). The Periodic Commitment Fee shall accrue from January 1, 2010. (b) The Periodic Commitment Fee is intended to fully compensate Purchaser for the support provided by the ongoing Commitment following December 31, 2009. The amount of the Periodic Commitment Fee shall be set not later than December 31, 2009 with respect to the ensuing five-year period, shall be reset every five years thereafter and shall be determined with reference to the market value of the Commitment as then in effect. The amount of the Periodic Commitment Fee shall be mutually agreed by Purchaser and Seller, subject to their reasonable discretion and in consultation with the Chairman of the Federal Reserve; provided, that Purchaser may waive the Periodic Commitment Fee for up to one year at a time, in its sole discretion, based on adverse conditions in the United States mortgage market. (c) At the election of Seller, the Periodic Commitment Fee may be paid in cash or by adding the amount thereof ratably to the liquidation preference of each outstanding share of Senior Preferred Stock so that the aggregate liquidation preference of all such outstanding shares of Senior Preferred Stock is increased by an amount equal to the Periodic Commitment Fee. Seller shall deliver notice of such election not later than three (3) Business Days prior to

each Periodic Fee Date. If the Periodic Commitment Fee is not paid in cash by 12:00 pm (New York time) on the applicable Periodic Fee Date (irrespective of Seller's election pursuant to this subsection), Seller shall be deemed to have elected to pay the Periodic Commitment Fee by adding the amount thereof to the liquidation preference of the Senior Preferred Stock, and the aggregate liquidation preference of the outstanding shares of Senior Preferred Stock shall thereupon be automatically increased, in the manner contemplated by the first sentence of this section, by an aggregate amount equal to the Periodic Commitment Fee then due. 3.3. Increases of Senior Preferred Stock Liquidation Preference as a Result of Funding under the Commitment. The aggregate liquidation preference of the outstanding shares of Senior Preferred Stock shall be automatically increased by an amount equal to the amount of each draw on the Commitment pursuant to Article 2 that is funded by Purchaser to Seller, such increase to occur simultaneously with such funding and ratably with respect to each share of Senior Preferred Stock. 3.4. Notation of Increase in Liquidation Preference. Seller shall duly mark its records to reflect each increase in the liquidation preference of the Senior Preferred Stock contemplated

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herein (but, for the avoidance of doubt, such increase shall be effective regardless of whether Seller has properly marked its records). 4. REPRESENTATIONS Seller represents and warrants as of the Effective Date, and shall be deemed to have represented and warranted as of the date of each request for and funding of an advance under the Commitment pursuant to Article 2, as follows: 4.1. Organization and Good Standing. Seller is a corporation, chartered by the Congress of the United States, duly organized, validly existing and in good standing under the laws of the United States and has all corporate power and authority to carry on its business as now conducted and as proposed to be conducted. 4.2. Organizational Documents. Seller has made available to Purchaser a complete and correct copy of its charter and bylaws, each as amended to date (the "Organizational Documents"). The Organizational Documents are in full force and effect. Seller is not in violation of any provision of its Organizational Documents. 4.3. Authorization and Enforceability. All corporate or other action on the part of Seller or Conservator necessary for the authorization, execution, delivery and performance of this Agreement by Seller and for the authorization, issuance and delivery of the Senior Preferred Stock and the Warrant being purchased under this Agreement, has been taken. This Agreement has been duly and validly executed and delivered by Seller and (assuming due authorization, execution and delivery by the Purchaser) shall constitute the valid and legally binding obligation of Seller, enforceable against Seller in accordance with its terms, except to the extent the enforceability thereof may be limited by bankruptcy laws, insolvency laws, reorganization laws, moratorium laws or other laws of general applicability affecting creditors' rights generally or by general equitable principles (regardless of whether enforcement is sought in a proceeding in equity or at law). The Agency is acting as conservator for Seller under Section 1367 of the FHE Act. The Board of Directors of Seller, by valid action at a duly called meeting of the Board of Directors on September 6, 2008, consented to the appointment of the Agency as conservator for purposes of Section 1367(a)(3)(I) of the FHE Act, and the Director of the Agency has appointed the Agency as Conservator for Seller pursuant to Section 1367(a)(1) of the FHE Act, and each such action has not been rescinded, revoked or modified in any respect. 4.4. Valid Issuance. When issued in accordance with the terms of this Agreement, the Senior Preferred Stock and the Warrant will be duly authorized, validly issued, fully paid and non-assessable, free and clear of all liens and preemptive rights. The shares of common stock to which the holder of the Warrant is entitled have been duly and validly reserved for issuance. When issued and delivered in accordance with the terms of this Agreement and the Warrant, such shares will be duly authorized, validly issued, fully paid and nonassessable, free and clear of all liens and preemptive rights.

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4.5. Non-Contravention. (a) The execution, delivery or performance by Seller of this Agreement and the consummation by Seller of the transactions contemplated hereby do not and will not (i) conflict with or violate any provision of the Organizational Documents of Seller; (ii) conflict with or violate any law, decree or regulation applicable to Seller or by which any property or asset of Seller is bound or affected, or (iii) result in any breach of, or constitute a default (with or without notice or lapse of time, or both) under, or give to others any right of termination, amendment, acceleration or cancellation of, or result in the creation of a lien upon any of the properties or assets of Seller, pursuant to any note, bond, mortgage, indenture or credit agreement, or any other contract, agreement, lease, license, permit, franchise or other instrument or obligation to which Seller is a party or by which Seller is bound or affected, other than, in the case of clause (iii), any such breach, default, termination, amendment, acceleration, cancellation or lien that would not have and would not reasonably be expected to have, individually or in the aggregate, a material adverse effect on the business, property, operations or condition of the Seller, the authority of the Conservator or the validity or enforceability of this Agreement (a "Material Adverse Effect"). (b) The execution and delivery of this Agreement by Seller does not, and the consummation by Seller of the transactions contemplated by this Agreement will not, require any consent, approval, authorization, waiver or permit of, or filing with or notification to, any governmental authority or any other person, except for such as have already been obtained. 5. COVENANTS From the Effective Date until such time as the Senior Preferred Stock shall have been repaid or redeemed in full in accordance with its terms: 5.1. Restricted Payments. Seller shall not, and shall not permit any of its subsidiaries to, in each case without the prior written consent of Purchaser, declare or pay any dividend (preferred or otherwise) or make any other distribution (by reduction of capital or otherwise), whether in cash, property, securities or a combination thereof, with respect to any of Seller's Equity Interests (other than with respect to the Senior Preferred Stock or the Warrant) or directly or indirectly redeem, purchase, retire or otherwise acquire for value any of Seller's Equity Interests (other than the Senior Preferred Stock or the Warrant), or set aside any amount for any such purpose. 5.2. Issuance of Capital Stock. Seller shall not, and shall not permit any of its subsidiaries to, in each case without the prior written consent of Purchaser, sell or issue Equity Interests of Seller or any of its subsidiaries of any kind or nature, in any amount, other than the sale and issuance of the Senior Preferred Stock and Warrant on the Effective Date and the common stock subject to the Warrant upon exercise thereof, and other than as required by (and pursuant to) the terms of any binding agreement as in effect on the date hereof. 5.3. Conservatorship. Seller shall not (and Conservator, by its signature below, agrees that it shall not), without the prior written consent of Purchaser, terminate, seek termination of or permit to be terminated the conservatorship of Seller pursuant to Section 1367 of the FHE Act, other

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than in connection with a receivership pursuant to Section 1367 of the FHE Act. 5.4. Transfer of Assets. Seller shall not, and shall not permit any of its subsidiaries to, in each case without the prior written consent of Purchaser, sell, transfer, lease or otherwise dispose of (in one transaction or a series of related transactions) all or any portion of its assets (including Equity Interests in other persons, including subsidiaries), whether now owned or hereafter acquired (any such sale, transfer, lease or disposition, a "Disposition"), other than Dispositions for fair market value: (a) to a limited life regulated entity ("LLRE") pursuant to Section 1367(i) of the FHE

Act; (b) of assets and properties in the ordinary course of business, consistent with past practice; (c) in connection with a liquidation of Seller by a receiver appointed pursuant to Section 1367(a) of the FHE Act; (d) of cash or cash equivalents for cash or cash equivalents; or (e) to the extent necessary to comply with the covenant set forth in Section 5.7 below. 5.5. Indebtedness. Seller shall not, and shall not permit any of its subsidiaries to, in each case without the prior written consent of Purchaser, incur, assume or otherwise become liable for (a) any Indebtedness if, after giving effect to the incurrence thereof, the aggregate Indebtedness of Seller and its subsidiaries on a consolidated basis would exceed 110.0% of the aggregate Indebtedness of Seller and its subsidiaries on a consolidated basis as of June 30, 2008 or (b) any Indebtedness if such Indebtedness is subordinated by its terms to any other Indebtedness of Seller or the applicable subsidiary. For purposes of this covenant the acquisition of a subsidiary with Indebtedness will be deemed to be the incurrence of such Indebtedness at the time of such acquisition. 5.6. Fundamental Changes. Seller shall not, and shall not permit any of its subsidiaries to, in each case without the prior written consent of Purchaser, (i) merge into or consolidate or amalgamate with any other Person, or permit any other Person to merge into or consolidate or amalgamate with it, (ii) effect a reorganization or recapitalization involving the common stock of Seller, a reclassification of the common stock of Seller or similar corporate transaction or event or (iii) purchase, lease or otherwise acquire (in one transaction or a series of transactions) all or substantially all of the assets of any other Person or any division, unit or business of any Person. 5.7. Mortgage Assets. Seller shall not own, as of any applicable date, Mortgage Assets in excess of (i) on December 31, 2009, $850 billion, or (ii) on December 31 of each year thereafter, 90.0% of the aggregate amount of Mortgage Assets of Seller as of December 31 of the immediately preceding calendar year; provided, that in no event shall Seller be required under this Section 5.7 to own less than $250 billion in Mortgage Assets.

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5.8. Transactions with Affiliates. Seller shall not, and shall not permit any of its subsidiaries to, without the prior written consent of Purchaser, engage in any transaction of any kind or nature with an Affiliate of Seller unless such transaction is (i) pursuant to this Agreement, the Senior Preferred Stock or the Warrant, (ii) upon terms no less favorable to Seller than would be obtained in a comparable arm's-length transaction with a Person that is not an Affiliate of Seller or (iii) a transaction undertaken in the ordinary course or pursuant to a contractual obligation or customary employment arrangement in existence as of the date hereof. 5.9. Reporting. Seller shall provide to Purchaser: (a) not later than the time period specified in the SEC's rules and regulations with respect to issuers as to which Section 13 and 15(d) of the Exchange Act apply, annual reports on Form 10-K (or any successor or comparable form) containing the information required to be contained therein (or required in such successor or comparable form); (b) not later than the time period specified in the SEC's rules and regulations with respect to issuers as to which Section 13 and 15(d) of the Exchange Act apply, reports on Form 10-Q (or any successor or comparable form) containing the information required to be contained therein (or required in such successor or comparable form); (c) promptly from time to time after the occurrence of an event required to be therein reported (and in any event within the time period specified in the SEC's rules and regulations), such other reports on Form 8-K (or any successor or comparable form); (d) concurrently with any delivery of financial statements under paragraphs (a) or (b) above, a certificate of the Designated Representative, (i) certifying that Seller is (and since the last such certificate has at all times been) in compliance with each of the covenants contained herein and that no representation made by Seller herein or in any document delivered pursuant hereto or in connection herewith was false or misleading in any material respect when made, or, if the foregoing is not true, specifying the nature and extent of the breach of covenant and/or representation and any corrective action taken or proposed to be taken with respect thereto, and (ii) setting forth computations in reasonable detail and satisfactory to the Purchaser of the Deficiency Amount, if any; (e) promptly, from time to time, such other information regarding the operations, business affairs, plans, projections and financial condition of Seller, or compliance with the terms of this Agreement, as Purchaser may reasonably request; and (f) as promptly as reasonably practicable, written notice of the following: (i) the occurrence of the Liquidation End Date; (ii) the filing or commencement of, or any written threat or notice of intention of any Person to file or commence, any action, suit or proceeding, whether at law or in equity or by or before any governmental authority or in arbitration, against Conservator, Seller or any other Person which, if adversely determined, would reasonably be expected to have a Material Adverse Effect;

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(iii) any other development that is not a matter of general public knowledge and that has had, or would reasonably be expected to have, a Material Adverse Effect. 5.10. Executive Compensation. Seller shall not, without the consent of the Director, in consultation with the Secretary of the Treasury, enter into any new compensation arrangements with, or increase amounts or benefits payable under existing compensation arrangements of, any Named Executive Officer of Seller. 6. MISCELLANEOUS 6.1. No Third-Party Beneficiaries. Until the termination of the Commitment, at any time during the existence and continuance of a payment default with respect to debt securities issued by Seller and/or a default by Seller with respect to any Mortgage Guarantee Obligations, any holder of such defaulted debt securities or beneficiary of such Mortgage Guarantee Obligations (collectively, the "Holders") may (a) deliver notice to the Seller and the Designated Representative requesting exercise of all rights available to them under this Agreement to draw on the Commitment up to the lesser of the amount necessary to cure the outstanding payment defaults and the Available Amount as of the last day of the immediately preceding fiscal quarter (the "Demand Amount"), (b) if Seller and the Designated Representative fail to act as requested within thirty (30) days of such notice, seek judicial relief for failure of the Seller to draw on the Commitment, and (c) if Purchaser shall fail to perform its obligations in respect of any draw on the Commitment, and Seller and/or the Designated Representative shall not be diligently pursuing remedies in respect of such failure, file a claim in the United States Court of Federal Claims for relief requiring Purchaser to pay Seller the Demand Amount in the form of liquidated damages. Any payment of liquidated damages to Seller under the previous sentence shall be treated for all purposes, including the provisions of the Senior Preferred Stock and Section 3.3 of this Agreement, as a draw and funding of the Commitment pursuant to Article 2. The Holders shall have no other rights under or in respect of this Agreement, and the Commitment shall not otherwise be enforceable by any creditor of Seller or by any other Person other than the parties hereto, and no such creditor or other Person is intended to be, or shall be, a third party beneficiary of any provision of this Agreement. 6.2. Non-Transferable; Successors. The Commitment is solely for the benefit of Seller and shall not inure to the benefit of any other Person (other than the Holders to the extent set forth in Section 6.1), including any entity to which the charter of Seller may be transferred, to any LLRE or to any other successor to the assets, liabilities or operations of Seller. The Commitment may not be assigned or otherwise transferred, in whole or in part, to any Person (including, for the avoidance of doubt, any LLRE to which a receiver has assigned all or a portion of Seller's assets) without the prior written consent of Purchaser (which may be withheld in its sole discretion). In no event shall any successor to Seller (including such an LLRE) be entitled to the benefit of the Commitment without the prior written consent of Purchaser. Seller and Conservator, for themselves and on behalf of their permitted successors, covenant and agree not to transfer or purport to transfer the Commitment in contravention of the terms hereof, and any such attempted transfer shall be null and void ab initio. It is the expectation of the parties that, in the event Seller were placed into receivership and an LLRE formed to purchase certain of its assets and assume certain of its liabilities, the

Commitment would remain with Seller for the benefit of the holders of the

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debt of Seller not assumed by the LLRE. 6.3. Amendments; Waivers. This Agreement may be waived or amended solely by a writing executed by both of the parties hereto, and, with respect to amendments to or waivers of the provisions of Sections 5.3, 6.2 and 6.11, the Conservator; provided, however, that no such waiver or amendment shall decrease the aggregate Commitment or add conditions to funding the amounts required to be funded by Purchaser under the Commitment if such waiver or amendment would, in the reasonable opinion of Seller, adversely affect in any material respect the holders of debt securities of Seller and/or the beneficiaries of Mortgage Guarantee Obligations, in each case in their capacities as such, after taking into account any alternative arrangements that may be implemented concurrently with such waiver or amendment. In no event shall any rights granted hereunder prevent the parties hereto from waiving or amending in any manner whatsoever the covenants of Seller hereunder. 6.4. Governing Law; Jurisdiction; Venue. This Agreement and the Warrant shall be governed by, and construed in accordance with, the federal law of the United States of America if and to the extent such federal law is applicable, and otherwise in accordance with the laws of the State of New York. The Senior Preferred Stock shall be governed as set forth in the terms thereof. Except as provided in section 6.1 and as otherwise required by law, the United States District Court for the District of Columbia shall have exclusive jurisdiction over all civil actions arising out of this Agreement, the Commitment, the Senior Preferred Stock and the Warrant, and venue for any such civil action shall lie exclusively in the United States District Court for the District of Columbia. 6.5. Notices. Any notices delivered pursuant to or in connection with this Agreement shall be delivered to the applicable parties at the addresses set forth below: If to Seller: Federal Home Loan Mortgage Corporation c/o Federal Housing Finance Authority 1700 G Street, NW 4th Floor Washington, DC 20552 Attention: General Counsel If to Purchaser: United States Department of the Treasury 1500 Pennsylvania Avenue, NW Washington DC 20220 Attention: Under Secretary for Domestic Finance

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with a copy to: United States Department of the Treasury 1500 Pennsylvania Avenue, NW Washington DC 20220 Attention: General Counsel If to Conservator: Federal Housing Finance Authority 1700 G Street, NW 4th Floor Washington, DC 20552 Attention: General Counsel All notices and other communications provided for herein shall be in writing and shall be delivered by hand or overnight courier service, mailed by certified or registered mail. All notices hereunder shall be effective upon receipt. 6.6. Disclaimer of Guarantee. This Agreement and the Commitment are not intended to and shall not be deemed to constitute a guarantee by Purchaser or any other agency or instrumentality of the United States of the payment or performance of any debt security or any other obligation, indebtedness or liability of Seller of any kind or character whatsoever. 6.7. Effect of Order; Injunction; Decree. If any order, injunction or decree is issued by any court of competent jurisdiction that vacates, modifies, amends, conditions, enjoins, stays or otherwise affects the appointment of Conservator as conservator of Seller or otherwise curtails Conservator's powers as such conservator (except in each case any order converting the conservatorship to a receivership under Section 1367(a) of the FHE Act), Purchaser may by written notice to Conservator and Seller declare this Agreement null and void, whereupon all transfers hereunder (including the issuance of the Senior Preferred Stock and the Warrant and any funding of the Commitment) shall be rescinded and unwound and all obligations of the parties (other than to effectuate such rescission and unwind) shall immediately and automatically terminate. 6.8. Business Day. To the extent that any deadline or date of performance of any right or obligation set forth herein shall fall on a day other than a Business Day, then such deadline or date of performance shall automatically be extended to the next succeeding Business Day. 6.9. Entire Agreement. This Agreement, together with the Senior Preferred Stock and Warrant, contains the entire agreement between the parties hereto with respect to the transactions contemplated hereby and supersedes and cancels all prior agreements, including, but not limited to, all proposals, term sheets, statements, letters of intent or representations, written or oral, with respect thereto. 6.10. Remedies. In the event of a breach by Seller of any covenant or representation of Seller set forth herein, Purchaser shall be entitled to specific performance (in the case of a breach of

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covenant), damages and such other remedies as may be available at law or in equity; provided, that Purchaser shall not have the right to terminate the Commitment solely as a result of any such breach, and compliance with the covenants and the accuracy of the representations set forth in this Agreement shall not be conditions to funding the Commitment. 6.11. Tax Reporting. Neither Seller nor Conservator shall take, or shall permit any of their respective successors or assigns to take, a position for any tax, accounting or other purpose that is inconsistent with Internal Revenue Service Notice 2008-76 (or the regulations to be issued pursuant to such Notice) regarding the application of Section 382 of the Internal Revenue Code of 1986, as amended, a copy of which Notice has been provided to Seller in connection with the execution of this Agreement. 6.12. Non-Severability. Each of the provisions of this Agreement is integrated with and integral to the whole and shall not be severable from the remainder of the Agreement. In the event that any provision of this Agreement, the Senior Preferred Stock or the Warrant is determined to be illegal or unenforceable, then Purchaser may, in its sole discretion, by written notice to Conservator and Seller, declare this Agreement null and void, whereupon all transfers hereunder (including the issuance of the Senior Preferred Stock and the Warrant and any funding of the Commitment) shall be rescinded and unwound and all obligations of the parties (other than to effectuate such rescission and unwind) shall immediately and automatically terminate.

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FEDERAL HOME LOAN MORTGAGE CORPORATION, by Federal Housing Finance Agency, its Conservator /s/ James B. Lockhart III James B. Lockhart III Director UNITED STATES DEPARTMENT OF THE TREASURY /s/ Henry M. Paulson, Jr. Henry M. Paulson, Jr. Secretary of the Treasury Acknowledged and, solely as to Sections 5.3, 6.2 and 6.11, agreed: FEDERAL HOUSING FINANCE AGENCY, as Conservator /s/ James B. Lockhart III James B. Lockhart III Director Signature Page to Amended and Restated Senior Preferred Stock Purchase Agreement

Exhibit 10.4 FHFA CONSERVATORSHIP RETENTION PROGRAM
Executive Vice President and Senior Vice President
Parameters Document

September 2008

Objective	To retain as many people as possible for 18 months (through March, 2010) in order to: ù Maintain maximum operational stability ù Allow time to evaluate the fundamental business model ù Fulfill Freddie Mac's goal of re-establishing stability and liquidity to the mortgage market
Retention Period	Retention Period runs from September 2008 through March 2010.
General Eligibility	All Senior Vice Presidents and Executive Vice Presidents who are employees of Freddie Mac on or after September 1, 2008 are eligible to participate in the program.
Retention Pool Size	The aggregate retention pool is equal to 75% of the eligible population's performance year 2008 annualized bonus target.

Eligible population's performance year 2008 annualized bonus target
Multiplied by: Retention Pool Funding Multiplier
Equals: Aggregate Retention Pool

	The aggregate retention pool will be calculated and fixed based on the eligible population as of September 1, 2008. Any portion of the aggregate retention pool that is not allocated to eligible participants at the outset of the program may be subsequently allocated to individuals who did not previously receive a retention award under this program.
Award Levels	An individual's retention award amount will be determined based on criticality to the company. Absent approval from Federal Housing Finance Agency (FHFA), or if such approval authority is delegated to Freddie Mac's Chief Executive Officer or Executive Vice President -- Human Resources and Corporate Services, an individual's retention award under this plan cannot exceed 150% of such individual's performance year 2008 annualized bonus target.

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Payout Timing	The aggregate retention award for each individual will be paid in the regular payroll cycle occurring immediately after the following dates:

Payment Percentage of Aggregate Payment Date

Number	Award Paid	
1	20%	December 15, 2008
2	20%	August 1, 2009
3	25%	December 15, 2009
4	35%	March 15, 2010

Performance Requirements	Payment Numbers 1, 2, and 3 will be based solely in the individual's continued employment with Freddie Mac the through the indicated payment dates. Payment Number 4 will be conditioned upon achievement of specific performance objective(s) that will be determined during the upcoming business planning process.
Treatment of Award Upon Termination	Death and Long-Term Disability: If an individual terminated from Freddie Mac due to either death or long-term disability, all unpaid portions of the retention awards be paid as soon as administratively possible after the termination or disability date. Retirement: If an individual terminates their employment due to retirement (as defined in Freddie Mac's Employees' Pension Plan), all unpaid portions of the award will be forfeited. For Cause or Voluntary Termination: If an employee voluntarily terminates their employment or if Freddie Mac terminates an employee due to a non-severance eligible event, all unpaid portions of the award will be forfeited. Severance Eligible Termination: If an employee is terminated by Freddie Mac and is eligible to receive severance, all unpaid portions of the retention award will be paid as soon as administratively possible after the termination date.
General	Retention amounts paid pursuant to this plan are considered compensation for purposes of the tax qualified Thrift/401(k) Savings Plan, the tax qualified Employees' Pension Plan and the non-qualified Supplemental Executive Retirement Plan. Nothing in this program is intended to create a contract to employ any employee for any particular term or period of time or otherwise abrogate Freddie Mac's right to terminate an employee at any time for any reason. Freddie Mac reserves the right to terminate this program or modify its provisions at anytime for any reason at the corporation's sole discretion.

Exhibit 10.5 Description of Chief Executive Officer's Compensation Freddie Mac (formally known as the Federal Home Loan Mortgage Corporation) has been advised by the Federal Housing Finance Agency, acting as Freddie Mac's conservator, that the compensation arrangements for David M. Moffett, who became Freddie Mac's Chief Executive Officer on September 7, 2008, have not been determined. Pending a determination with respect to Mr. Moffett's compensation arrangements, he is receiving a base salary at the rate of $900,000 per year.

Exhibit 10.6 FIRST AMENDMENT
TO THE
FEDERAL HOME LOAN MORTGAGE CORPORATION
EXECUTIVE DEFERRED COMPENSATION PLAN

(As Amended and Restated January 1, 2008) FIRST AMENDMENT TO THE FEDERAL HOME LOAN MORTGAGE CORPORATION EXECUTIVE DEFERRED COMPENSATION PLAN (as amended and restated January 1, 2008) (the "Plan") by the FEDERAL HOME LOAN MORTGAGE CORPORATION (the "Corporation"), a corporation organized and existing under the laws of the United States of America. W I T N E S S E T H: WHEREAS, the Plan was restated effective January 1, 2008, and WHEREAS, the Corporation desires to amend the Plan to reflect regulations and other guidance issued pursuant to Section 409A of the Internal Revenue Code of 1986, as amended, and WHEREAS, the appropriate officer of the Corporation has been duly authorized to execute this amendment. NOW THEREFORE the Plan is amended effective October 15, 2008 (unless otherwise noted), as follows: 1. Plan Section 1.2 is amended to read as follows: 1.2. Effective Date. Unless otherwise indicated herein, this Plan as amended and restated shall be effective as of January 1, 2008 ("Effective Date"). 2. Plan Sections 2.18 and 2.24 are amended to delete the definitions contained therein, and the remaining Sections in Article II are renumbered accordingly. 3. Plan Section 3.3 is amended to read as follows: 3.3. Revocation. Once made, neither a Bonus Deferral Election nor a Salary Deferral Election may be revoked, except as provided in Section 5.3; provided, however, that a Participant may also revoke an election as provided in Section 5.2(c). 4. Plan Section 5.2(c)(1) is amended to read as follows, effective November 1, 2008: (1) Delayed Payment of Deferrals to Key Employees. In the case of any distribution triggered by a Termination of Employment of a Participant who, at the date of such Termination of Employment for a reason other than death, is a Key

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Employee, if any distribution (including an initial or subsequent installment) would be payable under this Section 5 at a date that is less than six months after the date of such Termination of Employment and if payment at such date would not comply with Code section 409A, such distribution shall instead be paid at the date six months after the Termination of Employment (without affecting the timing of any subsequent installment that is not within the six-month period following Termination of Employment). Any calculation of the amount of the interest due on the distribution (or installment) shall be calculated as of the day immediately preceding the date of such delayed distribution. Except as otherwise permitted under Code section 409A and guidance thereunder, a distribution subject to this Section 5.2(c)(1) cannot be paid out during the six month period upon the occurrence of any other event except in the event of death of the Participant. 5. Plan Section 5.2(c)(2) is amended to read as follows: (2) Certain Revocations Permitted By October 31, 2008. (i) Permitted Revocations. (A) Subject to Section 5.2(c)(2)(iv) below, Participants who are actively employed may revoke their designations made under Section 5.1(b)(1) in 2008 or earlier for all Deferred Compensation credited to their Account through December 31, 2008 ("Primary Designation"), including earnings thereon ("December 2008 Account Balance"), (B) Subject to Section 5.2(c)(2)(iv) below as applicable to their December 31, 2008 Account Balance, Participants who have experienced a Termination of Employment prior to October 31, 2008 may revoke their designation made under Section 5.1(b)(2) ("Secondary Designation") (together with the revocation opportunity under (A) hereof called the "Revocation Opportunity"), and (C) Participants actively employed with title of Vice President on October 15, 2008 may separately revoke their election made under Section 5.1(b) pertaining to the Bonus Deferral Election for the 2008 Bonus (payable in 2009) ("2008 Bonus Revocation"). If a Participant does not validly revoke such prior designations or elections, the prior designations or elections shall remain in effect except as provided in Section 5.2(c)(2)(v) below. (ii) Manner of Revocation. All revocations shall be consistent with the terms of this Section 5.2(c)(2) and shall be made in such form and manner, and at such time, as the Administrator may designate. (iii) Applicable Timeframe. Neither the Revocation Opportunity nor the 2008 Bonus Revocation shall be made available for election after October 31, 2008. (iv) Revocation Opportunity. The Revocation Opportunity shall be structured to comply with IRS Notice 2007-86 and subsequent applicable guidance, and the additional applicable Code section 409A guidance made reference to therein.

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(A) Revocation of Primary Designation By Active Participant. A Participant eligible under Section 5.2(c)(2)(i)(A) who elects to revoke his or her Primary Designation shall elect, at the time of such revocation, one of the following new deferral and payment schedules applicable to the December 2008 Account Balance: (1) three installments, payable as follows: thirty percent of the December 2008 Account Balance (plus interest thereon) paid on March 15, 2009; thirty percent of the December 2008 Account Balance (plus interest thereon) paid on December 15, 2009; the remainder of the December 2008 Account Balance (and interest thereon) paid on May 15, 2010; or (2) a single lump sum, or reasonably equal annual installments over five, ten or fifteen years, of the December 31, 2008 Account Balance (plus interest thereon) in accordance with Section 5.2(a) or Section 5.2(b)(1) as applicable based on the year designated by the Participant but such year designated shall in no event be earlier than the fifth anniversary of the new election. (B) Revocation of the Secondary Designation by Terminated Participant. A Participant eligible under Section 5.2(c)(2)(i)(B) who revokes the Secondary Election will have his or her December 2008 Account Balance (plus interest thereon) paid pursuant to Section 5.2(c)(2)(iv)(A)(1). (C) Lump Sum Distributions. If a Participant elects a lump sum payment under Section 5.2(c)(2)(iv)(A)(2), the cash balance in the Participant's Account attributable to such election shall be payable in a lump sum as of the date elected by the Participant; provided that such date shall not be prior to October 31, 2013. (D) Installment Distributions under 5.2(c)(2)(iv)(A)(2). If a Participant elects a series of installments under Section 5.2(c)(2)(iv)(A)(2), installments shall be calculated in the same manner as installment payments under Section 5.2(b). (v) Certain Pre-2005 Primary Designations. A Primary Designation made prior to 2005 that delayed selection of the form of distribution until the

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Participant's retirement is inconsistent with Code section 409A and must be updated. A Participant with such a designation for any year must make a new Primary Designation by October 31, 2008 for his or her entire Account. The methods of payment available are those described in Section 5.2(c)(2)(iv)(A). A Participant with a Primary Designation subject to this subsection (v) who fails to timely select a new Primary Designation for his or her entire Account will be deemed to have elected the designation and payout schedule described in Section 5.2(c)(2)(iv)(A)(1) for his or her entire Account. (vi) 2008 Bonus Revocation. Upon a Participant's election of a 2008 Bonus Revocation, the Participant's 2008 Deferred Bonus will be paid in 2009 in accordance with the Corporation's corporate-wide annual bonus program. (vii) Death. In the event a Participant dies prior to receiving all payments under Section 5.2(c)(2), payment shall be made to the Beneficiary in accordance with Section 5.2(b)(3). 6. Plan Section 5.2(c)(3) is amended to read as follows: (3) General Rules for Compliance with 409A. It is intended that the terms of this Plan and deferrals hereunder meet applicable requirements of Code section 409A so that a Participant is not taxed under Code section 409A with respect to Deferred Compensation under this Plan and is not taxed otherwise with respect to Deferred Compensation under this Plan until such time as benefits are distributed to the Participant in accordance with the Plan's terms. For this purpose, the Plan will be administered in compliance with Code section 409A and any applicable Treasury or IRS guidance. 7. Plan Section 5.5 is renumbered as Section 5.4. 8. Plan Section 7.2(b) is amended to read as follows: (b) termination of the Plan will not accelerate the time of distributions nor cease the accrual of Interest prior to the applicable event under Section 5.1 hereof, unless the Corporation, by action of its Board, shall elect to accelerate all distributions at the time it elects to terminate this Plan, except accelerated distributions are authorized but only to the extent permitted under the Treasury Regulation (s) 1.409A-3(j)(4)(ix) and any successor or other applicable regulation or guidance.

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IN WITNESS WHEREOF, the Corporation has caused this FIRST AMENDMENT TO THE FEDERAL HOME LOAN MORTGAGE CORPORATION EXECUTIVE DEFERRED COMPENSATION PLAN (as amended and restated January 1, 2008) to be executed by its duly authorized officer, this 6th day of November, 2008. FEDERAL HOME LOAN MORTGAGE CORPORATION

By: /s/ Paul G. George

Paul G. George, Executive
Vice President -- Human
Resources & Corporate
Services ATTEST: /s/ Mollie D. RoyMollie D. Roy Assistant Secretary

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Exhibit 10.7

Date To
From
Subject
2008 Conservatorship Retention
Award

This memorandum sets forth Freddie Mac's agreement to provide to you a cash retention award pursuant to the terms set forth below. I. Cash Retention Payment You are eligible to receive a cash retention award of $xxx,xxx (which is equal to xxx% of your annualized 2008 target bonus), minus legal deductions. The award will be paid in four installments, occurring in the regular payroll cycles immediately after the following payment dates.

Payment Number	Payment Date	Percentage of Award Paid	Dollar Amount Paid
1	December 15, 2008	20%	$xxx,xxx
2	August 1, 2009	20%	$xxx,xxx
3	December 15, 2009	25%	$xxx,xxx
4	March 15, 2010	35%	$xxx,xxx

Payment numbers 1, 2, and 3 will be based solely on your continued employment with Freddie Mac through the indicated payment dates. Payment number 4 will be conditioned upon achievement of a performance goal(s) that is expected to be established prior to the end of this calendar year.

 II. Treatment of Award in the Event of Termination of Employment Severance Eligible Termination: If Freddie Mac terminates your employment as a result of a severance eligible event and you receive severance pay, all unpaid portions of the retention award will be paid as soon as administratively possible after the termination date. Non-Severance Eligible Termination or Voluntary Termination (Including Retirement): If you voluntarily terminate your employment for any reason other than death or disability or if Freddie Mac terminates your employment due to a non-severance eligible event, all unpaid portions of the award will be forfeited. Retirement: If you terminate your employment due to retirement (as defined in Freddie Mac's Employees' Pension Plan), all unpaid portions of the award will be forfeited. Death or Long-Term Disability: If you terminate employment due to either death or long-term disability, all unpaid portions of the retention awards be paid as soon as administratively possible after the termination or disability date. Under no circumstances are you obligated to repay Freddie Mac any portion of the retention award that you received prior to your termination date. III. General Receipt of this retention bonus does not preclude you from receiving a short-term cash incentive bonus attributable to performance year 2009 (paid in 2010) or from receiving an award under any other element of Freddie Mac's compensation program. Amounts paid pursuant to this retention agreement are considered compensation for purposes of the tax qualified Thrift/401(k) Savings Plan, the tax qualified Employees' Pension Plan and the non-qualified Supplemental Executive Retirement Plan, but will not be included as bonus-eligible earnings for purposes of calculating any bonus or short-term incentive payment made by Freddie Mac except as required by applicable law. The provisions of this Agreement shall be construed and enforced in accordance with the laws of the Commonwealth of Virginia, without regard to its conflict-of-laws principles. Nothing in the Agreement shall be construed or interpreted to be a contract of employment for any specified duration and you and Freddie Mac each have the right to terminate the employment relationship at any time for any lawful reason. If you have any questions regarding this special retention plan, do not hesitate to contact your HR Business Partner,

xxxx xxxxxxx at xxx-xxx-xxx for assistance.

Exhibit 12.1 RATIO OF EARNINGS TO FIXED CHARGES

	Nine Months Ended September 30,		Year Ended December 31,				
	2008(1)	2007	2007(1)	2006	2005	2004	2003
			(dollars in millions)				
Net income (loss) before cumulative effect of changes in accounting principles	$ (26,267)	$ (642)	$ (3,094)	$ 2,327	$ 2,172	$ 2,603	$ 4,809
Add:							
Income tax expense (benefit)	6,517	(1,257)	(2,883)	(45)	358	609	2,198
Minority interests in earnings of consolidated subsidiaries	8	22	(8)	58	96	129	157
Low-income housing tax credit partnerships	346	354	469	407	320	282	199
Total interest expense	25,380	29,099	38,482	37,270	29,899	26,566	26,509
Interest factor in rental expenses	6	5	7	6	6	6	5
Earnings, as adjusted	$ 5,990	$ 27,581	$ 32,973	$ 40,023	$ 32,851	$ 30,195	$ 33,877
Fixed charges:							
Total interest expense	$ 25,380	$ 29,099	$ 38,482	$ 37,270	$ 29,899	$ 26,566	$ 26,509
Interest factor in rental expenses	6	5	7	6	6	6	5
Capitalized interest	--	--	--	--	--	1	--
Total fixed charges	$ 25,386	$ 29,104	$ 38,489	$ 37,276	$ 29,905	$ 26,573	$ 26,514
Ratio of earnings to fixed charges(2)	--	--	--	1.07	1.10	1.14	1.28

(1) For the ratio of earnings to fixed charges to equal 1.00, earnings, as adjusted must increase by $19.4 billion and $1.5 billion for the nine months ended September 30, 2008 and September 30, 2007, respectively. For the ratio of earnings to fixed charges to equal 1.00, earnings, as adjusted must increase by $5.5 billion for the year ended December 31, 2007.
(2) Ratio of earnings to fixed charges is computed by dividing earnings, as adjusted by total fixed charges.

Exhibit 12.2 RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS

	Nine Months Ended September 30, 2008(1)	2007	Year Ended December 31, 2007(1)	2006	2005	2004	2003
	(dollars in millions)						
Net income (loss) before cumulative effect of changes in accounting principles	$ (26,267)	$ (642)	$ (3,094)	$ 2,327	$ 2,172	$ 2,603	$ 4,809
Add:							
Income tax expense (benefit)	6,517	(1,257)	(2,883)	(45)	358	609	2,198
Minority interests in earnings of consolidated subsidiaries	8	22	(8)	58	96	129	157
Low-income housing tax credit partnerships	346	354	469	407	320	282	199
Total interest expense	25,380	29,099	38,482	37,270	29,899	26,566	26,509
Interest factor in rental expenses	6	5	7	6	6	6	5
Earnings, as adjusted	$ 5,990	$ 27,581	$ 32,973	$ 40,023	$ 32,851	$ 30,195	$ 33,877
Fixed charges:							
Total interest expense	$ 25,380	$ 29,099	$ 38,482	$ 37,270	$ 29,899	$ 26,566	$ 26,509
Interest factor in rental expenses	6	5	7	6	6	6	5
Capitalized interest	--	--	--	--	--	1	--
Preferred stock dividends(2)	503	286	398	270	260	260	315
Total fixed charges including preferred stock dividends	$ 25,889	$ 29,390	$ 38,887	$ 37,546	$ 30,165	$ 26,833	$ 26,829
Ratio of earnings to combined fixed charges and preferred stock dividends(3)	--	--	--	1.07	1.09	1.13	1.26

(1) For the ratio of earnings to combined fixed charges and preferred stock dividends to equal 1.00, earnings, as adjusted must increase by $19.9 billion and $1.8 billion for the nine months ended September 30, 2008 and September 30, 2007, respectively. For the ratio of earnings to combined fixed charges and preferred stock dividends to equal 1.00, earnings, as adjusted must increase by $5.9 billion for the year ended December 31, 2007.
(2) Preferred stock dividends represent pre-tax earnings required to cover any preferred stock dividend requirements computed using our effective tax rate, whenever there is an income tax provision, for the relevant periods.
(3) Ratio of earnings to combined fixed charges and preferred stock dividends is computed by dividing earnings, as adjusted by total fixed charges including preferred stock dividends.

Exhibit 31.1 CERTIFICATION PURSUANT TO SECURITIES EXCHANGE ACT RULE 13a-14(a)

I, David M. Moffett, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended September 30, 2008 of the Federal Home Loan Mortgage Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
b. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
c. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2008 /s/ David M. Moffett

David M. Moffett Chief Executive Officer

Exhibit 31.2 CERTIFICATION PURSUANT TO SECURITIES EXCHANGE ACT RULE 13a-14(a)
I, David B. Kellermann, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended September 30, 2008 of the Federal Home Loan Mortgage Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
b. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
c. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2008 /s/ David B. Kellermann
David B. Kellermann Acting Chief Financial Officer

Exhibit 32.1 CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ENACTED BY SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002 In connection with the Quarterly Report on Form 10-Q for the quarter ended September 30, 2008 of the Federal Home Loan Mortgage Corporation (the "Company"), as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David M. Moffett, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 14, 2008 /s/ David M. Moffett
David M. Moffett Chief Executive Officer

Exhibit 32.2 CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ENACTED BY SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002 In connection with the Quarterly Report on Form 10-Q for the quarter ended September 30, 2008 of the Federal Home Loan Mortgage Corporation (the "Company"), as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David B. Kellermann, Acting Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 14, 2008 /s/ David B. Kellermann
David B. Kellermann Acting Chief Financial Officer

{graphic omitted}

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549 Form 10-Q

D QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2008
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File No.: 0-50231 Federal National Mortgage Association(Exact name of registrant as specified in its charter) Fannie Mae

Federally chartered corporation	52-0883107
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
3900 Wisconsin Avenue, NW Washington, DC	20016
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code:(202) 752-7000 Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes D No o Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No D As of September 30, 2008, there were 1,076,207,174 shares of common stock outstanding.

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MD&A TABLE REFERENCE

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PART I--FINANCIAL INFORMATION

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read this Management's Discussion and Analysis of Financial Condition and Results of Operations, or MD&A, in conjunction with our unaudited condensed consolidated financial statements and related notes, and the more detailed information contained in our Annual Report on Form 10-K for the year ended December 31, 2007 ("2007 Form 10-K"). The results of operations presented in our unaudited condensed consolidated financial statements and discussed in MD&A do not necessarily indicate the results that may be expected for the full year. The Director of the Federal Housing Finance Agency, or FHFA, our safety, soundness and mission regulator, appointed FHFA as conservator of Fannie Mae on September 6, 2008. As conservator, FHFA succeeded to all rights, titles, powers and privileges of the company, and of any stockholder, officer or director of the company with respect to the company and our assets. Following the conservator's taking control of the company, a variety of factors that affect our business, results of operations, financial condition, liquidity position, net worth, corporate structure, management, business strategies and objectives, and controls and procedures changed materially prior to the end of the third quarter of 2008. Please refer to "Description of our Business" below for a description of our business and to "Executive Summary" and "Conservatorship and Treasury Agreements" below for more information on the conservatorship and its impact on our business. Refer to "Glossary of Terms Used in this Report" in our 2007 10-K for an explanation of key terms used throughout this discussion. INTRODUCTION Fannie Mae is a government-sponsored enterprise, or GSE, that was chartered by Congress to support liquidity and stability in the secondary mortgage market, where existing mortgage loans are purchased and sold. We do not make mortgage loans to borrowers or conduct any other operations in the primary mortgage market, which is where mortgage loans are originated. We securitize mortgage loans originated by lenders in the primary mortgage market into mortgage-backed securities that we refer to as Fannie Mae MBS. We describe the securitization process under "Description of Our Business." We also participate in the secondary mortgage market by purchasing mortgage loans (often referred to as "whole loans") and mortgage-related securities, including our own Fannie Mae MBS, for our mortgage portfolio. The Federal Housing Finance Regulatory Reform Act of 2008, referred to as the Regulatory Reform Act, was signed into law by President Bush on July 30, 2008 and became effective immediately. The Regulatory Reform Act established FHFA as an independent agency with general supervisory and regulatory authority over Fannie Mae, Freddie Mac and the 12 Federal Home Loan Banks. FHFA assumed the duties of our former regulators, the Office of Federal Housing Enterprise Oversight, or OFHEO, and the Department of Housing and Urban Development, or HUD, with respect to safety, soundness and mission oversight of Fannie Mae and Freddie Mac. HUD remains our regulator with respect to fair lending matters. We reference OFHEO in this report with respect to actions taken by our safety and soundness regulator prior to the creation of FHFA on July 30, 2008.

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EXECUTIVE SUMMARY Our "Executive Summary" presents a high-level overview of the most significant factors that our management has focused on in currently evaluating our business and financial position and prospects, in addition to highlighting changes in business operations and strategies, structure, and controls since we were placed into conservatorship that we believe are significant. Entry Into Conservatorship and Treasury Agreements On September 7, 2008, Henry M. Paulson, Jr., Secretary of the U.S. Department of the Treasury, or Treasury, and James B. Lockhart III, Director of FHFA announced several actions taken by Treasury and FHFA regarding Fannie Mae. Mr. Lockhart stated that they took these actions "to help restore confidence in Fannie Mae and Freddie Mac, enhance their capacity to fulfill their mission, and mitigate the systemic risk that has contributed directly to the instability in the current market." These actions included the following:

ù placing us in conservatorship;
ù the execution of a senior preferred stock purchase agreement by our conservator, on our behalf, and Treasury, pursuant to which we issued to Treasury both senior preferred stock and a warrant to purchase common stock; and
ù the agreement to establish a temporary secured lending credit facility that is available to us.

Entry into Conservatorship On September 6, 2008, at the request of the Secretary of the Treasury, the Chairman of the Board of Governors of the Federal Reserve and the Director of FHFA, our Board of Directors adopted a resolution consenting to putting the company into conservatorship. After obtaining this consent, the Director of FHFA appointed FHFA as our conservator on September 6, 2008, in accordance with the Regulatory Reform Act and the Federal Housing Enterprises Financial Safety and Soundness Act of 1992. Upon its appointment, the conservator immediately succeeded to all rights, titles, powers and privileges of Fannie Mae, and of any stockholder, officer or director of Fannie Mae with respect to Fannie Mae and its assets, and succeeded to the title to all books, records and assets of Fannie Mae held by any other legal custodian or third party. The conservator has the power to take over our assets and operate our business with all the powers of our stockholders, directors and officers, and to conduct all business of the company. The conservator announced at that time that it would eliminate the payment of dividends on common and preferred stock during the conservatorship. On September 7, 2008, the Director of FHFA issued a statement that he had determined that we could not continue to operate safely and soundly and fulfill our critical public mission without significant action to address FHFA's concerns, which were principally: safety and soundness concerns as they existed at that time, including our capitalization; market conditions; our financial performance and condition; our inability to obtain funding according to normal practices and prices; and our critical importance in supporting the U.S. residential mortgage market. We describe the terms of the conservatorship and the powers of our conservator in detail below under "Conservatorship and Treasury Agreements--Conservatorship." Overview of Treasury Agreements Senior Preferred Stock Purchase Agreement The conservator, acting on our behalf, entered into a senior preferred stock purchase agreement with Treasury on September 7, 2008. This agreement was amended and restated on September 26, 2008. We refer to this agreement as the "senior preferred stock purchase agreement." Under that agreement, Treasury provided us with its commitment to provide up to $100 billion in funding under specified conditions. The agreement requires Treasury, upon the request of the conservator, to provide funds to us after any quarter in which we have a negative net worth (that is, our total liabilities exceed our total assets, as reflected on our GAAP

balance sheet). In addition, the agreement requires Treasury, upon the request of the conservator, to provide funds to us if the conservator determines, at any time, that it will be mandated by law to appoint a receiver for us unless we receive funds from Treasury under the commitment. In exchange for Treasury's funding commitment, we issued to Treasury, as an initial commitment fee, (1) one million shares of Variable Liquidation Preference Senior Preferred Stock, Series 2008-2, which we refer to as the "senior preferred stock," and (2) a warrant to purchase, for a nominal price, shares of our common stock equal to 79.9% of the total number of shares of our common stock outstanding on a fully diluted basis at the time the warrant is exercised, which we refer to as the "warrant." We did not receive any cash proceeds from Treasury as a result of issuing the senior preferred stock or the warrant. Under the terms of the senior preferred stock, Treasury is entitled to a quarterly dividend of 10% per year (which increases to 12% per year if not paid timely and in cash) on the aggregate liquidation preference of the senior preferred stock. To the extent we are required to draw on Treasury's funding commitment, the liquidation preference of the senior preferred stock will be increased by the amount of any funds we receive. The amounts payable for the senior preferred stock dividend could be substantial and have an adverse impact on our financial position and net worth. The senior preferred stock is senior in liquidation preference to our common stock and all other series of preferred stock. In addition, beginning on March 31, 2010, we are required to pay a quarterly commitment fee to Treasury, which fee will accrue from January 1, 2010. We are required to pay this fee each quarter for as long as the senior preferred stock purchase agreement is in effect, even if we do not request funds from Treasury under the agreement. The amount of this fee has not yet been determined. The senior preferred stock purchase agreement includes significant restrictions on our ability to manage our business, including limiting the amount of indebtedness we can incur to 110% of our aggregate indebtedness as of June 30, 2008 and capping the size of our mortgage portfolio at $850 billion as of December 31, 2009. In addition, beginning in 2010, we must decrease the size of our mortgage portfolio at the rate of 10% per year until it reaches $250 billion. Depending on the pace of future mortgage liquidations, we may need to reduce or eliminate our purchases of mortgage assets or sell mortgage assets to achieve this reduction. In addition, while the senior preferred stock is outstanding, we are prohibited from paying dividends (other than on the senior preferred stock) or issuing equity securities without Treasury's consent. The terms of the senior preferred stock purchase agreement and warrant make it unlikely that we will be able to obtain equity from private sources. The senior preferred stock purchase agreement has an indefinite term and can terminate only in very limited circumstances, which do not include the end of the conservatorship. The agreement therefore could continue after the conservatorship ends. Treasury has the right to exercise the warrant, in whole or in part, at any time on or before September 7, 2028. As of November 7, 2008, we have not drawn any funds from Treasury pursuant to the senior preferred stock purchase agreement. We provide more detail about the provisions of the senior preferred stock purchase agreement, the senior preferred stock and the warrant, the limited circumstances under which those agreements terminate, and the limitations they place on our ability to manage our business under "Conservatorship and Treasury Agreements--Treasury Agreements" below. See "Part II--Item 1A--Risk Factors" for a discussion of how the restrictions under the senior preferred stock purchase agreement may have a material adverse effect on our business.
Treasury Credit Facility On September 19, 2008, we entered into a lending agreement with Treasury pursuant to which Treasury established a new secured lending credit facility that is available to us until December 31, 2009 as a liquidity back-stop. We refer to this as the "Treasury credit facility." In order to borrow pursuant to the Treasury credit facility, we are required to post collateral in the form of Fannie Mae MBS or Freddie Mac mortgage-backed securities to secure all borrowings under the facility. The terms of any borrowings under the credit facility, including the interest rate payable on

the loan and the amount of collateral we will need to provide as security for the loan, will be determined by Treasury. Treasury is not obligated under the credit facility to make any loan to us.

Treasury does not have authority to extend the term of this credit facility beyond December 31, 2009, which is when Treasury's temporary authority to purchase our obligations and other securities, granted by the Regulatory Reform Act, expires. After December 31, 2009, Treasury may purchase up to $2.25 billion of our obligations under its permanent authority, as set forth in the Charter Act. As of November 7, 2008, we have not borrowed any amounts under the Treasury credit facility. The terms of the Treasury credit facility are described in more detail in "Conservatorship and Treasury Agreements--Treasury Agreements." Changes in Company Management and our Board of Directors Since our entry into conservatorship on September 6, 2008, ten members of our Board of Directors have resigned, including Stephen B. Ashley, our former Chairman of the Board. On September 16, 2008, the conservator appointed Philip A. Laskawy as the new non-executive Chairman of our Board of Directors. We currently have four members of our Board of Directors and nine vacancies. As noted above, as our conservator, FHFA has assumed the powers of our Board of Directors. Accordingly, the current Board of Directors acts with neither the power nor the duty to manage, direct or oversee our business and affairs. The conservator has indicated that it intends to appoint a full Board of Directors to which it will delegate specified roles and responsibilities. On September 7, 2008, the conservator appointed Herbert M. Allison, Jr. as our President and Chief Executive Officer, effective immediately. Supervision of our Business under the Regulatory Reform Act and During Conservatorship During the third quarter of 2008, we experienced a number of significant changes in our regulatory supervisory environment. First, on July 30, 2008, President Bush signed into law the Regulatory Reform Act, which placed us under the regulation of a new regulator, FHFA. That legislation strengthened the existing safety and soundness oversight of the GSEs and provided FHFA with new safety and soundness authority that is comparable to and in some respects broader than that of the federal bank agencies. That legislation gave FHFA enhanced powers that, even if we had not been placed into conservatorship, gave FHFA the authority to raise capital levels above statutory minimum levels, regulate the size and content of our portfolio, and approve new mortgage products. That legislation also gave FHFA the authority to place the GSEs into conservatorship or receivership under conditions set forth in the statute. Refer to "Legislation Relating to Our Regulatory Framework" in our Form 10-Q for the period ended June 30, 2008 for additional detail regarding the provisions of the Regulatory Reform Act and "Part II--Item 1A--Risk Factors" of this report for additional risks and information regarding this regulation, including the receivership provisions. Second, we experienced a change in control when we were placed into conservatorship on September 6, 2008. Under conservatorship, we have additional heightened supervision and direction from our regulator, FHFA, which is also acting as our conservator.

The table below presents a summary comparison of various features of our business before and after we were placed into conservatorship. Following this table, we provide additional information about a number of aspects of our business now that we are in conservatorship under "Managing Our Business During Conservatorship."

Topic	Before Conservatorship	During Conservatorship
Authority of Board of Directors, management and stockholders	ù Board of Directors with right to determine the general policies governing the operations of the corporation and exercise all power and authority of the company, except as vested in stockholders or as the Board chooses to delegate to management	ù FHFA, as conservator, has all of the power and authority of the Board of Directors, management and the shareholders
	ù Board of Directors delegated significant authority to management	ù The conservator has delegated authority to management to conduct day-to-day operations so that the company can continue to operate in the ordinary course of business. The conservator retains overall management authority, including the authority to withdraw its delegations to management at any time.
	ù Stockholders with specified voting rights	ù Stockholders have no voting rights
Regulatory Supervision	ù Regulated by FHFA, our new regulator created by the Regulatory Reform Act	ù Regulated by FHFA, with powers as provided by Regulatory Reform Act
	ù Regulatory Reform Act gave regulator significant additional safety and soundness supervisory powers	ù Additional management authority by FHFA, which is serving as our conservator
Structure of Board of Directors	ù 13 directors: 12 independent plus President and Chief Executive Officer; independent, non-executive Chairman of the Board	ù Currently four directors, consisting of a non-executive Chairman of the Board and three independent directors (who were also directors of Fannie Mae immediately prior to conservatorship), with neither the power nor the duty to manage, direct or oversee our business and affairs
	ù Eight separate Board committees, including Audit Committee in which four of the five independent members were "audit committee financial experts"	ù No Board committees have members or authority to act
		ù Conservator has indicated its intent to appoint a full Board of Directors to which it will delegate specified roles

		and responsibilities
Management	ù Daniel H. Mudd served as President and Chief Executive Officer from June 2005 to September 6, 2008	ù Herbert M. Allison, Jr. began serving as President and Chief Executive Officer on September 7, 2008
Capital	ù Statutory and regulatory capital requirements	ù Capital requirements not binding
	ù Capital classifications as to adequacy of capital issued by FHFA on quarterly basis	ù Quarterly capital classifications by FHFA suspended

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Topic	Before Conservatorship	During Conservatorship
Net Worth1	ù Receivership mandatory if we have negative net worth for 60 days	ù Conservator has directed management to focus on maintaining positive stockholders' equity1 in order to avoid both the need to request funds under the senior preferred stock purchase agreement and our mandatory receivership
		ù Receivership mandatory if we have negative net worth for 60 days2
Managing for the Benefit of Shareholders	ù Maximize shareholder value over the long term	ù No longer managed with a strategy to maximize common shareholder returns
	ù Fulfill our mission of providing liquidity, stability and affordability to the mortgage market	ù Maintain positive net worth and fulfill our mission of providing liquidity, stability and affordability to the mortgage market
		ù Focus on returning to long-term profitability if it does not adversely affect our ability to maintain positive net worth or fulfill our mission

1 Our "net worth" refers to our assets less our liabilities, as reflected on our GAAP balance sheet. If we have a negative net worth, then, if requested by the conservator (or by our Chief Financial Officer if we are not under conservatorship), Treasury is required to provide funds to us pursuant to the senior preferred stock purchase agreement. In addition, if we have a negative net worth for a period of 60 days, the Director of FHFA is required by the Regulatory Reform Act to place us in receivership. "Net worth" is substantially the same as "stockholders equity;" however, "net worth" also

includes the minority interests that third parties own in our consolidated subsidiaries (which was $159 million as of September 30, 2008), which is excluded from stockholders' equity.

2 Treasury's funding commitment under the senior preferred stock purchase agreement is expected to enable us to maintain a positive net worth as long as Treasury has not yet invested the full $100 billion provided for in that agreement.

The conservatorship has no specified termination date. There can be no assurance as to when or how the conservatorship will be terminated, whether we will continue to exist following conservatorship, or what our business structure will be during or following our conservatorship. In a statement issued on September 7, 2008, the Secretary of the Treasury indicated that 2008 and 2009 should be viewed as a "time out" where we and Freddie Mac are stabilized while policymakers decide our future role and structure. He also stated that there is a consensus that we and Freddie Mac pose a systemic risk and that we cannot continue in our current form. For more information on the risks to our business relating to the conservatorship and uncertainties regarding the future of our business, see "Part II--Item 1A--Risk Factors." Managing Our Business During Conservatorship Our Management FHFA, in its role as conservator, has overall management authority over our business. During the conservatorship, the conservator has delegated authority to management to conduct day-to-day operations so that the company can continue to operate in the ordinary course of business. We can, and have continued to, enter into and enforce contracts with third parties. The conservator retains the authority to withdraw its delegations to us at any time. The conservator is working actively with management to address and determine the strategic direction for the enterprise, and in general has retained final decision-making authority in areas regarding: significant impacts on operational, market, reputational or credit risk; major accounting determinations, including policy changes; the creation of subsidiaries or affiliates and transacting with them; significant litigation; setting executive compensation; retention of external auditors; significant mergers and

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acquisitions; and any other matters the conservator believes are strategic or critical to the enterprise in order for the conservator to fulfill its obligations during conservatorship. See "Conservatorship and Treasury Agreements--Conservatorship--General Powers of the Conservator Under the Regulatory Reform Act" for more information. Our Objectives Based on the Federal National Mortgage Association Charter Act, or Charter Act, public statements from Treasury officials and guidance from our conservator, we have a variety of different, and potentially conflicting, objectives, including:

ù providing liquidity, stability and affordability in the mortgage market;
ù immediately providing additional assistance to the struggling housing and mortgage markets;
ù maintaining a positive net worth and avoiding the need to draw funds from Treasury pursuant to the senior preferred stock purchase agreement;
ù returning to long-term profitability; and
ù protecting the interests of the taxpayers.

These objectives create conflicts in strategic and day-to-day decision making that will likely lead to less than optimal outcomes for one or more, or possibly all, of these objectives. For example, maintaining a positive net worth could require us to constrain some of our business activities, including activities that provide liquidity, stability and affordability to the mortgage market. Conversely, to the extent we increase or undertake new activities to assist the mortgage market, our financial results are likely to suffer, and we may be less able to maintain a positive net worth. We regularly consult with and receive direction from our conservator on how to balance these objectives. To the extent that we are unable to maintain a positive net worth, we will be required to obtain funding from Treasury under the senior preferred stock purchase agreement, which will increase our ongoing expenses and, therefore, extend the period of time until we might be able to return to profitability. These objectives also create risks that we discuss in "Part II--Item 1A--Risk Factors." Changes in Strategies to Meet New Objectives Since September 6, 2008, we have made a number of changes in the strategies we use to manage our business in support of our new objectives outlined above. These include the changes we describe below. Eliminating Planned Increase in Adverse Market Delivery Charge As part of our efforts to increase liquidity in the mortgage market and make mortgage loans more affordable, we announced on October 2, 2008 that we were eliminating our previously announced 25 basis point increase in our adverse market delivery charge that was scheduled to take effect on November 1, 2008. The elimination of this charge will reduce our net income. We intend for our lenders to pass this savings on to borrowers in the form of lower mortgage costs. Whether this action will actually result in lower mortgage costs for borrowers, however, will depend on a variety of issues beyond our control, including whether or not lenders pass these savings on to borrowers, the overall level of credit that lenders are willing to extend to borrowers, the assessed riskiness of a particular borrower in the current market environment and other factors. Increasing the Size of Our Mortgage Portfolio Consistent with our ability under the senior preferred stock purchase agreement to increase the size of our mortgage portfolio through the end of 2009, FHFA has directed us to acquire and hold increased amounts of mortgage loans and mortgage-related securities in our mortgage portfolio to provide additional liquidity to the mortgage market. Our calculation of the mortgage portfolio, which has not been confirmed by Treasury, is our gross mortgage portfolio (defined as the unpaid principal balance of our mortgage loans and mortgage-related securities, excluding the effect of market valuation, premiums, discounts and impact of consolidations). As of September 30, 2008, our gross mortgage portfolio was $761.4 million. Our extremely limited ability to issue

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callable or long-term debt at this time (which is discussed in greater detail below) makes it difficult to increase the size of our mortgage portfolio. In addition, the covenant in the senior preferred stock purchase agreement prohibiting us from issuing debt in excess of 110% of our aggregate indebtedness as of June 30, 2008 likely will prohibit us from increasing the size of our mortgage portfolio to $850 billion, unless Treasury elects to amend or waive this limitation. Our calculation of our aggregate indebtedness as of June 30, 2008, which has not been confirmed by Treasury, set this debt limit at $892 billion. We calculate aggregate indebtedness as the unpaid principal balance of our debt outstanding, or in the case of long-term zero coupon bonds, at maturity and exclude basis adjustments and debt from consolidations. As of October 31, 2008, we estimate that our aggregate indebtedness totaled $880 billion. For a discussion of the limitations we are currently experiencing on our ability to issue debt securities, see "Liquidity," "Liquidity and Capital Management--Liquidity" and "Part II--Item 1A--Risk Factors." Housing and Economic Conditions The housing, mortgage and credit markets, as well as the general economy, have experienced significant challenges, which have driven our financial results. The housing market downturn that began in the third quarter of 2006, and continued through 2007, has significantly worsened in 2008. The market continues to experience declines in home sales, housing starts, mortgage originations and home prices, as well as increases in mortgage loan delinquencies, defaults and foreclosures. Growth in U.S. residential mortgage debt outstanding slowed to an estimated annual rate of 2.0% based on the first six months of 2008, compared with an estimated annual rate of 8.3% based on the first six months of 2007, and is expected to continue to decline to a growth rate of about 0% in 2009. We continue to expect that home prices will decline 7% to 9% on a national basis in 2008, and that home prices nationally will decline 15% to 19% from their peak in 2006 before they stabilize. Through September 30, 2008, home prices nationally have declined 10% from their peak in 2006. (Our estimates compare to approximately 12% to 16% for 2008, and 27% to 32% peak-to-trough, using the Case-Schiller index.) We currently expect home price declines at the top end of our estimated ranges. We also expect significant regional variation in these national home price decline percentages, with steeper declines in certain areas such as Florida, California, Nevada and Arizona. The deteriorating economic conditions and related government actions that occurred in the third quarter of 2008 have increased the uncertainty of future economic conditions, including home price movements. Therefore, while our peak-to-trough home price forecast is at the top end of the 15% to 19% range, there is increasing uncertainty about the actual amount of decline that will occur. The continuing downturn in the housing and mortgage markets has been affected by, and has had an effect on, challenging conditions that existed across the global financial markets. This adverse market environment intensified towards the end of the quarter, particularly in September, and into October, and was characterized by increased illiquidity in the credit markets, wider credit spreads, lower business and consumer confidence, and concerns about corporate earnings and the solvency of many financial institutions. Conditions in the financial services industry were particularly difficult. In September 2008, we and Freddie Mac were placed into conservatorship, Lehman Brothers Holdings Inc. (referred to as Lehman Brothers) filed for bankruptcy, and a number of major U.S. financial institutions consolidated or received financial assistance from the U.S. government. Real gross domestic product, or GDP, growth was W22; 0.3% in the third quarter of 2008. The unemployment rate at the end of the third quarter of 2008 increased to 6.1% from 5.0% at the end of 2007, the highest level since 2003. In the equity markets, the Dow Jones Industrial Average, the S&P 500 Index and the NASDAQ Composite Index decreased on average by 9%, 9% and 6%, respectively, during the third quarter of 2008. In October 2008, the Dow Jones Industrial Average, the S&P 500 and the NASDAQ Composite Index decreased on average by 14%, 17% and 18%, respectively. In September 2008, Treasury proposed a plan to buy mortgage-related, illiquid and other troubled assets from U.S. financial institutions. Also in September 2008, the Federal Reserve announced enhancements to its programs to provide additional liquidity to the asset-backed commercial paper and money markets, including plans to purchase from primary dealers short-term debt obligations issued by us, Freddie Mac and the Federal Home Loan Banks. As an additional response to the still worsening credit conditions, the U.S. government and

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other world governments took a number of actions. In early October 2008, the Emergency Economic Stabilization Act of 2008 was enacted, and the Federal Reserve announced that it would establish a commercial paper funding facility in order to provide additional liquidity to the short-term debt markets. Also, in October 2008, the Federal Reserve and other central banks lowered interest rates in a coordinated action. On October 14, 2008, the U.S. government announced a series of initiatives to strengthen market stability, improve the strength of financial institutions, and enhance market liquidity. Treasury announced a capital purchase program in which eligible financial institutions would sell preferred shares to the U.S. government. Under the program, Treasury will purchase up to $250 billion of senior preferred shares on standardized terms. As of November 1, 2008, Treasury had invested $125 billion in nine large financial institutions under this program. In addition, the Federal Deposit Insurance Corporation, or FDIC, announced a temporary liquidity guarantee program pursuant to which it will guarantee, until June 30, 2012, the senior debt issued on or before June 30, 2009 by all FDIC-insured institutions and their holding companies, as well as deposits in non-interest-bearing accounts held in FDIC-insured institutions. Also, the Federal Reserve announced that its commercial paper funding facility program will fund purchases of commercial paper of three-month maturity from high-quality issuers in an effort to provide additional liquidity to the short-term debt markets. Summary of Our Financial Results for the Third Quarter of 2008 The challenges experienced in the housing, mortgage and financial markets throughout 2008 continued to increase significantly during the third quarter of 2008. We experienced a change in control when we were placed into conservatorship on September 6, 2008. Both prior to and after initiation of the conservatorship in the third quarter of 2008, our results continued to be adversely affected by conditions in the housing market. In addition, we recorded a significant non-cash charge of $21.4 billion during the third quarter of 2008 to establish a deferred tax asset valuation allowance, which contributed to a net loss of $29.0 billion and a diluted loss per share of $13.00 for the third quarter of 2008, compared with a net loss of $2.3 billion and a diluted loss per share of $2.54 for the second quarter of 2008. We recorded a net loss of $1.4 billion and diluted loss per share of $1.56 for the third quarter of 2007. The $26.7 billion increase in our net loss for the third quarter of 2008 compared with the second quarter of 2008 was driven principally by our establishment of a deferred tax asset valuation allowance, as well as an increase in fair value losses, credit-related expenses, and investment losses from other-than-temporary impairment. We have recorded a net loss in each of the first three quarters of 2008, for a total net loss of $33.5 billion and a diluted loss per share of $24.24 for the nine months ended September 30, 2008, compared with net income of $1.5 billion and diluted earnings per share of $1.17 for the nine months ended September 30, 2007. We determined it was necessary to establish a valuation allowance against our deferred tax assets due to the rapid deterioration of market conditions discussed above, the uncertainty of future market conditions on our results of operations and the uncertainty surrounding our future business model as a result of our placement into conservatorship by FHFA on September 6, 2008. This charge reduced our net deferred tax assets to $4.6 billion as of September 30, 2008, from $20.6 billion as of June 30, 2008. Our mortgage credit book of business increased to $3.1 trillion as of September 30, 2008 from $2.9 trillion as of December 31, 2007, as we have continued to perform our chartered mission of helping provide liquidity to the mortgage markets. Our estimated market share of new single-family mortgage-related securities issuances was an estimated 42.2% for the third quarter of 2008, compared with an estimated 45.4% for the second quarter of 2008 and 50.1% for the first quarter of 2008. Our estimated market share of new single-family mortgage-related securities issuances decreased from levels during the first and second quarters of 2008 primarily due to changes in our pricing and eligibility standards, which reduced our acquisition of higher risk loans, as well as changes in the eligibility standards of the mortgage insurance companies, which further reduced our acquisition of loans with high loan-to-value ratios. The cumulative effect of these changes reduced our acquisitions in the period. We provide more detailed discussions of key factors affecting changes in our results of operations and financial condition in "Consolidated Results of Operations," "Business Segment Results," "Consolidated Balance Sheet Analysis," "Supplemental Non-GAAP Information--Fair Value Balance Sheets," and "Risk

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Management--Credit Risk Management--Mortgage Credit Risk Management--Mortgage Credit Book of Business." Net Worth As a result of our net loss for the nine months ended September 30, 2008, our net worth (defined as the amount by which our total assets exceeded our total liabilities, as reflected on our GAAP balance sheet) has decreased to $9.4 billion as of September 30, 2008 from $44.1 billion as of December 31, 2007. Moreover, $4.6 billion of our net worth as of September 30, 2008 consisted of our remaining deferred tax assets, which could be subject to an additional valuation allowance in the future. In addition, the widening of spreads that occurred in October 2008 resulted in mark-to-market losses on our investment securities that have decreased our net worth since September 30, 2008. Under the Regulatory Reform Act, FHFA must place us into receivership if our assets are less than our obligations for a period of 60 days. If current trends in the housing and financial markets continue or worsen, and we have a significant net loss in the fourth quarter of 2008, we may have a negative net worth as of December 31, 2008. If this were to occur, we would be required to obtain funding from Treasury pursuant to its commitment under the senior preferred stock purchase agreement in order to avoid a mandatory trigger of receivership under the Regulatory Reform Act. Liquidity We fund our purchases of mortgage loans primarily from the proceeds from sales of our debt securities. In September 2008, Treasury made available to us two additional sources of funding: the Treasury credit facility and the senior preferred stock purchase agreement, as described below under "Conservatorship and Treasury Agreements--Treasury Agreements." Since early July 2008, we have experienced significant deterioration in our access to the unsecured debt markets, particularly for long-term debt, and in the yields on our debt as compared to relevant market benchmarks. Although we experienced a slight stabilization in our access to the short-term debt markets immediately following our entry into conservatorship in early September, we experienced renewed deterioration in our access to the short-term debt markets following the initial improvement. Beginning in October, consistent demand for our debt securities has decreased even further, particularly for our long-term debt and callable debt, and the interest rates we must pay on our new issuances of short-term debt securities have increased. Although we experienced a reduction in LIBOR rates in late October and early November, and as a result we have begun to see some improvement in our short-term debt yields, the recent improvement may not continue or may reverse. We have experienced reduced demand for our debt obligations from some of our historical sources of that demand, particularly in international markets. There are several factors contributing to the reduced demand for our debt securities, including continued severe market disruptions, market concerns about our capital position and the future of our business (including its future profitability, future structure, regulatory actions and agency status) and the extent of U.S. government support for our business. In addition, on October 14, 2008, the Secretary of the Treasury, the Chairman of the Federal Reserve Board and the Chairman of the FDIC announced that the FDIC will guarantee until June 30, 2012 new senior unsecured debt issued on or before June 30, 2009 by all FDIC-insured institutions and their holding companies. The U.S. government does not guarantee, directly or indirectly, our securities or other obligations. It should be noted that, as described above, pursuant to the Housing and Economic Recovery Act of 2008, Congress authorized Treasury to purchase our debt, equity and other securities, which authority Treasury used to make its commitment under the senior preferred stock purchase agreement to provide up to $100 billion in funds as needed to help us maintain a positive net worth (which means that our total assets exceed our total liabilities, as reflected on our GAAP balance sheet) and made available to us the Treasury credit facility. In addition, the U.S. government guarantee of competing obligations means that those obligations receive a more favorable risk weighting than our securities under bank and thrift risk-based capital rules, and therefore may make them more attractive investments than our debt securities. Moreover, to the extent the market for our debt securities has improved due to the availability

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of the Treasury credit facility, our "roll over" risk may increase in anticipation of the expiration of the credit facility on December 31, 2009. As noted above, we currently have limited ability to issue debt securities with maturities greater than one year. Although we typically sell one or more fixed-rate issues of our Benchmark(R) Notes with a minimum issue size of $3.0 billion each month, we announced on October 20, 2008 that we would not issue Benchmark(R) Notes in October. We have, therefore, relied increasingly on short-term debt to fund our purchases of mortgage loans, which are by nature long-term assets. As a result, we are required to refinance, or "roll over," our debt on a more frequent basis, exposing us to an increased risk of insufficient demand, increasing interest rates and adverse credit market conditions. See "Liquidity and Capital Management--Liquidity--Funding--Debt Funding Activity" for more information on our debt funding activities and risks posed by our current market challenges and "Part II--Item 1A--Risk Factors" for a discussion of the risks to our business posed by our reliance on the issuance of debt to fund our operations. In addition, our increasing reliance on short-term debt and limited ability to issue callable debt, combined with limitations on the availability of a sufficient volume of reasonably priced derivative instruments to hedge our short-term debt position, has had an adverse impact on our duration and interest rate risk management activities. See "Risk Management--Interest Rate Risk Management and Other Market Risks" for more information regarding our interest rate risk management activities. The Treasury credit facility and the senior preferred stock purchase agreement may provide additional sources of funding in the event that we cannot adequately access the unsecured debt markets. Our access to the Treasury credit facility is subject to Treasury's agreement to make funds available pursuant to that facility, and amounts available to us under the facility are limited by the amount of collateral we are able to supply to secure the loan. As of September 30, 2008, we had approximately $190 billion in unpaid principal balance of Fannie Mae MBS and Freddie Mac mortgage-backed securities available as collateral to secure loans under the Treasury credit facility. We believe the fair market value of these Fannie Mae MBS and Freddie Mac mortgage-backed securities is less than the current unpaid principal balance of these securities. The Federal Reserve Bank of New York (referred to as FRBNY), as collateral valuation agent for Treasury, has discretion to value these securities as it considers appropriate, and we believe would apply a "haircut" reducing the value it assigns to these securities from their current unpaid principal balance in order to reflect its determination of the current fair market value of the collateral. Accordingly, the amount that we could borrow under the credit facility using those securities as collateral would be less than $190 billion. We also hold whole loans in our mortgage portfolio, and a portion of these whole loans could potentially be securitized into Fannie Mae MBS and then pledged as collateral under the credit facility; however, as described in "Liquidity and Capital Management--Liquidity--Liquidity Risk Management--Liquidity Contingency Plan," we currently face technological and operational limitations on our ability to securitize these loans. There can be no assurance as to the value that FRBNY would assign to the collateral we provide under the credit facility, or that our collateral would continue to maintain that value at the time of any actual use of the credit facility. If we were to pledge the collateral under the Treasury credit facility, we would be restricted in our ability to pledge collateral for other secured lending transactions. Further, unless amended or waived by Treasury, the amount we may borrow under the credit facility is limited by the restriction under the senior preferred stock purchase agreement on incurring debt in excess of 110% of our aggregate indebtedness as of June 30, 2008. An additional source of funds is the senior preferred stock purchase agreement, but Treasury has committed to provide funds to us under the agreement only to the extent that we have a negative net worth (specifically, if our total liabilities exceed our total assets, as reflected on our GAAP balance sheet). As a result of these terms and structures of the arrangements with Treasury, the amounts that we may draw under the Treasury credit facility and the senior preferred stock purchase agreement together may prove insufficient to allow us either to roll over our existing debt at the time we need to do so or to continue to fulfill our mission of providing liquidity to the mortgage market at appropriate levels. See "Liquidity and Capital Management--Liquidity" and "Part II--Item 1A--Risk Factors" for additional information regarding our liquidity position and the risks to our business relating to our liquidity position. To the extent that we are unable to access the debt markets, we may be able to rely on alternative sources of liquidity in the marketplace as outlined in our liquidity contingency plan. In the current market environment,

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however, we have significant uncertainty regarding our ability to execute on our liquidity contingency plan. See "Liquidity and Capital Management--Liquidity--Liquidity Risk Management--Liquidity Contingency Plan" for a description of our liquidity contingency plan and the current uncertainties regarding that plan. Managing Problem Mortgage Loans and Preventing Foreclosures We expect economic conditions and falling home prices to continue to negatively affect our credit performance in 2008 and 2009, which will cause our credit losses to increase. Further, if economic conditions continue to decline and the unemployment rate continues to rise, more borrowers will be unable to make their monthly mortgage payments, which would lead to higher defaults, foreclosures, sharper declines in home prices and higher credit losses. Approximately 92% of our guaranty book of business is made up of single-family conventional mortgage loans that we own or that back Fannie Mae MBS. Therefore, most of our credit loss reduction and foreclosure prevention efforts are focused on our single-family conventional loans, both those we hold in our mortgage portfolio and those we guarantee. As of September 30, 2008, our total nonperforming loans were $63.6 billion, or 2.2% of our total guaranty book of business, compared with $46.1 billion, or 1.6%, as of June 30, 2008, and $35.8 billion, or 1.3%, as of December 31, 2007. Our total nonperforming assets, which consist of nonperforming loans together with our inventory of foreclosed properties, were $71.0 billion, or 2.4% of our total guaranty book of business and foreclosed properties, compared with nonperforming assets of $52.0 billion, or 1.8%, as of June 30, 2008, and $39.3 billion, or 1.4%, as of December 31, 2007. While it is expected that our nonperforming assets will increase in 2008 and 2009, our credit management actions are designed to prevent the number of our nonperforming assets from being higher than they otherwise would be and to reduce the number of our nonperforming assets over time. Other key measures of how well we manage our credit losses are our single-family foreclosure rate and our inventory of single-family foreclosed properties. Our single-family foreclosure rate was 0.16% in the third quarter of 2008, compared with 0.13% in the second quarter of 2008, and 0.07% in the third quarter of 2007. Our inventory of single-family foreclosed properties was 67,519 as of September 30, 2008, compared with 54,173 as of June 30, 2008 and 33,729 as of December 31, 2007. In light of the continued deterioration in our credit performance, we have been, and are continuing, to take steps designed to control, and ultimately reduce, the number of our foreclosures and our credit losses. During the third quarter of 2008, we initiated or enhanced a number of the tools that we use to manage our credit losses.

ù Workouts of Delinquent Loans. We increased our foreclosure prevention workouts from an average of approximately 7,000 per month during the period from January through May 2008, to an average of approximately 14,000 per month during the period from June to September 2008. We are using a variety of tools to address the need for more workouts as the number of our delinquent loans rises. During the period from January 2007 through September 2008, we helped nearly 300,000 homeowners avoid foreclosure through workouts and refinancing. We helped approximately 131,000 of these homeowners avoid foreclosure through workouts by, among other means, creating repayment plans, providing HomeSaver Advance bridge loans, reducing interest rates, extending loan terms or other workouts to assist struggling borrowers. Information about our refinancing assistance is discussed below under "Supporting Borrowers and Mortgage Market Liquidity."

HomeSaver Advancetm. One of the workout tools we implemented in 2008 is HomeSaver Advance, an unsecured, personal loan designed to help a borrower after a temporary financial difficulty to bring a delinquent mortgage loan current. We began purchasing HomeSaver Advance loans in the first quarter of 2008 and have since purchased more than 45,000 of these loans.
Outreach to Delinquent Borrowers. We have expanded our use of techniques to contact borrowers who have missed payments, even as early as after one missed payment. These techniques include

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targeted mass mailings to borrowers with loans considered high risk and the use of specialty servicers with experience in contacting and working with high-risk borrowers.

Review of Foreclosure Referrals. We recently began an initiative in which we review loans headed on a path to foreclosure in an effort to keep borrowers in their homes and to help us avoid the increased credit losses associated with foreclosures. Our objective is to provide this review, which we call a "Second Look," to every owner-occupied property prior to foreclosure.

ù Servicer Management. We have made changes to how we oversee mortgage servicers to streamline the workout process and provide additional incentives for workout performance. We delegate many loss mitigation decisions to our servicers so that they are able to react more quickly to the needs of delinquent borrowers, and we have implemented a number of operational changes requested by servicers to help them work more effectively with borrowers. We have increased the incentive fees we pay to servicers to conduct workouts, and expanded the deployment of our personnel and contractors inside the offices of our largest mortgage servicers to make sure our workout guidelines are followed. We continue working with our servicers to find ways to enhance our workout protocols and our servicers' work flow processes.
ù Review of Defaulted Loans. In 2008, we continued performing loan reviews in cases where we believe we have incurred a loss or could incur a loss due to fraud or improper lending practices and we have increased our efforts to pursue recoveries from mortgage lenders related to these loans, including demanding that lenders repurchase the loans from us pursuant to their contractual obligations.
ù REO Inventory Management. As our foreclosure rates have increased and home sales have declined, our inventory of foreclosed properties we own has increased. We refer to these properties as real estate owned, or REO, properties. We have expanded both our internal REO inventory management capabilities and the network of firms that assist us with property dispositions.
ù Underwriting Changes. We have continued to review and revise our underwriting and eligibility standards, including changes implemented through our most recent release of DesktopUnderwriter(R) , our proprietary underwriting system, to reduce our exposure to the current risks in the

housing market. The revisions we have implemented have resulted in a significant reduction in our acquisition of loan types that currently represent a majority of our credit losses, especially Alt-A loans. Additional revisions become effective in December 2008 and January 2009. Effective January 1, 2009, we are discontinuing the purchase of newly originated Alt-A loans; we are currently purchasing only a very small number of these loans in order to allow our lenders to deliver loans already in the pipeline when we announced our decision to terminate Alt-A purchases. We may continue to purchase Alt-A loans that are not newly originated and that meet acceptable eligibility and underwriting guidelines. We and the conservator continue to review our underwriting and eligibility standards and may in the future make additional changes as necessary to reflect future changes in the market and to fulfill our mission to expand the availability and affordability of mortgage credit.

For a further description of our management of mortgage credit risk, refer to "Consolidated Results of Operations--Credit-Related Expenses" and "Risk Management--Credit Risk Management--Mortgage Credit Risk Management." Actions that we are taking to manage problem loans and prevent foreclosures may increase our expenses and may not be effective in reducing our credit losses, as described in "Part II--Item 1A--Risk Factors." Supporting Borrowers and Mortgage Market Liquidity We are continually working to fulfill our mission of providing liquidity, stability and affordability to the housing and mortgage markets. Recent economic conditions and the mortgage market downturn have made it more important than ever that we fulfill our mission by supporting borrowers struggling to pay their mortgages, helping new borrowers obtain mortgage loans, and providing liquidity, stability and affordability to the housing and mortgage markets for the long term.

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Supporting Borrowers To support struggling borrowers and help new borrowers obtain mortgage loans, in addition to the measures discussed above, we use a variety of additional strategies, which include:

ù Refinancing Assistance. Since 2007, we have been focusing on helping homeowners refinance into loans designed to help them keep their homes in the long term, such as loans with fixed rates and loans with lower monthly payments due to lower interest rates and/or longer terms. Part of this effort includes helping borrowers with subprime loans refinance with fixed-rate prime mortgages. Since January 2007, we have refinanced nearly 169,000 subprime loans.
ù Support for Borrower Counseling Efforts. We contribute to programs, such as the Hope Hotline, that offer counseling to borrowers to help them develop a plan that will enable them to remain in their homes. During the period from January 2007 through September 2008, we committed nearly $12 million in grants to support borrower counseling efforts, including mailings, telethons, foreclosure prevention workshops and housing fairs.
ù Cancellation of Planned Delivery Fee Increase. As discussed above, in October 2008, we canceled a planned 25 basis point increase in our adverse market delivery charge on mortgage loans.
ù Increased financing of jumbo-conforming loans. We increased our financing of jumbo-conforming loans by nearly 40%, from $2.3 billion to $3.2 billion, between August and September 2008. These are loans for homes in high-cost metropolitan areas, and they have higher principal balances than we would be permitted to purchase or guarantee if the homes were not in those areas.

We are working with the conservator to develop and deliver further solutions to help borrowers avoid foreclosure. Providing Mortgage Market Liquidity In addition to our borrower support efforts, our work to support lenders and provide mortgage market liquidity includes the following.

ù Ongoing provision of liquidity to the mortgage markets. In September, we purchased or guaranteed an estimated $44.1 billion in new business, measured by unpaid principal balance, consisting primarily of single-family mortgages, compared with $40.5 billion in August. We helped to finance 200,000 single-family homes in September. During the first nine months of 2008, we purchased approximately $28.6 billion of new and existing multifamily loans, helping to finance 480,000 units of rental housing.
ù Partnership with Federal Home Loan Bank of Chicago. On October 7, 2008, we announced that we had entered into an agreement with the Federal Home Loan Bank of Chicago under which we have committed to purchase 15-year and 30-year fixed-rate mortgage loans that the bank has acquired from its member institutions through its Mortgage Partnership Finance(R) (MPF(R)) program, which helps make affordable mortgages available to working families across the country. This arrangement is designed to allow us to expand our service to a broader market and provide additional liquidity to the mortgage market while prudently managing risk.
ù Reduced fees for our real estate mortgage investment conduits, or REMICs. In September 2008, we reduced the fees for our real estate mortgage investment conduits, or REMICs, by 15%.
ù Multifamily rate lock commitment. In the last six months, we introduced a streamlined rate lock commitment for multifamily lenders that allows them to lock in the rate that they will charge a borrower for a loan at any point during the underwriting process.
ù Relaxing restrictions on institutions holding principal and interest payments on our behalf in response to FDIC rule change. In October 2008, the FDIC announced a rule change that lowered our risk of suffering losses if a party holding principal and interest payments on our behalf in custodial depository accounts failed. In response to this rule change, we have reviewed and curtailed or reversed certain actions we had taken in recent months to reduce our risk, including reducing the amount of our funds permitted to be held with mortgage servicers, requiring more frequent remittances of funds and moving funds held with our largest counterparties from custodial accounts to trust accounts.

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Outlook The expansion of the mortgage turmoil into the credit crisis that began in 2007 has continued and worsened through October 2008 and, combined with the commencement of the conservatorship and entry into the Treasury agreements in September 2008, have materially impacted our outlook for the remainder of 2008 and 2009. We expect that the current crisis in the U.S. and global financial markets will continue to adversely affect our financial results through the remainder of 2008 and 2009. Given our increasing uncertainty about the future, we are no longer able to have expectations with respect to certain matters. Overall Market Conditions: We expect that the current crisis in the U.S. and global financial markets will continue. We expect the unemployment rate to continue to increase as the economic slowdown continues. We expect to continue to experience home price declines and rising default and severity rates, all of which may worsen as unemployment rates continue to increase and if the U.S. experiences a broad-based recession. We expect growth in mortgage debt outstanding to continue to decline to a growth rate of about 0% in 2009. We continue to expect the level of foreclosures and single-family delinquency rates to continue to increase further through the end of 2008, and still further in 2009. Home Price Declines: We continue to expect that home prices will decline 7% to 9% on a national basis in 2008, and that we will experience a peak-to-trough home price decline of 15% to 19%. Through September 30, 2008, home prices nationally have declined 10% from their peak in 2006. (Our estimates compare to approximately 12% to 16% for 2008, and 27% to 32% peak-to-trough, using the Case-Schiller index.) We currently expect home price declines at the top end of our estimated ranges. We also expect significant regional variation in these national home price decline percentages, with steeper declines in certain areas such as Florida, California, Nevada and Arizona. The deteriorating economic conditions and related government actions that occurred in the third quarter have increased the uncertainty of future economic conditions, including home price movements. Therefore, while our peak-to-trough home price forecast is at the top end of the 15% to 19% range, there is increasing uncertainty about the actual amount of decline that will occur. Credit Losses and Loss Reserves: We continue to expect our credit loss ratio (which excludes SOP 03-3 and HomeSaver Advance fair value losses) to be between 23 and 26 basis points in 2008, partially due to a shift in credit losses from 2008 into 2009 as a result of certain foreclosure delays occurring in particular regions of the country and deployment of loss mitigation strategies that have the effect of lengthening the foreclosure pipeline. We continue to expect our credit loss ratio will increase further in 2009 compared with 2008. We expect significant continued increase in our combined loss reserves through the remainder of 2008 and further increases to continue in 2009. Liquidity: In the absence of action by Treasury to increase the level of support Treasury provides for our debt, we expect continued significant pressure on our access to the short-term debt markets and extremely limited access to the long-term debt markets at economically reasonable rates, both of which will significantly increase our borrowing costs, increase our "roll over" risk, limit our ability to grow, limit our ability to effectively manage our market and liquidity risk and increase the likelihood that we may need to borrow under the Treasury credit facility. Uncertainty Regarding our Future Status and Profitability: We expect that we will continue to face pressure, and are likely to experience adverse economic effects, from the strategic and day-to-day conflicts among our competing objectives. We are also likely to experience adverse economic effects from activities we may undertake to support the mortgage market and help borrowers. We expect that we will continue to face substantial uncertainty as to our future business strategy, business purpose and fundamental business structure. Because of the current state of the market and the fact that we are in conservatorship, we no longer are able to provide guidance with respect to the growth of our guaranty book of business, growth in our guaranty fee income, the net interest yield we expect to achieve, or the portion of our credit-related expenses we expect to recognize by the end of 2008.

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SELECTED FINANCIAL DATA The selected financial data presented below is summarized from our condensed consolidated results of operations for the three and nine months ended September 30, 2008 and 2007, as well as from our condensed consolidated balance sheets as of September 30, 2008 and December 31, 2007. This data should be read in conjunction with this MD&A, as well as with the unaudited condensed consolidated financial statements and related notes included in this report and with our audited consolidated financial statements and related notes included in our 2007 Form 10-K.

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2008	2007(1)	2008	2007(1)

	(In millions, except per share amounts)			
Statement of operations data:				
Net interest income	$ 2,355	$ 1,058	$ 6,102	$ 3,445
Guaranty fee income	1,475	1,232	4,835	3,450
Losses on certain guaranty contracts	--	(294)	--	(1,038)
Trust management income	65	146	247	460
Fair value losses, net(2)	(3,947)	(2,082)	(7,807)	(1,224)
Other income (expenses), net(3)	(2,024)	(58)	(3,083)	339
Credit-related expenses(4)	(9,241)	(1,200)	(17,833)	(2,039)
(Provision) benefit for federal income taxes	(17,011)	582	(13,607)	468
Net income (loss)	(28,994)	(1,399)	(33,480)	1,509
Preferred stock dividends and issuance costs at redemption(5)	(419)	(119)	(1,044)	(372)
Net income (loss) available to common stockholders(5)	(29,413)	(1,518)	(34,524)	1,137
Per common share data:				
Earnings (loss) per share:				
Basic	$ (13.00)	$ (1.56)	$ (24.24)	$ 1.17
Diluted	(13.00)	(1.56)	(24.24)	1.17
Weighted-average common shares outstanding:				
Basic(6)	2,262	974	1,424	973
Diluted	2,262	974	1,424	975
Cash dividends declared per common share	$ 0.05	$ 0.50	$ 0.75	$ 1.40
New business acquisition data:				
Fannie Mae MBS issues acquired by third parties(7)	$ 80,547	$ 148,320	$ 373,980	$ 407,962
Mortgage portfolio purchases(8)	46,400	49,574	144,070	134,407
New business acquisitions	$ 126,947	$ 197,894	$ 518,050	$ 542,369

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	As of	
	September 30, 2008	December 31, 2007(1)
	(Dollars in millions)	
Balance sheet data:		
Investments in securities:		
Trading	$ 98,671	$ 63,956
Available-for-sale	262,054	293,557
Mortgage loans:		
Loans held for sale	7,908	7,008
Loans held for investment, net of allowance	397,834	396,516
Total assets	896,615	879,389
Short-term debt	280,382	234,160
Long-term debt	550,928	562,139
Total liabilities	887,180	835,271
Senior preferred stock	1,000	--
Preferred stock	21,725	16,913
Total stockholders' equity	9,276	44,011
Regulatory data:		
Net worth(9)	9,435	44,118
Book of business data:		
Mortgage portfolio(10)	$ 767,166	$ 727,903
Fannie Mae MBS held by third parties(11)	2,278,170	2,118,909
Other guarantees(12)	32,190	41,588
Mortgage credit book of business(13)	$ 3,077,526	$ 2,888,400
Guaranty book of business(14)	$ 2,941,116	$ 2,744,237

Credit quality:		
Nonperforming loans	$ 63,648	$ 35,808
Combined loss reserves	15,605	3,391
Combined loss reserves as a percentage of total guaranty book of business	0.53%	0.12%
Combined loss reserves as a percentage of total nonperforming loans	24.52	9.47

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2008	2007(1)	2008	2007(1)
Performance ratios:				
Net interest yield(16)	1 .10%	0 .52%	0 .98%	0 .57%
Average effective guaranty fee rate (in basis points)(17)	23 .6 bp	22 .8 bp	26 .4 bp	22 .0 bp
Credit loss ratio (in basis points)(18)	29 .7 bp	5 .3 bp	20 .1 bp	4 .3 bp
Return on assets(15)(19)	(13 .20)%	(0 .72)%	(5 .18)%	0 .18%
Return on equity(15)(20)	N/A	(1 9.4)	N/A	4 .8
Equity to assets(15)(21)	2 .8	4 .7	3 .0	4 .8

(1) Certain prior period amounts have been reclassified to conform to the current period presentation.
(2) Consists of the following: (a) derivatives fair value gains (losses), net; (b) trading securities gains (losses), net; (c) hedged mortgage assets gains (losses), net; (d) debt foreign exchange gains (losses), net; and (e) debt fair value gains (losses), net.
(3) Consists of the following: (a) investment gains (losses), net; (b) debt extinguishment gains (losses), net; (c) losses from partnership investments; and (d) fee and other income.
(4) Consists of provision for credit losses and foreclosed property expense.

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(5) Amounts for the three and nine months ended September 30, 2008 include approximately $6 million of dividends accumulated, but undeclared, for the reporting period on our outstanding cumulative senior preferred stock.
(6) Amounts for the three and nine months ended September 30, 2008 include the weighted-average shares of common stock that would be issuable upon the full exercise of the warrant issued to Treasury from the date of conservatorship through the end of the reporting period. Because the warrant's exercise price of $0.00001 per share is considered non-substantive (compared to the market price of our common stock), the warrant was evaluated based on its substance over form. It was determined to have characteristics of non-voting common stock, and thus included in the computation of basic earnings (loss) per share.
(7) Unpaid principal balance of Fannie Mae MBS issued and guaranteed by us during the reporting period less: (a) securitizations of mortgage loans held in our portfolio during the reporting period and (b) Fannie Mae MBS purchased for our investment portfolio during the reporting period.
(8) Unpaid principal balance of mortgage loans and mortgage-related securities

we purchased for our investment portfolio during the reporting period. Includes acquisition of mortgage-related securities accounted for as the extinguishment of debt because the entity underlying the mortgage-related securities has been consolidated in our condensed consolidated balance sheet and includes capitalized interest.

(9) Total assets less total liabilities.

(10) Unpaid principal balance of mortgage loans and mortgage-related securities (including Fannie Mae MBS) held in our portfolio.

(11) Unpaid principal balance of Fannie Mae MBS held by third-party investors. The principal balance of resecuritized Fannie Mae MBS is included only once in the reported amount.

(12) Includes primarily long-term standby commitments we have issued and single-family and multifamily credit enhancements that we have provided and that are not otherwise reflected in the table.

(13) Unpaid principal balance of: (1) mortgage loans held in our mortgage portfolio; (2) Fannie Mae MBS held in our mortgage portfolio; (3) non-Fannie Mae mortgage-related securities held in our investment portfolio; (4) Fannie Mae MBS held by third parties; and (5) other credit enhancements that we provide on mortgage assets. The principal balance of resecuritized Fannie Mae MBS is included only once in the reported amount.

(14) Unpaid principal balance of: (1) mortgage loans held in our mortgage portfolio; (2) Fannie Mae MBS held in our mortgage portfolio; (3) Fannie Mae MBS held by third parties; and (4) other credit enhancements that we provide on mortgage assets. Excludes non-Fannie Mae mortgage-related securities held in our investment portfolio for which we do not provide a guaranty. The principal balance of resecuritized Fannie Mae MBS is included only once in the reported amount.

(15) Average balances for purposes of the ratio calculations are based on beginning and end of period balances.

(16) Annualized net interest income for the period divided by the average balance of total interest-earning assets during the period.

(17) Annualized guaranty fee income as a percentage of average outstanding Fannie Mae MBS and other guarantees during the period.

(18) Annualized (a) charge-offs, net of recoveries and (b) foreclosed property expense, as a percentage of the average guaranty book of business during the period. We exclude from our credit loss ratio any initial losses recorded on delinquent loans purchased from MBS trusts pursuant to Statement of Position No. 03-3, Accounting for Certain Loans or Debt Securities Acquired in a Transfer ("SOP 03-3"), when the purchase price of seriously delinquent loans that we purchase from Fannie Mae MBS trusts exceeds the fair value of the loans at the time of purchase. Also excludes the difference between the unpaid principal balance of HomeSaver Advance loans at origination and the estimated fair value of these loans. Our credit loss ratio including the effect of these initial losses recorded pursuant to SOP 03-3 and related to HomeSaver Advance loans was 35.1 basis points and 14.9 basis points for the three months ended months September 30, 2008 and 2007, respectively, and 26.3 basis points and 8.0 basis points for the nine months ended September 30, 2008 and 2007, respectively. We previously calculated our credit loss ratio based on credit losses as a percentage of our mortgage credit book of business, which includes non-Fannie Mae mortgage-related securities held in our mortgage investment portfolio that we do not guarantee. Because losses related to non-Fannie Mae mortgage-related securities are not reflected in our credit losses, we revised the calculation of our credit loss ratio to reflect credit losses as a percentage of our guaranty book of business. Our credit loss ratio calculated based on our mortgage credit book of business would have been 28.4 basis points and 5.0 basis points for the three months ended September 30, 2008 and 2007, respectively, and 19.1 basis points and 4.0 basis points for the nine months ended September 30, 2008 and 2007, respectively.

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(19) Annualized net income (loss) available to common stockholders divided by average total assets during the period, expressed as a percentage. This ratio, which is considered a profitability measure, is a measure of how effectively we deploy our assets.

(20) Annualized net income (loss) available to common stockholders divided by average outstanding common equity during the period, expressed as a percentage. This ratio, which is considered a profitability measure, is a measure of our efficiency in generating profit from our equity.

(21) Average stockholders' equity divided by average total assets during the period, expressed as a percentage. This ratio, which is considered a longer term solvency measure, is a measure of the extent to which we are using long-term funding to finance our assets.

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DESCRIPTION OF OUR BUSINESS Our Role in the Secondary Mortgage Market Fannie Mae is a government-sponsored enterprise chartered by Congress to support liquidity and stability in the secondary mortgage market, where existing mortgage loans are purchased and sold. We do not make mortgage loans to borrowers or conduct any other operations in the primary mortgage market, which is where mortgage loans are originated. The Federal National Mortgage Association Charter Act sets forth the activities that we are permitted to conduct and states that our purpose is to:

ù provide stability in the secondary market for residential mortgages;
ù respond appropriately to the private capital market;
ù provide ongoing assistance to the secondary market for residential mortgages (including activities relating to mortgages on housing for low- and moderate-income families involving a reasonable economic return that may be less than the return earned on other activities) by increasing the liquidity of mortgage investments and improving the distribution of investment capital available for residential mortgage financing; and
ù promote access to mortgage credit throughout the nation (including central cities, rural areas and underserved areas) by increasing the liquidity of mortgage investments and improving the distribution of investment capital available for residential mortgage financing.

We securitize mortgage loans originated by lenders in the primary mortgage market into Fannie Mae MBS, which can then be readily bought and sold in the secondary mortgage market. We describe the securitization process below under "Business Segments--Single-Family Credit Guaranty Business--Mortgage Securitizations." We also participate in the secondary mortgage market by purchasing mortgage loans and mortgage-related securities, including our own Fannie Mae MBS, for our mortgage portfolio. By selling loans and mortgage-related securities to us, lenders replenish their funds and, consequently, are able to make additional loans. Although we are a corporation chartered by the U.S. Congress, the U.S. government does not guarantee, directly or indirectly, our securities or other obligations. It should be noted that, as described in "Executive Summary" above, pursuant to the Housing and Economic Recovery Act of 2008, Congress authorized Treasury to purchase our debt, equity and other securities, which authority Treasury used to make its commitment under the senior preferred stock purchase agreement to provide up to

$100 billion in funds as needed to help us maintain a positive net worth (which means that our total assets exceed our total liabilities, as reflected on our GAAP balance sheet). In addition, we may request loans from Treasury under the Treasury credit facility. Our Customers Our principal customers are lenders that operate within the primary mortgage market, where mortgage loans are originated and funds are loaned to borrowers. Our customers also include mortgage banking companies, savings and loan associations, savings banks, commercial banks, credit unions, community banks, insurance companies, and state and local housing finance agencies. Lenders originating mortgages in the primary mortgage market often sell them in the secondary mortgage market in the form of whole loans or in the form of mortgage-related securities. During the third quarter of 2008, our top five lender customers, in the aggregate, accounted for approximately 60% of our single-family business volume, compared with 56% for the third quarter of 2007. Three lender customers each accounted for 10% or more of our single-family business volume for the third quarter of 2008: Bank of America Corporation and its affiliates, JPMorgan Chase and its affiliates and Wells Fargo & Company and its affiliates.

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Our top lender customer is Bank of America Corporation, which acquired Countrywide Financial Corporation on July 1, 2008. Because the transaction has only recently been completed, it is uncertain how the transaction will affect our future business volume. Our single-family business volume from the two companies has decreased compared to the third quarter of last year. Bank of America Corporation and its affiliates, following the acquisition of Countrywide Financial Corporation, accounted for approximately 20% of our single-family business volume for the third quarter of 2008. For the third quarter of 2007, Countrywide Financial Corporation and its affiliates accounted for approximately 25% of our single-family business volume and Bank of America Corporation accounted for approximately 5% of our single-family business volume. Due to increasing consolidation within the mortgage industry, as well as a number of mortgage lenders having gone out of business since late 2006, we, as well as our competitors, seek business from a decreasing number of large mortgage lenders. As we become more reliant on a smaller number of lender customers, our negotiating leverage with these customers decreases, which could diminish our ability to price our products and services profitably. We discuss these and other risks that this customer concentration poses to our business in "Part II--Item 1A--Risk Factors." Business Segments We are organized in three complementary business segments: Single-Family Credit Guaranty, Housing and Community Development, and Capital Markets. Single-Family Credit Guaranty Business Our Single-Family Credit Guaranty business (which we also refer to as our Single-Family business), works with our lender customers to securitize single-family mortgage loans into Fannie Mae MBS and to facilitate the purchase of single-family mortgage loans for our mortgage portfolio. Single-family mortgage loans relate to properties with four or fewer residential units. Revenues in the segment are derived primarily from guaranty fees received as compensation for assuming the credit risk on the mortgage loans underlying single-family Fannie Mae MBS and on the single-family mortgage loans held in our portfolio. Mortgage Securitizations Our most common type of securitization transaction is referred to as a "lender swap transaction." Mortgage lenders that operate in the primary mortgage market generally deliver pools of mortgage loans to us in exchange for Fannie Mae MBS backed by these loans. After receiving the loans in a lender swap transaction, we place them in a trust that is established for the sole purpose of holding the loans separate and apart from our assets. We serve as trustee for the trust. Upon creation of the trust, we deliver to the lender (or its designee) Fannie Mae MBS that are backed by the pool of mortgage loans in the trust and that represent a beneficial ownership interest in each of the loans. We guarantee to each MBS trust that we will supplement amounts received by the MBS trust as required to permit timely payment of principal and interest on the related Fannie Mae MBS. We retain a portion of the interest payment as the fee for providing our guaranty. Then, on behalf of the trust, we make monthly distributions to the Fannie Mae MBS certificateholders from the principal and interest payments and other collections on the underlying mortgage loans.

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The following diagram illustrates the basic process by which we create a typical Fannie Mae MBS in the case where a lender chooses to sell the Fannie Mae MBS to a third-party investor. We issue both single-class and multi-class Fannie Mae MBS. Single-class Fannie Mae MBS refers to Fannie Mae MBS where the investors receive principal and interest payments in proportion to their percentage ownership of the MBS issue. Multi-class Fannie Mae MBS refers to Fannie Mae MBS, including real estate mortgage investment conduits, or REMICs, where the cash flows on the underlying mortgage assets are divided, creating several classes of securities, each of which represents a beneficial ownership interest in a separate portion of cash flows. By separating the cash flows, the resulting classes may consist of: (1) interest-only payments; (2) principal-only payments; (3) different portions of the principal and interest payments; or (4) combinations of each of these. Terms to maturity of some multi-class Fannie Mae MBS, particularly REMIC classes, may match or be shorter than the maturity of the underlying mortgage loans and/or mortgage-related securities. As a result, each of the classes in a multi-class Fannie Mae MBS may have a different interest rate, average life, repayment sensitivity or final maturity. We also issue structured Fannie Mae MBS, which are either multi-class Fannie Mae MBS or resecuritized single-class Fannie Mae MBS. MBS Trusts Each of our single-family MBS trusts formed on or after June 1, 2007 is governed by the terms of our single-family master trust agreement. Each of our single-family MBS trusts formed prior to June 1, 2007 is governed either by our fixed-rate or adjustable-rate trust indenture. In addition, each MBS trust, regardless of the date of its formation, is governed by an issue supplement documenting the formation of that MBS trust and the issuance of the Fannie Mae MBS by that trust. The master trust agreement or the trust indenture, together with the issue supplement and any amendments, are the "trust documents" that govern an individual MBS trust. In accordance with the terms of our single-family MBS trust documents, we have the option or, in some instances, the obligation to purchase specified mortgage loans from an MBS trust. Refer to "Part I--Item 1--Business--Business Segments--Single-Family Credit Guaranty Business--MBS Trusts" of our 2007 Form 10-K for a description of the circumstances under which we have the option or the obligation to purchase loans from single-family MBS trusts. We amend our single-family trust documents from time to time. As a result, the circumstances under which we have the option or are required to purchase loans from single-family MBS trusts may change.

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Mortgage Acquisitions We acquire single-family mortgage loans for securitization or for our investment portfolio through either our flow or bulk transaction channels. In our flow business, we enter into agreements that generally set agreed-upon guaranty fee prices for a lender's future delivery of individual loans to us over a specified time period. Because these agreements can establish base guaranty fee prices for a specified period of time, we may be limited in our ability to renegotiate the pricing on our flow transactions with individual lenders to reflect changes in market conditions and the credit risk of mortgage loans that meet our eligibility standards. These agreements permit us, however, to charge risk-based price adjustments that can be altered depending on market conditions and that apply to all loans delivered to us with certain risk characteristics. Flow business represents the majority of our mortgage acquisition volumes. Our bulk business generally consists of transactions in which a defined set of loans are to be delivered to us in bulk, and we have the opportunity to review the loans for eligibility and pricing prior to delivery in accordance with the terms of the applicable contracts. Guaranty fees and other contract terms for our bulk mortgage acquisitions are typically negotiated on an individual transaction basis. As a result, we generally have a greater ability to adjust our pricing more rapidly than in our flow transaction channel to reflect changes in market conditions and the credit risk of the specific transactions. Mortgage Servicing The servicing of the mortgage loans that are held in our mortgage portfolio or that back our Fannie Mae MBS is performed by mortgage servicers on behalf of Fannie Mae. Typically, lenders who sell single-family mortgage loans to us initially service the mortgage loans they sell to us. There is an active market in which single-family lenders sell servicing rights and obligations to other servicers. Our agreement with lenders requires our approval for all servicing transfers. If a mortgage servicer defaults, we have ultimate responsibility for servicing the loans we purchase or guarantee until a new servicer can be put in place. At times, we may engage a servicing entity to service loans on our behalf due to termination of a servicer's servicing relationship or for other reasons. Since we delegate the servicing of our mortgage loans to mortgage servicers and do not have our own servicing function, it may limit our ability to actively manage troubled loans that we own or guarantee. Mortgage servicers typically collect and deliver principal and interest payments, administer escrow accounts, monitor and report delinquencies, evaluate transfers of ownership interests, respond to requests for partial releases of security, and handle proceeds from casualty and condemnation losses. For problem loans, servicing includes negotiating workouts, engaging in loss mitigation and, if necessary, inspecting and preserving properties and processing foreclosures and bankruptcies. We have the right to remove servicing responsibilities from any servicer under criteria established in our contractual arrangements with servicers. We compensate servicers primarily by permitting them to retain a specified portion of each interest payment on a serviced mortgage loan, called a "servicing fee." Servicers also generally retain prepayment premiums, assumption fees, late payment charges and other similar charges, to the extent they are collected from borrowers, as additional servicing compensation. We also compensate servicers for negotiating workouts on problem loans. Refer to "Risk Management--Credit Risk Management--Institutional Counterparty Credit Risk Management" and "Part II--Item 1A--Risk Factors" for more information about our mortgage servicers and for discussions of the risks associated with a default by a mortgage servicer and how we seek to manage those risks. Housing and Community Development Business Our Housing and Community Development business (also referred to as our HCD business) works with our lender customers to securitize multifamily mortgage loans into Fannie Mae MBS and to facilitate the purchase of multifamily mortgage loans for our mortgage portfolio. Our HCD business also makes debt and equity investments to increase the supply of affordable housing. Revenues in the segment are derived from a variety of sources, including the guaranty fees received as compensation for assuming the credit risk on the mortgage loans underlying multifamily Fannie Mae MBS and on the multifamily mortgage loans held in our portfolio, transaction fees associated with the multifamily business and bond credit enhancement fees. In addition,

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HCD's investments in rental housing projects eligible for the federal low-income housing tax credit and other investments generate both tax credits and net operating losses. As described in "Critical Accounting Policies and Estimates--Deferred Tax Assets," we determined that it is more likely than not that we will not realize a portion of our deferred tax assets in the future. As a result, we are not currently recognizing tax benefits associated with these tax credits and net operating losses in our financial statements. Other investments in rental and for-sale housing generate revenue and losses from operations and the eventual sale of the assets. Mortgage Securitizations Our HCD business securitizes multifamily mortgage loans into Fannie Mae MBS. Multifamily mortgage loans relate to properties with five or more residential units, which may be apartment communities, cooperative properties or manufactured housing communities. Our HCD business generally creates multifamily Fannie Mae MBS in the same manner as our Single-Family business creates single-family Fannie Mae MBS. See "Single-Family Credit Guaranty Business--Mortgage Securitizations" for a description of a typical lender swap securitization transaction. MBS Trusts Each of our multifamily MBS trusts formed on or after September 1, 2007 is governed by the terms of our multifamily master trust agreement. Each of our multifamily MBS trusts formed prior to September 1, 2007 is governed either by our fixed-rate or adjustable-rate trust indenture. In addition, each MBS trust, regardless of the date of its formation, is governed by an issue supplement documenting the formation of that MBS trust and the issuance of the Fannie Mae MBS by that trust. In accordance with the terms of our multifamily MBS trust documents, we have the option or, in some instances, the obligation to purchase specified mortgage loans from an MBS trust. Refer to "Part I--Item 1--Business--Business Segments--Housing and Community Development Business--MBS Trusts" of our 2007 Form 10-K for a description of the circumstances under which we have the option or the obligation to purchase loans from multifamily MBS trusts. We amend our multifamily trust documents from time to time. As a result, the circumstances under which we have the option or are required to purchase loans from multifamily MBS trusts may change. Mortgage Acquisitions Our HCD business acquires multifamily mortgage loans for securitization or for our investment portfolio through either our flow or bulk transaction channels, in substantially the same manner as described under "Single-Family Credit Guaranty Business--Mortgage Acquisitions." In recent years, the percentage of our multifamily business activity that has consisted of purchases for our investment portfolio has increased relative to our securitization activity. Mortgage Servicing As with the servicing of single-family mortgages, described under "Single-Family Credit Guaranty Business--Mortgage Servicing," multifamily mortgage servicing is typically performed by the lenders who sell the mortgages to us. Many of those lenders have agreed, as part of the multifamily delegated underwriting and servicing relationship we have with these lenders, to accept "loss sharing" under certain defined circumstances with respect to mortgages that they have sold to us and are servicing. Thus, multifamily loss sharing obligations are an integral part of our selling and servicing relationships with multifamily lenders. Consequently, transfers of multifamily servicing rights are infrequent and are carefully monitored by us to enforce our right to approve all servicing transfers. As a seller-servicer, the lender is also responsible for evaluating the financial condition of owners, administering various types of agreements (including agreements regarding replacement reserves, completion or repair, and operations and maintenance), as well as conducting routine property inspections.

Affordable Housing Investments Our HCD business helps to expand the supply of affordable housing by investing in rental and for-sale housing projects. Most of these investments are in rental housing that is eligible for federal low-income housing tax credits, and the remainder are in conventional rental and primarily entry-level, for-sale housing. Refer to "Part I--Item 1--Business--Business Segments--Housing and Community Development Business--Affordable Housing Investments" of our 2007 Form 10-K for additional information relating to our affordable housing investments. Capital Markets Group Our Capital Markets group manages our investment activity in mortgage loans, mortgage-related securities and other investments, our debt financing activity, and our liquidity and capital positions. We fund our investments primarily through proceeds from our issuance of debt securities in the domestic and international capital markets. Our Capital Markets group generates most of its revenue from the difference, or spread, between the interest we earn on our mortgage assets and the interest we pay on the debt we issue to fund these assets. We refer to this spread as our net interest yield. Changes in the fair value of the derivative instruments and trading securities we hold impact the net income or loss reported by the Capital Markets group business segment. The net income or loss reported by the Capital Markets group is also affected by the impairment of available-for-sale securities. Mortgage Investments Our mortgage investments include both mortgage-related securities and mortgage loans. We purchase primarily conventional (that is, loans that are not federally insured or guaranteed) single-family fixed-rate or adjustable-rate, first lien mortgage loans, or mortgage-related securities backed by these types of loans. In addition, we purchase loans insured by the Federal Housing Administration, loans guaranteed by the Department of Veterans Affairs or through the Rural Development Housing and Community Facilities Program of the Department of Agriculture, manufactured housing loans, multifamily mortgage loans, subordinate lien mortgage loans (for example, loans secured by second liens) and other mortgage-related securities. Most of these loans are prepayable at the option of the borrower. Our investments in mortgage-related securities include structured mortgage-related securities such as REMICs. For information on our mortgage investments, including the composition of our mortgage investment portfolio by product type, refer to "Consolidated Balance Sheet Analysis." Debt Financing Activities Our Capital Markets group funds its investments primarily through the issuance of debt securities in the domestic and international capital markets. For information on our debt financing activities, refer to "Liquidity and Capital Management--Liquidity--Funding." Securitization Activities Our Capital Markets group engages in two principal types of securitization activities:

ù creating and issuing Fannie Mae MBS from our mortgage portfolio assets, either for sale into the secondary market or to retain in our portfolio; and
ù issuing structured Fannie Mae MBS for customers in exchange for a transaction fee.

Our Capital Markets group creates Fannie Mae MBS using mortgage loans and mortgage-related securities that we hold in our investment portfolio, referred to as "portfolio securitizations." We currently securitize a majority of the single-family mortgage loans we purchase within the first month of purchase. Our Capital Markets group may sell these Fannie Mae MBS into the secondary market or may retain the Fannie Mae MBS in our investment portfolio. In addition, the Capital Markets group issues structured Fannie Mae MBS, which

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are generally created through swap transactions, typically with our lender customers or securities dealer customers. In these transactions, the customer "swaps" a mortgage asset it owns for a structured Fannie Mae MBS we issue. Our Capital Markets group earns transaction fees for issuing structured Fannie Mae MBS for third parties. Customer Services Our Capital Markets group provides our lender customers and their affiliates with services that include offering to purchase a wide variety of mortgage assets, including non-standard mortgage loan products; segregating customer portfolios to obtain optimal pricing for their mortgage loans; and assisting customers with the hedging of their mortgage business. These activities provide a significant flow of assets for our mortgage portfolio, help to create a broader market for our customers and enhance liquidity in the secondary mortgage market. CONSERVATORSHIP AND TREASURY AGREEMENTS Conservatorship On September 6, 2008, FHFA, our safety, soundness and mission regulator, was appointed as our conservator when the Director of FHFA placed us into conservatorship. The conservatorship is a statutory process designed to preserve and conserve our assets and property, and put the company in a sound and solvent condition. As conservator, FHFA has assumed the powers of our Board of Directors and management, as well as the powers of our stockholders. The powers of the conservator under the Regulatory Reform Act are summarized below. The conservatorship has no specified termination date. In a Fact Sheet issued by FHFA on September 7, 2008, FHFA indicated that the Director of FHFA will issue an order terminating the conservatorship upon the Director's determination that the conservator's plan to restore the company to a safe and solvent condition has been completed successfully. FHFA's September 7 Fact Sheet also indicated that, at present, there is no time frame that can be given as to when the conservatorship may end. General Powers of the Conservator Under the Regulatory Reform Act Upon its appointment, the conservator immediately succeeded to all rights, titles, powers and privileges of Fannie Mae, and of any stockholder, officer or director of Fannie Mae with respect to Fannie Mae and its assets, and succeeded to the title to all books, records and assets of Fannie Mae held by any other legal custodian or third party. The conservator has the power to take over our assets and operate our business with all the powers of our stockholders, directors and officers, and to conduct all business of the company. The conservator may take any actions it determines are necessary and appropriate to carry on our business and preserve and conserve our assets and property. The conservator's powers include the ability to transfer or sell any of our assets or liabilities (subject to limitations and post-transfer notice provisions for transfers of qualified financial contracts (as defined below under "Special Powers of the Conservator Under the Regulatory Reform Act--Security Interests Protected; Exercise of Rights Under Qualified Financial Contracts")) without any approval, assignment of rights or consent. The Regulatory Reform Act, however, provides that mortgage loans and mortgage-related assets that have been transferred to a Fannie Mae MBS trust must be held for the beneficial owners of the Fannie Mae MBS and cannot be used to satisfy our general creditors. In connection with any sale or disposition of our assets, the conservator must conduct its operations to maximize the net present value return from the sale or disposition, to minimize the amount of any loss realized, and to ensure adequate competition and fair and consistent treatment of offerors. The conservator is required to pay all of our valid obligations that were due and payable on September 6, 2008 (the date we were placed into conservatorship), but only to the extent that the proceeds realized from the performance of contracts or sale of our assets are sufficient to satisfy those obligations. In addition, the conservator is required to maintain a full accounting of the conservatorship and make its reports available upon request to stockholders and members of the public.

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We remain liable for all of our obligations relating to our outstanding debt securities and Fannie Mae MBS. In a Fact Sheet dated September 7, 2008, FHFA indicated that our obligations will be paid in the normal course of business during the conservatorship. Special Powers of the Conservator Under the Regulatory Reform Act Disaffirmance and Repudiation of Contracts The conservator may disaffirm or repudiate contracts (subject to certain limitations for qualified financial contracts) that we entered into prior to its appointment as conservator if it determines, in its sole discretion, that performance of the contract is burdensome and that disaffirmation or repudiation of the contract promotes the orderly administration of our affairs. The Regulatory Reform Act requires FHFA to exercise its right to disaffirm or repudiate most contracts within a reasonable period of time after its appointment as conservator. As of November 7, 2008, the conservator had not

determined whether or not a reasonable period of time had passed for purposes of the applicable provisions of the Regulatory Reform Act and, therefore, the conservator may still possess this right. As of November 7, 2008, the conservator has advised us that it has not disaffirmed or repudiated any contracts we entered into prior to its appointment as conservator. We can, and have continued to, enter into and enforce contracts with third parties. The conservator has advised us that it has no intention of repudiating any guaranty obligation relating to Fannie Mae MBS because it views repudiation as incompatible with the goals of the conservatorship. In addition, as noted above, the conservator cannot use mortgage loans or mortgage-related assets that have been transferred to a Fannie Mae MBS trust to satisfy the general creditors of the company. The conservator must hold these assets for the beneficial owners of the related Fannie Mae MBS. In general, the liability of the conservator for the disaffirmance or repudiation of any contract is limited to actual direct compensatory damages determined as of September 6, 2008, which is the date we were placed into conservatorship. The liability of the conservator for the disaffirmance or repudiation of a qualified financial contract is limited to actual direct compensatory damages determined as of the date of the disaffirmance or repudiation. If the conservator disaffirms or repudiates any lease to or from us, or any contract for the sale of real property, the Regulatory Reform Act specifies the liability of the conservator.
Limitations on Enforcement of Contractual Rights by Counterparties The Regulatory Reform Act provides that the conservator may enforce most contracts entered into by us, notwithstanding any provision of the contract that provides for termination, default, acceleration, or exercise of rights upon the appointment of, or the exercise of rights or powers by, a conservator.
Security Interests Protected; Exercise of Rights Under Qualified Financial Contracts Notwithstanding the conservator's powers described above, the conservator must recognize legally enforceable or perfected security interests, except where such an interest is taken in contemplation of our insolvency or with the intent to hinder, delay or defraud us or our creditors. In addition, the Regulatory Reform Act provides that no person will be stayed or prohibited from exercising specified rights in connection with qualified financial contracts, including termination or acceleration (other than solely by reason of, or incidental to, the appointment of the conservator), rights of offset, and rights under any security agreement or arrangement or other credit enhancement relating to such contract. The term "qualified financial contract" means any securities contract, commodity contract, forward contract, repurchase agreement, swap agreement and any similar agreement, as determined by FHFA.
Avoidance of Fraudulent Transfers The conservator may avoid, or refuse to recognize, a transfer of any property interest of Fannie Mae or of any of our debtors, and also may avoid any obligation incurred by Fannie Mae or by any debtor of Fannie Mae, if the transfer or obligation was made (1) within five years of September 6, 2008, and (2) with the intent to hinder, delay, or defraud Fannie Mae, FHFA, the conservator or, in the case of a transfer in connection with a

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qualified financial contract, our creditors. To the extent a transfer is avoided, the conservator may recover, for our benefit, the property or, by court order, the value of that property from the initial or subsequent transferee, unless the transfer was made for value and in good faith. These rights are superior to any rights of a trust or any other party, other than a federal agency, under the U.S. bankruptcy code. Modification of Statutes of Limitations Under the Regulatory Reform Act, notwithstanding any provision of any contract, the statute of limitations with regard to any action brought by the conservator is (1) for claims relating to a contract, the longer of six years or the applicable period under state law, and (2) for tort claims, the longer of three years or the applicable period under state law, in each case, from the later of September 6, 2008 or the date on which the cause of action accrues. In addition, notwithstanding the state law statute of limitation for tort claims, the conservator may bring an action for any tort claim that arises from fraud, intentional misconduct resulting in unjust enrichment, or intentional misconduct resulting in substantial loss to us, if the state's statute of limitations expired not more than five years before September 6, 2008. Suspension of Legal Actions In any judicial action or proceeding to which we are or become a party, the conservator may request, and the applicable court must grant, a stay for a period not to exceed 45 days. Treatment of Breach of Contract Claims Any final and unappealable judgment for monetary damages against the conservator for breach of an agreement executed or approved in writing by the conservator will be paid as an administrative expense of the conservator. Attachment of Assets and Other Injunctive Relief The conservator may seek to attach assets or obtain other injunctive relief without being required to show that any injury, loss or damage is irreparable and immediate. Subpoena Power The Regulatory Reform Act provides the conservator, with the approval of the Director of FHFA, with subpoena power for purposes of carrying out any power, authority or duty with respect to Fannie Mae. Current Management of the Company Under Conservatorship As noted above, as our conservator, FHFA has assumed the powers of our Board of Directors. Accordingly, the current Board of Directors acts with neither the power nor the duty to manage, direct or oversee our business and affairs. The conservator has indicated that it intends to appoint a full Board of Directors to which it will delegate specified roles and responsibilities. Until FHFA has made these delegations, our Board of Directors has no power to determine the general policies that govern our operations, to create committees and elect the members of those committees, to select our officers, to manage, direct or oversee our business and affairs, or to exercise any of the other powers of the Board of Directors that are set forth in our Charter and bylaws. FHFA, in its role as conservator, has overall management authority over our business. During the conservatorship, the conservator has delegated authority to management to conduct day-to-day operations so that the company can continue to operate in the ordinary course of business. The conservator retains the authority to withdraw its delegations to management at any time. The conservator is working actively with management to address and determine the strategic direction for the enterprise, and in general has retained final decision-making authority in areas regarding: significant impacts on operational, market, reputational or credit risk; major accounting determinations, including policy changes; the creation of subsidiaries or affiliates and transacting with them; significant litigation; setting executive compensation; retention of external auditors;

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significant mergers and acquisitions; and any other matters the conservator believes are strategic or critical to the enterprise in order for the conservator to fulfill its obligations during conservatorship. Treasury Agreements The Regulatory Reform Act granted Treasury temporary authority (through December 31, 2009) to purchase any obligations and other securities issued by Fannie Mae on such terms and conditions and in such amounts as Treasury may determine, upon mutual agreement between Treasury and Fannie Mae. As of November 7, 2008, Treasury had used this authority as follows. Senior Preferred Stock Purchase Agreement and Related Issuance of Senior Preferred Stock and Common Stock Warrant Senior Preferred Stock Purchase Agreement On September 7, 2008, we, through FHFA, in its capacity as conservator, and Treasury entered into a senior preferred stock purchase agreement. The senior preferred stock purchase agreement was subsequently amended and restated on September 26, 2008. Pursuant to the agreement, we agreed to issue to Treasury one million shares of senior preferred stock with an initial liquidation preference equal to $1,000 per share (for an aggregate liquidation preference of $1.0 billion), and a warrant for the purchase of our common stock. The terms of the senior preferred stock and warrant are summarized in separate sections below. We did not receive any cash proceeds from Treasury as a result of issuing the senior preferred stock or the warrant. The senior preferred stock and warrant were issued to Treasury as an initial commitment fee in consideration of the commitment from Treasury to provide up to $100 billion in funds to us under the terms and conditions set forth in the senior preferred stock purchase agreement. In addition to the issuance of the senior preferred stock and warrant, beginning on March 31, 2010, we are required to pay a quarterly commitment fee to Treasury. This quarterly commitment fee will accrue from January 1, 2010. The fee, in an amount to be mutually agreed upon by us and Treasury and to be determined with reference to the market value of Treasury's funding commitment as then in effect, will be determined on or before December 31, 2009, and will be reset every five years. Treasury may waive the quarterly commitment fee for up to one year at a time, in its sole discretion, based on adverse conditions in the U.S. mortgage market. We may elect to pay the quarterly commitment fee in cash or add the amount of the fee to the liquidation preference of the senior preferred stock. The senior preferred stock purchase agreement provides that, on a quarterly basis, we generally may draw funds up to the amount, if any, by which our total liabilities exceed our total assets, as reflected on our GAAP balance sheet for the applicable fiscal quarter (referred to as the "deficiency amount"), provided that the aggregate amount funded under the agreement may not exceed $100 billion. The senior preferred stock purchase agreement provides that the deficiency amount will be calculated differently if we become subject to receivership or other liquidation process. The deficiency amount may be increased above the otherwise applicable amount upon our mutual written agreement with Treasury. In addition, if the Director of FHFA determines that the Director will be mandated by law to appoint a receiver for us unless our capital is increased by receiving funds under the commitment in an amount up to the deficiency amount (subject to the $100 billion maximum amount that may be funded under the agreement), then FHFA, in its capacity as our conservator, may request that Treasury provide funds to us in such amount. The senior preferred stock purchase agreement also provides that, if we have a deficiency amount as of the date of completion of the liquidation of our assets, we may request funds from Treasury in an amount up to the deficiency amount (subject to the $100 billion maximum amount that may be funded under the agreement). Any amounts that we draw under the senior preferred stock purchase agreement will be added to the liquidation preference of the senior preferred stock. No additional shares of senior preferred stock are required to be issued under the senior preferred stock purchase agreement. The senior preferred stock purchase agreement provides that the Treasury's funding commitment will terminate under any the following circumstances: (1) the completion of our liquidation and fulfillment of Treasury's obligations under its funding commitment at that time, (2) the payment in full of, or reasonable

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provision for, all of our liabilities (whether or not contingent, including mortgage guaranty obligations), or (3) the funding by Treasury of $100 billion under the agreement. In addition, Treasury may terminate its funding commitment and declare the senior preferred stock purchase agreement null and void if a court vacates, modifies, amends, conditions, enjoins, stays or otherwise affects the appointment of the conservator or otherwise curtails the conservator's powers. Treasury may not terminate its funding commitment under the agreement solely by reason of our being in conservatorship, receivership or other insolvency proceeding, or due to our financial condition or any adverse change in our financial condition. The senior preferred stock purchase agreement provides that most provisions of the agreement may be waived or amended by mutual written agreement of the parties; however, no waiver or amendment of the agreement is permitted that would decrease Treasury's aggregate funding commitment or add conditions to Treasury's funding commitment if the waiver or amendment would adversely affect in any material respect the holders of our debt securities or guaranteed Fannie Mae MBS. In the event of our default on payments with respect to our debt securities or guaranteed Fannie Mae MBS, if Treasury fails to perform its obligations under its funding commitment and if we and/or the conservator are not diligently pursuing remedies in respect of that failure, the holders of our debt securities or Fannie Mae MBS may file a claim in the United States Court of Federal Claims for relief requiring Treasury to fund to us the lesser of (1) the amount necessary to cure the payment defaults on our debt and Fannie Mae MBS and (2) the lesser of (a) the deficiency amount and (b) $100 billion less the aggregate amount of funding previously provided under the commitment. Any payment that Treasury makes under those circumstances will be treated for all purposes as a draw under the senior preferred stock purchase agreement that will increase the liquidation preference of the senior preferred stock. The senior preferred stock purchase agreement includes several covenants that significantly restrict our business activities, which are described below under "Covenants Under Treasury Agreements--Senior Preferred Stock Purchase Agreement Covenants." As of November 7, 2008, we have not drawn any amounts under the senior preferred stock purchase agreement. The amended and restated senior preferred stock purchase agreement is filed as an exhibit to this report. Issuance of Senior Preferred Stock Pursuant to the senior preferred stock purchase agreement described above, we issued one million shares of senior preferred stock to Treasury on September 8, 2008. The senior preferred stock was issued to Treasury in partial consideration of Treasury's commitment to provide up to $100 billion in funds to us under the terms set forth in the senior preferred stock purchase agreement. Shares of the senior preferred stock have no par value, and have a stated value and initial liquidation preference equal to $1,000 per share. The liquidation preference of the senior preferred stock is subject to adjustment. Dividends that are not paid in cash for any dividend period will accrue and be added to the liquidation preference of the senior preferred stock. In addition, any amounts Treasury pays to us pursuant to its funding commitment under the senior preferred stock purchase agreement and any quarterly commitment fees that are not paid in cash to Treasury or waived by Treasury will be added to the liquidation preference of the senior preferred stock. As described below, we may make payments to reduce the liquidation preference of the senior preferred stock. Holders of the senior preferred stock are entitled to receive, when, as and if declared by our Board of Directors, cumulative quarterly cash dividends at the annual rate of 10% per year on the then-current liquidation preference of the senior preferred stock. The initial dividend, if declared, will be payable on December 31, 2008 and will be for the period from but not including September 8, 2008 through and including December 31, 2008. If at any time we fail to pay cash dividends in a timely manner, then immediately following such failure and for all dividend periods thereafter until the dividend period following the date on which we have paid in cash full cumulative dividends (including any unpaid dividends added to the liquidation preference), the dividend rate will be 12% per year.

The senior preferred stock ranks ahead of our common stock and all other outstanding series of our preferred stock, as well as any capital stock we issue in the future, as to both dividends and rights upon liquidation. The senior preferred stock provides that we may not, at any time, declare or pay dividends on, make distributions with respect to, or redeem, purchase or acquire, or make a liquidation payment with respect to, any common stock or other securities ranking junior to the senior preferred stock unless (1) full cumulative dividends on the outstanding senior preferred stock (including any unpaid dividends added to the liquidation preference) have been declared and paid in cash, and (2) all amounts required to be paid with the net proceeds of any issuance of capital stock for cash (as described in the following paragraph) have been paid in cash. Shares of the senior preferred stock are not convertible. Shares of the senior preferred stock have no general or special voting rights, other than those set forth in the certificate of designation for the senior preferred stock or otherwise required by law. The consent of holders of at least two-thirds of all outstanding shares of senior preferred stock is generally required to amend the terms of the senior preferred stock or to create any class or series of stock that ranks prior to or on parity with the senior preferred stock. We are not permitted to redeem the senior preferred stock prior to the termination of Treasury's funding commitment set forth in the senior preferred stock purchase agreement; however, we are permitted to pay down the liquidation preference of the outstanding shares of senior preferred stock to the extent of (1) accrued and unpaid dividends previously added to the liquidation preference and not previously paid down; and (2) quarterly commitment fees previously added to the liquidation preference and not previously paid down. In addition, if we issue any shares of capital stock for cash while the senior preferred stock is outstanding, the net proceeds of the issuance must be used to pay down the liquidation preference of the senior preferred stock; however, the liquidation preference of each share of senior preferred stock may not be paid down below $1,000 per share prior to the termination of Treasury's funding commitment. Following the termination of Treasury's funding commitment, we may pay down the liquidation preference of all outstanding shares of senior preferred stock at any time, in whole or in part. If, after termination of Treasury's funding commitment, we pay down the liquidation preference of each outstanding share of senior preferred stock in full, the shares will be deemed to have been redeemed as of the payment date. The certificate of designation for the senior preferred stock is filed as an exhibit to this report. Issuance of Common Stock Warrant Pursuant to the senior preferred stock purchase agreement described above, on September 7, 2008, we, through FHFA, in its capacity as conservator, issued a warrant to purchase common stock to Treasury. The warrant was issued to Treasury in partial consideration of Treasury's commitment to provide up to $100 billion in funds to us under the terms set forth in the senior preferred stock purchase agreement. The warrant gives Treasury the right to purchase shares of our common stock equal to 79.9% of the total number of shares of our common stock outstanding on a fully diluted basis on the date of exercise. The warrant may be exercised in whole or in part at any time on or before September 7, 2028, by delivery to us of: (a) a notice of exercise; (b) payment of the exercise price of $0.00001 per share; and (c) the warrant. If the market price of one share of our common stock is greater than the exercise price, then, instead of paying the exercise price, Treasury may elect to receive shares equal to the value of the warrant (or portion thereof being canceled) pursuant to the formula specified in the warrant. Upon exercise of the warrant, Treasury may assign the right to receive the shares of common stock issuable upon exercise to any other person. The warrant contains several covenants, which are described under "Covenants Under Treasury Agreements--Warrant Covenants." As of November 7, 2008, Treasury has not exercised the warrant. The warrant is filed as an exhibit to this report. Treasury Credit Facility On September 19, 2008, we entered into a lending agreement with Treasury under which we may request loans until December 31, 2009. Loans under the Treasury credit facility require approval from Treasury at the time of request. Treasury is not obligated under the credit facility to make, increase, renew or extend any loan

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to us. The credit facility does not specify a maximum amount that may be borrowed under the credit facility, but any loans made to us by Treasury pursuant to the credit facility must be collateralized by Fannie Mae MBS or Freddie Mac mortgage-backed securities. Refer to "Liquidity and Capital Management--Liquidity--Liquidity Risk Management--Liquidity Contingency Plan--Treasury Credit Facility" for a discussion of the collateral that we could pledge under the Treasury credit facility. Further, unless amended or waived by Treasury, the amount we may borrow under the credit facility is limited by the restriction under the senior preferred stock purchase agreement on incurring debt in excess of 110% of our aggregate indebtedness as of June

30, 2008. The credit facility does not specify the maturities or interest rate of loans that may be made by Treasury under the credit facility. In a Fact Sheet regarding the credit facility published by Treasury on September 7, 2008, Treasury indicated that loans made pursuant to the credit facility will be for short-term durations and would in general be expected to be for less than one month but no shorter than one week. The Fact Sheet further indicated that the interest rate on loans made pursuant to the credit facility ordinarily will be based on the daily London Inter-bank Offer Rate, or LIBOR, for a similar term of the loan plus 50 basis points. Given that the interest rate we are likely to be charged under the credit facility will be significantly higher than the rates we have historically achieved through the sale of unsecured debt, use of the facility, particularly in significant amounts, is likely to have a material adverse impact on our financial results. As of November 7, 2008, we have not requested any loans or borrowed any amounts under the Treasury credit facility. For a description of the covenants contained in the credit facility, refer to "Covenants under Treasury Agreements--Treasury Credit Facility Covenants" below. A copy of the lending agreement for the Treasury credit facility is filed as an exhibit to this report. Covenants under Treasury Agreements The senior preferred stock purchase agreement, warrant and Treasury credit facility contain covenants that significantly restrict our business activities. These covenants, which are summarized below, include a prohibition on our issuance of additional equity securities (except in limited instances), a prohibition on the payment of dividends or other distributions on our equity securities (other than the senior preferred stock or warrant), a prohibition on our issuance of subordinated debt and a limitation on the total amount of debt securities we may issue. As a result, we can no longer obtain additional equity financing (other than pursuant to the senior preferred stock purchase agreement) and we are limited in the amount and type of debt financing we may obtain. Senior Preferred Stock Purchase Agreement Covenants The senior preferred stock purchase agreement provides that, until the senior preferred stock is repaid or redeemed in full, we may not, without the prior written consent of Treasury:

ù Declare or pay any dividend (preferred or otherwise) or make any other distribution with respect to any Fannie Mae equity securities (other than with respect to the senior preferred stock or warrant);
ù Redeem, purchase, retire or otherwise acquire any Fannie Mae equity securities (other than the senior preferred stock or warrant);
ù Sell or issue any Fannie Mae equity securities (other than the senior preferred stock, the warrant and the common stock issuable upon exercise of the warrant and other than as required by the terms of any binding agreement in effect on the date of the senior preferred stock purchase agreement);
ù Terminate the conservatorship (other than in connection with a receivership);
ù Sell, transfer, lease or otherwise dispose of any assets, other than dispositions for fair market value: (a) to a limited life regulated entity (in the context of a receivership); (b) of assets and properties in the ordinary course of business, consistent with past practice; (c) in connection with our liquidation by a receiver; (d) of cash or cash equivalents for cash or cash equivalents; or (e) to the extent necessary to comply with the covenant described below relating to the reduction of our mortgage assets beginning in 2010;

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ù Incur indebtedness that would result in our aggregate indebtedness exceeding 110% of our aggregate indebtedness as of June 30, 2008;
ù Issue any subordinated debt;

ù Enter into a corporate reorganization, recapitalization, merger, acquisition or similar event; or
ù Engage in transactions with affiliates unless the transaction is (a) pursuant to the senior preferred stock purchase agreement, the senior preferred stock or the warrant, (b) upon arm's length terms or (c) a transaction undertaken in the ordinary course or pursuant to a contractual obligation or customary employment arrangement in existence on the date of the senior preferred stock purchase agreement.

The senior preferred stock purchase agreement also provides that we may not own mortgage assets in excess of (a) $850 billion on December 31, 2009, or (b) on December 31 of each year thereafter, 90% of the aggregate amount of our mortgage assets as of December 31 of the immediately preceding calendar year, provided that we are not required to own less than $250 billion in mortgage assets. The covenant in the agreement prohibiting us from issuing debt in excess of 110% of our aggregate indebtedness as of June 30, 2008 likely will prohibit us from increasing the size of our mortgage portfolio to $850 billion, unless Treasury elects to amend or waive this limitation. In addition, the senior preferred stock purchase agreement provides that we may not enter into any new compensation arrangements or increase amounts or benefits payable under existing compensation arrangements of any named executive officer (as defined by SEC rules) without the consent of the Director of FHFA, in consultation with the Secretary of the Treasury. We are required under the senior preferred stock purchase agreement to provide annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K to Treasury in accordance with the time periods specified in the SEC's rules. In addition, our designated representative (which, during the conservatorship, is the conservator) is required to provide quarterly certifications to Treasury certifying compliance with the covenants contained in the senior preferred stock purchase agreement and the accuracy of the representations made pursuant to agreement. We also are obligated to provide prompt notice to Treasury of the occurrence of specified events, such as the filing of a lawsuit that would reasonably be expected to have a material adverse effect. As of November 7, 2008, we believe we were in compliance with the material covenants under the senior preferred stock purchase agreement. For a summary of the terms of the senior preferred stock purchase agreement, see "Senior Preferred Stock Purchase Agreement and Related Issuance of Senior Preferred Stock and Common Stock Warrant--Senior Preferred Stock Purchase Agreement" above. For the complete terms of the covenants, see the senior preferred stock purchase agreement filed as an exhibit to this report. Warrant Covenants The warrant we issued to Treasury includes, among others, the following covenants:

ù Our SEC filings under the Exchange Act will comply in all material respects as to form with the Exchange Act and the rules and regulations thereunder;
ù We may not permit any of our significant subsidiaries to issue capital stock or equity securities, or securities convertible into or exchangeable for such securities, or any stock appreciation rights or other profit participation rights;
ù We may not take any action that will result in an increase in the par value of our common stock;
ù We may not take any action to avoid the observance or performance of the terms of the warrant and we must take all actions necessary or appropriate to protect Treasury's rights against impairment or dilution; and
ù We must provide Treasury with prior notice of specified actions relating to our common stock, including setting a record date for a dividend payment, granting subscription or purchase rights, authorizing a

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recapitalization, reclassification, merger or similar transaction, commencing a liquidation of the company or any other action that would trigger an adjustment in the exercise price or number or amount of shares subject to the warrant.

The warrant remains outstanding through September 7, 2028. As of November 7, 2008, we believe we were in compliance with the material covenants under the warrant. For a summary of the terms of the warrant, see "Senior Preferred Stock Purchase Agreement and Related Issuance of Senior Preferred Stock and Common Stock Warrant--Issuance of Common Stock Warrant" above. For the complete terms of the covenants contained in the warrant, a copy of the warrant is filed as an exhibit to this report. Treasury Credit Facility Covenants The Treasury credit facility includes covenants requiring us, among other things:

ù to maintain Treasury's security interest in the collateral, including the priority of the security interest, and take actions to defend against adverse claims;
ù not to sell or otherwise dispose of, pledge or mortgage the collateral (other than Treasury's security interest);
ù not to act in any way to impair, or to fail to act in a way to prevent the impairment of, Treasury's rights or interests in the collateral;
ù promptly to notify Treasury of any failure or impending failure to meet our regulatory capital requirements;
ù to provide for periodic audits of collateral held under borrower-in-custody arrangements, and to comply with certain notice and certification requirements;
ù promptly to notify Treasury of the occurrence or impending occurrence of an event of default under the terms of the lending agreement; and
ù to notify Treasury of any change in applicable law or regulations, or in our charter or bylaws, or certain other events, that may materially affect our ability to perform our obligations under the lending agreement.

The Treasury credit facility expires on December 31, 2009. As of November 7, 2008, we believe we were in compliance with the material covenants under the Treasury credit facility. For a summary of the terms of the Treasury credit facility, see "Treasury Credit Facility" above. For the complete terms of the covenants contained in the Treasury credit facility, a copy of the agreement is filed as an exhibit to this report. Effect of Conservatorship and Treasury Agreements on Stockholders The conservatorship and senior preferred stock purchase agreement have materially limited the rights of our common and preferred stockholders (other than Treasury as holder of the senior preferred stock). The conservatorship has had the following adverse effects on our common and preferred stockholders:

ù the powers of the stockholders are suspended during the conservatorship. Accordingly, our common stockholders do not have the ability to elect directors or to vote on other matters during the conservatorship unless the conservator delegates this authority to them;
ù the conservator has eliminated common and preferred stock dividends (other than dividends on the senior preferred stock) during the conservatorship; and
ù according to a statement made by the Treasury Secretary on September 7, 2008, because we are in conservatorship, we "will no longer be managed with a strategy to maximize common shareholder returns."

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The senior preferred stock purchase agreement and the senior preferred stock and warrant issued to Treasury pursuant to the agreement have had the following adverse effects on our common and preferred stockholders:

ù the senior preferred stock ranks senior to the common stock and all other series of preferred stock as to both dividends and distributions upon dissolution, liquidation or winding up of the company;
ù the senior preferred stock purchase agreement prohibits the payment of dividends on common or preferred stock (other than the senior preferred stock) without the prior written consent of Treasury; and
ù the warrant provides Treasury with the right to purchase shares of our common stock equal to up to 79.9% of the total number of shares of our common stock outstanding on a fully diluted basis on the date of exercise for a nominal price, thereby substantially diluting the ownership in Fannie Mae of our common stockholders at the time of exercise. Until Treasury exercises its rights under the warrant or its right to exercise the warrant expires on September 7, 2028 without having been exercised, the holders of our common stock continue to have the risk that, as a group, they will own no more than 20.1% of the total voting power of the company. Under our Charter, bylaws and applicable law, 20.1% is insufficient to control the outcome of any vote that is presented to the common shareholders. Accordingly, existing common shareholders have no assurance that, as a group, they will be able to control the election of our directors or the outcome of any other vote after the time, if any, that the conservatorship ends.

As described above, the conservatorship and Treasury agreements also impact our business in ways that indirectly affect our common and preferred stockholders. By their terms, the senior preferred stock purchase agreement, senior preferred stock and warrant will continue to exist even if we are released from the conservatorship. For a description of the risks to our business relating to the conservatorship and Treasury agreements, see "Part II--Item 1A--Risk Factors." New York Stock Exchange Matters As of November 7, 2008, our common stock continues to trade on the New York Stock Exchange, or NYSE. We have been in discussions with the staff of the NYSE regarding the effect of the conservatorship on our ongoing compliance with the rules of the NYSE and the continued listing of our stock on the NYSE in light of the unique circumstances of the conservatorship. To date, we have not been informed of any non-compliance by the NYSE. Other Regulatory Matters FHFA is responsible for implementing the various provisions of the Regulatory Reform Act. In a statement published on September 7, 2008, the Director of FHFA indicated that FHFA will continue to work expeditiously on the many regulations needed to implement the new legislation, and that some of the key regulations will address minimum capital standards, prudential safety and soundness standards and portfolio limits. In general, we remain subject to existing regulations, orders and determinations until new ones are issued or made. Since we entered into conservatorship on September 6, 2008, FHFA has taken the following actions relating to the implementation of provisions of the Regulatory Reform Act. Adoption by FHFA of Regulation Relating to Golden Parachute Payments FHFA issued interim final regulations pursuant to the Regulatory Reform Act relating to "golden parachute payments" in September 2008. Under these regulations, FHFA may limit golden parachute payments as defined. In September 2008, the Director of FHFA notified us that severance and other payments contemplated in the employment contract of Daniel H. Mudd, our former President and Chief Executive Officer, are golden parachute payments within the meaning of the Regulatory Reform Act and that these payments should not be paid, effective immediately.

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Suspension of Regulatory Capital Requirements During Conservatorship As described in "Liquidity and Capital Management--Capital Management--Regulatory Capital Requirements," FHFA announced in October 2008 that our existing statutory and FHFA-directed regulatory capital requirements will not be binding during the conservatorship. CRITICAL ACCOUNTING POLICIES AND ESTIMATES The preparation of financial statements in accordance with generally accepted accounting principles, or GAAP, requires management to make a number of judgments, estimates and assumptions that affect the reported amount of assets, liabilities, income and expenses in the consolidated financial statements. Understanding our accounting policies and the extent to which we use management judgment and estimates in applying these policies is integral to understanding our financial statements. We have identified the following as our most critical accounting policies and estimates:

ù Fair Value of Financial Instruments
ù Other-than-temporary Impairment of Investment Securities
ù Allowance for Loan Losses and Reserve for Guaranty Losses
ù Deferred Tax Assets

We describe below significant changes in the judgments and assumptions we made during the first nine months of 2008 in applying our critical accounting policies and estimates. Also see "Part II--Item 7--MD&A--Critical Accounting Policies and Estimates" of our 2007 Form 10-K for additional information about our critical accounting policies and estimates. We rely on a number of valuation and risk models as the basis for some of the amounts recorded in our financial statements. Many of these models involve significant assumptions and have certain limitations. See "Part II--Item 1A--Risk Factors" for a discussion of the risks associated with the use of models. Fair Value of Financial Instruments The use of fair value to measure our financial instruments is fundamental to our financial statements and is a critical accounting estimate because we account for and record a substantial portion of our assets and liabilities at fair value. As we discuss more fully in "Notes to Condensed Consolidated Financial Statements--Note 18, Fair Value of Financial Instruments," we adopted SFAS No. 157, Fair Value Measurements ("SFAS 157") effective January 1, 2008. SFAS 157 defines fair value, establishes a framework for measuring fair value and outlines a fair value hierarchy based on the inputs to valuation techniques used to measure fair value. Fair value represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (also referred to as an exit price). In determining fair value, we use various valuation techniques. We disclose the carrying value and fair value of our financial assets and liabilities and describe the specific valuation techniques used to determine the fair value of these financial instruments in Note 18 to the condensed consolidated financial statements. In September 2008, the SEC and FASB issued joint guidance providing clarification of issues surrounding the determination of fair value measurements under the provisions of SFAS 157 in the current market environment. In October 2008, the FASB issued FASB Staff Position No. FAS 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active, which amended SFAS 157 to provide an illustrative example of how to determine the fair value of a financial asset when the market for that financial asset is not active. The SEC and FASB guidance did not have an impact on our application of SFAS 157. We generally consider a market to be inactive if the following conditions exist: (1) there are few transactions for the financial instruments; (2) the prices in the market are not current; (3) the price quotes we receive vary significantly either over time or among independent pricing services or dealers; and (4) there is a limited availability of public market information.

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SFAS 157 establishes a three-level fair value hierarchy for classifying financial instruments that is based on whether the inputs to the valuation techniques used to measure fair value are observable or unobservable. The three levels of the SFAS 157 fair value hierarchy are described below: Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Observable market-based inputs, other than quoted prices in active markets for identical assets or liabilities.

Level 3: Unobservable inputs. Each asset or liability is assigned to a level based on the lowest level of any input that is significant to the fair value measurement. The majority of our financial instruments carried at fair value fall within the level 2 category and are valued primarily utilizing inputs and assumptions that are observable in the marketplace, that can be derived from observable market data or that can be corroborated by recent trading activity of similar instruments with similar characteristics. Because items classified as level 3 are valued using significant unobservable inputs, the process for determining the fair value of these items is generally more subjective and involves a high degree of management judgment and assumptions. These assumptions may have a significant effect on our estimates of fair value, and the use of different assumptions as well as changes in market conditions could have a material effect on our results of operations or financial condition. Fair Value Hierarchy--Level 3 Assets and Liabilities Our level 3 assets and liabilities consist primarily of financial instruments for which the fair value is estimated using valuation techniques that involve significant unobservable inputs because there is limited market activity and therefore little or no price transparency. We typically classify financial instruments as level 3 if the valuation is based on inputs from a single source, such as a dealer quotation, and we are not able to corroborate the inputs and assumptions with other available, observable market information. Our level 3 financial instruments include certain mortgage- and asset-backed securities and residual interests, certain performing residential mortgage loans, non-performing mortgage-related assets, our guaranty assets and buy-ups, our master servicing assets and certain highly structured, complex derivative instruments. As described in "Consolidated Results of Operations--Guaranty Fee Income," we use the term "buy-ups" to refer to upfront payments that we make to lenders to adjust the monthly contractual guaranty fee rate so that the pass-through coupon rates on Fannie Mae MBS are in more easily tradable increments of a whole or half percent. The following discussion identifies the types of financial assets we hold within each balance sheet category that are based on level 3 inputs and the valuation techniques we use to determine their fair values, including key inputs and assumptions.

ù Trading and Available-for-Sale Investment Securities. Our financial instruments within these asset categories that are classified as level 3 primarily consist of mortgage-related securities backed by Alt-A and subprime loans and mortgage revenue bonds. We generally have estimated the fair value of these securities at an individual security level, using non-binding prices obtained from at least four independent pricing services. Our fair value estimate is based on the average of these prices, which we regard as level 2. In the absence of such information or if we are not able to corroborate these prices by other available, relevant market information, we estimate their fair values based on single source quotations from brokers or dealers or by using internal calculations or discounted cash flow techniques that incorporate inputs, such as prepayment rates, discount rates and delinquency, default and cumulative loss expectations, that are implied by market prices for similar securities and collateral structure types. Because this valuation technique involves some level 3 inputs, we classify securities that are valued in this manner as level 3.

ù Derivatives. Our derivative financial instruments that are classified as level 3 primarily consist of a limited population of certain highly structured, complex interest rate risk management derivatives.

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Examples include certain swaps with embedded caps and floors that reference non-standard indices. We determine the fair value of these derivative instruments using indicative market prices obtained from independent third parties. If we obtain a price from a single source and we are not able to corroborate that price, the fair value measurement is classified as level 3.

ù Guaranty Assets and Buy-ups. We determine the fair value of our guaranty assets and buy-ups based on the present value of the estimated compensation we expect to receive for providing our guaranty. We generally estimate the fair value using proprietary internal models that calculate the present value of expected cash flows. Key model inputs and assumptions include prepayment speeds, forward yield curves and discount rates that are commensurate with the level of estimated risk.

Fair value measurements related to financial instruments that are reported at fair value in our consolidated financial statements each period, such as our trading and available-for-sale securities and derivatives, are referred to as recurring fair value measurements. Fair value measurements related to financial instruments that are not reported at fair value each period, such as held-for-sale mortgage loans, are referred to as non-recurring fair value measurement. Table 1 presents, by balance sheet category, the amount of financial assets carried in our condensed consolidated balance sheets at fair value on a recurring basis and classified as level 3 as of September 30, 2008 and June 30, 2008. The availability of observable market inputs to measure fair value varies based on changes in market conditions, such as liquidity. As a result, we expect the financial instruments carried at fair value on a recurring basis and classified as level 3 to vary each period. Table 1: Level 3 Recurring Financial Assets at Fair Value

Balance Sheet Category	As of September 30, 2008	As of June 30, 2008
	(Dollars in millions)	
Trading securities	$ 14,173	$ 14,325
Available-for-sale securities	53,323	40,033
Derivatives assets	280	270
Guaranty assets and buy-ups	1,866	1,947
Level 3 recurring assets	$ 69,642	$ 56,575

Total assets	$ 896,615	$ 885,918
Total recurring assets measured at fair value	$ 363,689	$ 347,748
Level 3 recurring assets as a percentage of total assets	8%	6%
Level 3 recurring assets as a percentage of total recurring assets measured at fair value	19%	16%
Total recurring assets measured at fair value as a percentage of total assets	41%	39%

Level 3 recurring assets totaled $69.6 billion, or 8% of our total assets, as of September 30, 2008, compared with 6% of our total assets as of June 30, 2008. The balance of level 3 recurring assets increased by $13.1 billion and $28.4 billion during the third quarter of 2008 and first nine months of 2008, respectively. The increase in level 3 balances during the third quarter of 2008 resulted from the transfer of approximately $21.0 billion in assets to level 3 from level 2, which was partially offset by liquidations during the period. These assets primarily consisted of private-label mortgage-related securities backed by Alt-A loans or subprime loans. The transfers to level 3 from level 2 reflect the ongoing effects of the extreme disruption in the mortgage market and severe reduction in market liquidity for certain mortgage products, such as private-label mortgage-related securities backed by Alt-A loans or subprime loans. Because of the reduction in recently executed transactions and market price quotations for these instruments, the market inputs for these instruments are less observable. Financial assets measured at fair value on a non-recurring basis and classified as level 3, which are not presented in the table above, include held-for-sale loans that are measured at lower of cost or market and that were written down to fair value during the period. Held-for-sale loans that were reported at fair value, rather than amortized cost, totaled $1.1 billion as of September 30, 2008. In addition, certain other financial assets carried at amortized cost that have been written down to fair value during the period due to impairment are

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classified as non-recurring. The fair value of these level 3 non-recurring financial assets, which primarily consisted of certain guaranty assets and acquired property, totaled $12.0 billion as of September 30, 2008. Financial liabilities measured at fair value on a recurring basis and classified as level 3 as of September 30, 2008 consisted of long-term debt with a fair value of $2.5 billion and derivatives liabilities with a fair value of $209 million.
Fair Value Control Processes We have control processes that are designed to ensure that our fair value measurements are appropriate and reliable, that they are based on observable inputs wherever possible and that our valuation approaches are consistently applied and the assumptions used are reasonable. Our control processes consist of a framework that provides for a segregation of duties and oversight of our fair value methodologies and valuations and validation procedures. Our Valuation Oversight Committee, which includes senior representation from business areas, our risk oversight office and finance, is responsible for reviewing and approving the valuation methodologies and pricing models used in our fair value measurements and any significant valuation adjustments, judgments, controls and results. Actual valuations are performed by personnel independent of our business units. Our Price Verification Group, which is an independent control group separate from the group that is responsible for obtaining the prices, also is responsible for performing monthly independent price verification. The Price Verification Group also performs independent reviews of the assumptions used in determining the fair value of products we hold that have material estimation risk because observable market-based inputs do not exist. Our validation procedures are intended to ensure that the individual prices we receive are consistent with our observations of the marketplace and prices that are provided to us by pricing services or other dealers. We verify selected prices using a variety of

methods, including comparing the prices to secondary pricing services, corroborating the prices by reference to other independent market data, such as non-binding broker or dealer quotations, relevant benchmark indices, and prices of similar instruments, checking prices for reasonableness based on variations from prices provided in previous periods, comparing prices to internally calculated expected prices and conducting relative value comparisons based on specific characteristics of securities. In addition, we compare our derivatives valuations to counterparty valuations as part of the collateral exchange process. We have formal discussions with the pricing services as part of our due diligence process in order to maintain a current understanding of the models and related assumptions and inputs that these vendors use in developing prices. The prices provided to us by independent pricing services reflect the existence of credit enhancements, including monoline insurance coverage, and the current lack of liquidity in the marketplace. If we determine that a price provided to us is outside established parameters, we will further examine the price, including having follow-up discussions with the specific pricing service or dealer. If we conclude that a price is not valid, we will adjust the price for various factors, such as liquidity, bid-ask spreads and credit considerations. These adjustments are generally based on available market evidence. In the absence of such evidence, management's best estimate is used. All of these processes are executed before we use the prices in the financial statement process. We continually refine our valuation methodologies as markets and products develop and the pricing for certain products becomes more or less transparent. While we believe our valuation methods are appropriate and consistent with those of other market participants, using different methodologies or assumptions to determine fair value could result in a materially different estimate of the fair value of some of our financial instruments. Change in Measuring the Fair Value of Guaranty Obligations Beginning January 1, 2008, as part of our implementation of SFAS 157, we changed our approach to measuring the fair value of our guaranty obligations. Specifically, we adopted a measurement approach that is based upon an estimate of the compensation that we would require to issue the same guaranty in a standalone arm's-length transaction with an unrelated party. For a guaranty issued in a lender swap transaction after December 31, 2007, we measure the fair value of the guaranty obligation upon initial recognition based on the fair value of the total compensation we receive, which primarily consists of the guaranty fee, credit

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enhancements, buy-downs, risk-based price adjustments and our right to receive interest income during the float period in excess of the amount required to compensate us for master servicing. See "Consolidated Results of Operations--Guaranty Fee Income" for a description of buy-downs and risk-based price adjustments. As the fair value at inception of these guaranty obligations is now measured as equal to the fair value of the total compensation we expect to receive, we do not recognize losses or record deferred profit in our financial statements at the inception of guaranty contracts issued after December 31, 2007. We also changed how we measure the fair value of our existing guaranty obligations, as discussed in "Supplemental Non-GAAP Information--Fair Value Balance Sheets" and in "Notes to Condensed Consolidated Financial Statements," to be consistent with our approach for measuring guaranty obligations at initial recognition. The fair value of any guaranty obligation measured after its initial recognition represents our estimate of a hypothetical transaction price we would receive if we were to issue our guaranty to an unrelated party in a standalone arm's-length transaction at the measurement date. To measure this fair value, we continue to use the models and inputs that we used prior to our adoption of SFAS 157 and calibrate those models to our current market pricing. Prior to January 1, 2008, we measured the fair value of the guaranty obligations that we recorded when we issued Fannie Mae MBS based on market information obtained from spot transaction prices. In the absence of spot transaction data, which was the case for the substantial majority of our guarantees, we used internal models to estimate the fair value of our guaranty obligations. We reviewed the reasonableness of the results of our models by comparing those results with available market information. Key inputs and assumptions used in our models included the amount of compensation required to cover estimated default costs, including estimated unrecoverable principal and interest that we expected to incur over the life of the underlying mortgage loans backing our Fannie Mae MBS, estimated foreclosure-related costs, estimated administrative and other costs related to our guaranty, and an estimated market risk premium, or profit, that a market participant of similar credit standing would require to assume the obligation. If our modeled estimate of the fair value of the guaranty obligation was more or less than the fair value of the total compensation received, we recognized a loss or recorded deferred profit, respectively, at inception of the guaranty contract. See "Part II--Item 7--MD&A--Critical Accounting Policies and Estimates--Fair Value of Financial Instruments--Fair Value of Guaranty Assets and Guaranty Obligations--Effect on Losses on Certain Guaranty Contracts" of our 2007 Form 10-K for additional information. The accounting for guarantees issued prior to January 1, 2008 is unchanged with our adoption of SFAS 157. Accordingly, the guaranty obligation amounts recorded in our condensed consolidated balance sheets attributable to these guarantees will continue to be amortized in accordance with our established accounting policy. This change, however, affects how we determine the fair value of our existing guaranty obligations as of each balance sheet date. See "Supplemental Non-GAAP Information--Fair Value Balance Sheets" and "Notes to Condensed Consolidated Financial Statements" for additional information regarding the impact of this change. Other-than-temporary Impairment of Investment Securities We determine whether our available-for-sale securities in an unrealized loss position are other-than-temporarily impaired as of the end of each quarter. We evaluate the probability that we will not collect all of the contractual amounts due and our ability and intent to hold the security until recovery in determining whether a security has suffered an other-than-temporary decline in value in accordance with the guidance provided in FASB Staff Position Nos. FAS 115-1 and FAS 124-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments ("FSP 115-1 and FSP 124-1"). As more fully discussed in our 2007 Form 10-K in "Part II--Item 7--MD&A--Critical Accounting Policies and Estimates--Other-than-temporary Impairment of Investment Securities," our evaluation requires management judgment and a consideration of various factors, including, but not limited to, the severity and duration of the impairment; recent events specific to the issuer and/or the industry to which the issuer belongs; and external credit ratings. Although an external rating agency action or a change in a security's external credit rating is one criterion in our assessment of other-than-temporary impairment, a rating action alone is not necessarily indicative of other-than-temporary impairment.

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We employ models to assess the expected performance of our securities under hypothetical scenarios. These models consider particular attributes of the loans underlying our securities and assumptions about changes in the economic environment, such as home prices and interest rates, to predict borrower behavior and the impact on default frequency, loss severity and remaining credit enhancement. We use these models to estimate the expected cash flows ("recoverable amount") from our securities in assessing whether it is probable that we will not collect all of the contractual amounts due. If the recoverable amount is less than the contractual principal and interest due, we may determine, based on this factor in combination with our assessment of other relevant factors, that the security is other-than-temporarily impaired. If we make that determination, the amount of other-than-temporary impairment is determined by reference to the security's current fair value, rather than the expected cash flows of the security. We write down any other-than-temporarily impaired AFS security to its current fair value, record the difference between the amortized cost basis and the fair value as an other-than-temporary loss in our consolidated statements of operations and establish a new cost basis for the security based on the current fair value. The fair value measurement we use to determine the amount of other-than-temporary impairment to record may be less than the actual amount we expect to realize by holding the security to maturity. Allowance for Loan Losses and Reserve for Guaranty Losses We employ a systematic and consistently applied methodology to determine our best estimate of incurred credit losses in our guaranty book of business as of each balance sheet date. We use the same methodology to determine both our allowance for loan losses and reserve for guaranty losses, which we collectively refer to as our "combined loss reserves." We update and refine the assumptions used in determining our loss reserves as necessary in response to new loan performance data and to reflect the current economic environment and market conditions. Our models and our methods of employing assumptions in estimating the combined loss reserves have remained consistent with prior periods. As a result of the rapidly changing housing and credit market conditions during the third quarter of 2008, we have observed a more significant impact on our allowance caused by: (1) more severe estimates of the probability of default ("default rates"), our unpaid principal balance loan exposure at default and the average loss given a default ("loss severity") relating to Alt-A loans; (2) increasing default rates on our 2005 vintage Alt-A loans; and (3) a shorter estimated period of time between the identification of a loss triggering event, such as a borrower's loss of employment, and the actual realization of the loss, which is referred to as the loss emergence period, for higher risk loan categories, including Alt-A loans. See "Consolidated Results of Operations--Credit-Related Expenses" and "Notes to Condensed Financial Statements--Note 5, Allowance for Loan Losses and Reserve for Guaranty Losses" for additional information on our loss reserves. Deferred Tax Assets We recognize deferred tax assets and liabilities for the future tax consequences related to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and for tax credits. In the third quarter of 2008, we recorded a non-cash charge of $21.4 billion to establish a partial deferred tax asset valuation allowance, which reduced our net deferred tax assets to $4.6 billion as of September 30, 2008. Our net deferred tax assets totaled $13.0 billion as of December 31, 2007. We evaluate our deferred tax assets for recoverability using a consistent approach that considers the relative impact of negative and positive evidence, including our historical profitability and projections of future taxable income. We are required to establish a valuation allowance for deferred tax assets and record a charge to income or stockholders' equity if we determine, based on available evidence at the time the determination is made, that it is more likely than not that some portion or all of the deferred tax assets will not be realized. In evaluating the need for a valuation allowance, we estimate future taxable income based on management-approved business plans and ongoing tax planning strategies. This process involves significant management judgment about assumptions that are subject to change from period to period based on changes in tax laws or variances

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between our projected operating performance, our actual results and other factors. Accordingly, we have included the assessment of a deferred tax asset valuation allowance as a critical accounting policy. As of September 30, 2008, we were in a cumulative book taxable loss position for more than a twelve-quarter period. For purposes of establishing a deferred tax valuation allowance, this cumulative book taxable loss position is considered significant, objective evidence that we may not be able to realize some portion of our deferred tax assets in the future. Our cumulative book taxable loss position was caused by the negative impact on our results from the weak housing and credit market conditions over the past year. These conditions deteriorated dramatically during the third quarter of 2008, causing a significant increase in our pre-tax loss for the third quarter of 2008, due in part to much higher credit losses, and downward revisions to our projections of future results. Because of the volatile economic conditions during the third quarter of 2008, our projections of future credit losses have become more uncertain. As of September 30, 2008, we concluded that it was more likely than not that we would not generate sufficient taxable income in the foreseeable future to realize all of our deferred tax assets. Our conclusion was based on our consideration of the relative weight of the available evidence, including the rapid deterioration of market conditions discussed above, the uncertainty of future market conditions on our results of operations and significant uncertainty surrounding our future business model as a result of the placement of the company into conservatorship by FHFA on September 6, 2008. This negative evidence was the basis for the establishment of the partial deferred tax valuation allowance of $21.4 billion during the third quarter. We did not, however, establish a valuation allowance for the deferred tax asset related to unrealized losses recorded in AOCI on our available-for-sale securities. We believe this deferred tax amount, which totaled $4.6 billion as of September 30, 2008, is recoverable because we have the intent and ability to hold these securities until recovery of the unrealized loss amounts. As discussed in "Liquidity and Capital Management--Capital Management--Capital Activity--Capital Management Actions," the non-cash charge we recorded during the third quarter to establish the deferred tax valuation allowance was a primary driver of the reduction in our stockholders' equity to $9.3 billion as of September 30, 2008. Our remaining deferred tax asset of $4.6 billion represented a significant portion of our stockholders' equity as of September 30, 2008. The amount of deferred tax assets considered realizable is subject to adjustment in future periods. We will continue to monitor all available evidence related to our ability to utilize our remaining deferred tax assets. If we determine that recovery is not likely because we no longer have the intent or ability to hold our available-for-sale securities until recovery of the unrealized loss amounts, we will record an additional valuation allowance against the deferred tax assets that we estimate may not be recoverable, which would further reduce our stockholders' equity. In addition, our income tax expense in future periods will be increased or reduced to the extent of offsetting increases or decreases to our valuation allowance. See "Notes to Condensed Consolidated Financial Statements--Note 11, Income Taxes" of this report for additional information. Also, see our 2007 Form 10-K in "Notes to Consolidated Financial Statements--Note 11, Income Taxes" for detail on the components of our deferred tax assets and deferred tax liabilities as of December 31, 2007.

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CONSOLIDATED RESULTS OF OPERATIONS The following discussion of our condensed consolidated results of operations is based on a comparison of our results between the three and nine months ended September 30, 2008 and the three and nine months ended September 30, 2007. You should read this section together with "Executive Summary--Outlook," where we discuss trends and other factors that we expect will affect our future results of operations. Table 2 presents a summary of our unaudited condensed consolidated results of operations for each of these periods. Table 2: Summary of Condensed Consolidated Results of Operations

For the Three Months Ended September 30,		For the Nine Months Ended September 30,		Quarterly Variance		Year-to-Date Variance	
2008	2007	2008	2007		%		%
(Dollars in millions, except per share amounts)							

Net interest income	$ 2,355	$ 1,058	$ 6,102	$ 3,445	$ 1,297	123%	$ 2,657	77%
Guaranty fee income	1,475	1,232	4,835	3,450	243	20	1,385	40
Trust management income	65	146	247	460	(81)	(55)	(213)	(46)
Fee and other income(1)	164	217	616	751	(53)	(24)	(135)	(18)
Net revenues	4,059	2,653	11,800	8,106	1,406	53	3,694	46
Losses on certain guaranty contracts	--	(294)	--	(1,038)	294	100	1,038	100
Investment gains (losses), net(1)	(1,624)	(159)	(2,618)	43	(1,465)	(921)	(2,661)	(6,188)
Fair value losses, net(1)	(3,947)	(2,082)	(7,807)	(1,224)	(1,865)	(90)	(6,583)	(538)
Losses from partnership investments	(587)	(147)	(923)	(527)	(440)	(299)	(396)	(75)
Administrative expenses	(401)	(660)	(1,425)	(2,018)	259	39	593	29
Credit-related expenses(2)	(9,241)	(1,200)	(17,833)	(2,039)	(8,041)	(670)	(15,794)	(775)
Other non-interest expenses(1)(3)	(147)	(95)	(938)	(259)	(52)	(55)	(679)	(262)
Income (loss) before federal income taxes and extraordinary losses	(11,888)	(1,984)	(19,744)	1,044	(9,904)	(499)	(20,788)	(1,991)
Benefit (provision) for federal income taxes	(17,011)	582	(13,607)	468	(17,593)	(3,023)	(14,075)	(3,007)
Extraordinary gains (losses), net of tax effect	(95)	3	(129)	(3)	(98)	(3,267)	(126)	(4,200)
Net income (loss)	$ (28,994)	$ (1,399)	$ (33,480)	$ 1,509	$ (27,595)	(1,972)%	$ (34,989)	(2,319)%
Diluted earnings (loss) per common share	$ (13.00)	$ (1.56)	$ (24.24)	$ 1.17	$ (11.44)	(733)%	$ (25.41)	(2,172)%

(1) Certain prior period amounts have been reclassified to conform with the current period presentation in our condensed consolidated statements of operations.
(2) Consists of provision for credit losses and foreclosed property expense.
(3) Consists of debt extinguishment gains (losses), net, minority interest in (earnings) losses of consolidated subsidiaries and other expenses.

Our business generates revenues from four principal sources: net interest income; guaranty fee income; trust management income; and fee and other income. Other significant factors affecting our results of operations include: fair value gains and losses; the timing and size of investment gains and losses;

credit-related expenses; losses from partnership investments; administrative expenses and our effective tax rate. We provide a comparative discussion of the effect of our principal revenue sources and other significant items on our condensed consolidated results of operations for the three and nine months ended September 30, 2008 and 2007 below.

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Net Interest Income Net interest income, which is the amount by which interest income exceeds interest expense, is a primary source of our revenue. Interest income consists of interest on our interest-earning assets, plus income from the accretion of discounts for assets acquired at prices below the principal value, less expense from the amortization of premiums for assets acquired at prices above principal value. Interest expense consists of contractual interest on our interest-bearing liabilities and accretion and amortization of any cost basis adjustments, including premiums and discounts, which arise in conjunction with the issuance of our debt. The amount of interest income and interest expense we recognize in the consolidated statements of operations is affected by our investment activity, our debt activity, asset yields and the cost of our debt. We expect net interest income to fluctuate based on changes in interest rates and changes in the amount and composition of our interest-earning assets and interest-bearing liabilities. Table 3 presents an analysis of our net interest income and net interest yield for the three and nine months ended September 30, 2008 and 2007. As described below in "Fair Value Gains (Losses), Net," we supplement our issuance of debt with interest rate-related derivatives to manage the prepayment and duration risk inherent in our mortgage investments. The effect of these derivatives, in particular the periodic net interest expense accruals on interest rate swaps, is not reflected in net interest income. See "Fair Value Gains (Losses), Net" for additional information. Table 3: Analysis of Net Interest Income and Yield

	For the Three Months Ended September 30,					
	2008			2007		
	Average Balance(1)	Interest Income/ Expense	Average Rates Earned/Paid	Average Balance(1)	Interest Income/ Expense	Average Rates Earned/Paid
	(Dollars in millions)					
Interest-earning assets:						
Mortgage loans(2)	$ 424,609	$ 5,742	5.41%	$ 397,349	$ 5,572	5.61%
Mortgage securities	335,739	4,330	5.16	330,872	4,579	5.54
Non-mortgage securities(3)	58,208	381	2.56	72,075	999	5.43
Federal funds sold and securities purchased under agreements to resell	42,037	274	2.55	17,994	246	5.35
Advances to lenders	3,226	36	4.37	8,561	76	3.45
Total interest-earning assets	$ 863,819	$ 10,763	4.98%	$ 826,851	$ 11,472	5.54%
Interest-bearing liabilities:						
Short-term debt	$ 271,007	$ 1,677	2.42%	$ 166,832	$ 2,400	5.63%

Long-term debt	560,540	6,728	4.80	613,801	8,013	5.22
Federal funds purchased and securities sold under agreements to repurchase	526	3	2.23	161	1	4.46
Total interest-bearing liabilities	$ 832,073	$ 8,408	4.02%	$ 780,794	$ 10,414	5.31%
Impact of net non-interest bearing funding	$ 31,746		0.14%	$ 46,057		0.29%
Net interest income/net interest yield(4)		$ 2,355	1.10%		$ 1,058	0.52%

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	For the Nine Months Ended September 30, 2008			2007		
	Average Balance(1)	Interest Income/ Expense	Average Rates Earned/Paid	Average Balance(1)	Interest Income/ Expense	Average Rates Earned/Paid
			(Dollars in millions)			
Interest-earning assets:						
Mortgage loans(2)	$ 417,764	$ 17,173	5.48%	$ 391,318	$ 16,582	5.65%
Mortgage securities	323,334	12,537	5.17	329,126	13,606	5.51
Non-mortgage securities(3)	60,771	1,459	3.15	67,595	2,763	5.39
Federal funds sold and securities purchased under agreements to resell	35,072	853	3.20	15,654	633	5.33
Advances to lenders	3,594	147	5.37	6,097	160	3.45
Total interest-earning assets	$ 840,535	$ 32,169	5.10%	$ 809,790	$ 33,744	5.55%
Interest-bearing liabilities:						
Short-term debt	$ 257,020	$ 5,920	3.03%	$ 163,062	$ 6,806	5.50%
Long-term debt	552,343	20,139	4.86	609,018	23,488	5.14
Federal funds purchased and securities sold under agreements to repurchase	422	8	2.49	136	5	4.91
Total interest-bearing liabilities	$ 809,785	$ 26,067	4.28%	$ 772,216	$ 30,299	5.22%
Impact of net	$ 30,750		0.16%	$ 37,574		0.24%

non-interest bearing funding				
Net interest income/net interest yield(4)	$ 6,102	0.98%	$ 3,445	0.57%

(1) For mortgage loans, average balances have been calculated based on the average of the amortized cost amounts at the beginning of the year and at the end of each month in the period. For all other categories, average balances have been calculated based on a daily average. The average balance for the three and nine months ended September 30, 2008 for advances to lenders also has been calculated based on a daily average.

(2) Average balance amounts include nonaccrual loans with an average balance totaling $9.2 billion and $6.2 billion for the three months ended September 30, 2008 and 2007, respectively, and $8.7 billion and $6.0 billion for the nine months ended September 30, 2008 and 2007, respectively. Interest income includes interest income on delinquent SOP 03-3 loans purchased from MBS trusts, which totaled $166 million and $127 million for the three months ended September 30, 2008 and 2007, respectively, and $479 million and $346 million for the nine months ended September 30, 2008 and 2007, respectively. These interest income amounts include the accretion of the fair value loss recorded upon purchase of SOP 03-3 loans, which totaled $37 million and $20 million for the three months ended September 30, 2008 and 2007, respectively, and $125 million and $42 million for the nine months ended September 30, 2008 and 2007.

(3) Includes cash equivalents.

(4) We compute net interest yield by dividing annualized net interest income for the period by the average balance of total interest-earning assets during the period.

Net interest income of $2.4 billion for the third quarter of 2008 represented an increase of 123% over net interest income of $1.1 billion for the third quarter of 2007, driven by a 112% (58 basis points) expansion of our net interest yield to 1.10% and a 4% increase in our average interest-earning assets. Net interest income of $6.1 billion for the first nine months of 2008 represented an increase of 77% over net interest income of $3.4 billion for the first nine months of 2007, driven by a 72% (41 basis points) expansion of our net interest yield to 0.98% and a 4% increase in our average interest-earning assets. Table 4 presents the total variance, or change, in our net interest income between the three and nine months ended September 30, 2008 and 2007, and the extent to which that variance is attributable to (1) changes in the volume of our interest-earning assets and interest-bearing liabilities or (2) changes in the interest rates of these assets and liabilities.

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Table 4: Rate/Volume Analysis of Net Interest Income

	For the Three Months Ended September 30, 2008 vs. 2007			For the Nine Months Ended September 30, 2008 vs. 2007		
	Total Variance	Variance Due to:(1) Volume	Rate	Total Variance	Variance Due to:(1) Volume	Rate
	(Dollars in millions)					

Interest income:						
Mortgage loans(2)	$ 170	$ 373	$ (203)	$ 591	$ 1,097	$ (506)
Mortgage securities	(249)	67	(316)	(1,069)	(236)	(833)
Non-mortgage securities(3)	(618)	(165)	(453)	(1,304)	(256)	(1,048)
Federal funds sold and securities purchased under agreements to resell	28	205	(177)	220	548	(328)
Advances to lenders	(40)	(56)	16	(13)	(81)	68
Total interest income	(709)	424	(1,133)	(1,575)	1,072	(2,647)
Interest expense:						
Short-term debt	(723)	1,052	(1,775)	(886)	2,933	(3,819)
Long-term debt	(1,285)	(666)	(619)	(3,349)	(2,111)	(1,238)
Federal funds purchased and securities sold under agreements to repurchase	2	2	--	3	6	(3)
Total interest expense	(2,006)	388	(2,394)	(4,232)	828	(5,060)
Net interest income	$ 1,297	$ 36	$ 1,261	$ 2,657	$ 244	$ 2,413

(1) Combined rate/volume variances are allocated to both rate and volume based on the relative size of each variance.
(2) Please see footnote 2 in Table 3.
(3) Includes cash equivalents.

The increase in our net interest income and net interest yield for the third quarter and first nine months of 2008 was mainly driven by the reduction in short-term borrowing rates, which reduced the average cost of our debt, and a shift in our funding mix to more short-term debt. Also contributing to the lower cost of funds was our redemption of step-rate debt securities, which provided an annualized benefit to our net interest yield of approximately seven basis points for the first nine months of 2008. Instead of having a fixed rate of interest for the life of the security, step-rate debt securities provide for the interest rate to increase at predetermined rates according to a specified schedule, resulting in increased interest payments. However, the interest expense on step-rate debt securities is recognized at a constant effective rate over the term of the security. Because we paid off these securities prior to maturity, we reversed a portion of the interest expense that we had previously accrued. The increase in our average interest-earning assets for the third quarter and first nine months of 2008 was attributable to an increase in our portfolio purchases during the first nine months of 2008, particularly in the second quarter of 2008, as mortgage-to-debt spreads reached historic highs. OFHEO's reduction in our capital surplus requirement on March 1, 2008 provided us with more flexibility to take advantage of opportunities to purchase mortgage assets at attractive prices and spreads. However, since July 2008, we have experienced significant limitations on our ability to issue callable or long-term debt. Because of these limitations, we increased our portfolio at a slower rate in the third quarter of 2008 than in the second quarter and we may not be able to further increase the size of our mortgage portfolio. For a discussion of these limitations, see "Liquidity and Capital Management--Liquidity--Funding--Debt Funding Activity." Although we consider the periodic net contractual interest accruals on our interest rate swaps to be part of the cost of funding our mortgage investments, these amounts are not reflected in our net interest income and net interest yield. Instead, the net contractual interest accruals on our interest rate swaps are reflected in our condensed consolidated statements of operations as a component of "Fair value gains (losses), net." As indicated in Table 8, we recorded net contractual interest expense on our interest rate swaps totaling $681 million and $1.0 billion for the three and nine months ended September 30, 2008, respectively, which had the economic effect of increasing our funding costs by approximately 33 basis points and 17 basis points for the three and nine months ended September 30, 2008, respectively. We recorded net contractual interest

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income on our interest rate swaps of $95 million and $193 million for the three and nine months ended September 30, 2007, respectively, which had the economic effect of reducing our funding costs by approximately 5 and 3 basis points for the respective periods. Guaranty Fee Income Guaranty fee income primarily consists of contractual guaranty fees related to Fannie Mae MBS held in our portfolio and held by third-party investors, adjusted for the amortization of upfront fees over the estimated life of the loans underlying the MBS and impairment of guaranty assets, net of a proportionate reduction in the related guaranty obligation and deferred profit, and impairment of buy-ups. The average effective guaranty fee rate reflects our average contractual guaranty fee rate adjusted for the impact of amortization of upfront fees and buy-up impairment. See our 2007 Form 10-K, "Notes to Consolidated Financial Statements--Note 1, Summary of Significant Accounting Policies" for a detailed description of our guaranty fee accounting. Guaranty fee income is primarily affected by the amount of outstanding Fannie Mae MBS and our other guarantees and the compensation we receive for providing our guaranty on Fannie Mae MBS and for providing other guarantees. The amount of compensation we receive and the form of payment varies depending on factors such as the risk profile of the securitized loans, the level of credit risk we assume and the negotiated payment arrangement with the lender. Our payment arrangements may be in the form of an upfront payment, an ongoing payment stream from the cash flows of the MBS trusts, or a combination. We typically negotiate a contractual guaranty fee with the lender and collect the fee on a monthly basis based on the contractual fee rate multiplied by the unpaid principal balance of loans underlying a Fannie Mae MBS. In lieu of charging a higher contractual fee rate for loans with greater credit risk, we may require that the lender pay an upfront fee to compensate us for assuming the additional credit risk. We refer to this payment as a risk-based pricing adjustment. We also may adjust the monthly contractual guaranty fee rate so that the pass-through coupon rates on Fannie Mae MBS are in more easily tradable increments of a whole or half percent by making an upfront payment to the lender ("buy-up") or receiving an upfront payment from the lender ("buy-down"). As we receive monthly contractual payments for our guaranty obligation, we recognize guaranty fee income. We defer upfront risk-based pricing adjustments and buy-down payments that we receive from lenders and recognize these amounts as a component of guaranty fee income over the expected life of the underlying assets of the related MBS trusts. We record buy-up payments we make to lenders as an asset and then reduce the recorded asset over time as cash flows are received over the expected life of the underlying assets of the related MBS trusts. We assess buy-ups for other-than-temporary impairment and include any impairment recognized as a component of guaranty fee income. The extent to which we amortize upfront payments and other deferred amounts into income depends on the rate of expected prepayments, which is affected by interest rates. In general, as interest rates decrease, expected prepayment rates increase, resulting in accelerated accretion into income of deferred amounts, which increases our guaranty fee income. Conversely, as interest rates increase, expected prepayments rates decrease, resulting in slower amortization of deferred amounts. Prepayment rates also affect the estimated fair value of buy-ups. Faster than expected prepayment rates shorten the average expected life of the underlying assets of the related MBS trusts, which reduces the value of our buy-up assets and may trigger the recognition of other-than-temporary impairment. Table 5 shows the components of our guaranty fee income, our average effective guaranty fee rate, and Fannie Mae MBS activity for the three and nine months ended September 30, 2008 and 2007.

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Table 5: Guaranty Fee Income and Average Effective Guaranty Fee Rate(1)

	For the Three Months Ended September 30,				
	2008		2007		Amount
	Amount	Rate(2)	Amount	Rate(2)	Variance
	(Dollars in millions)				
Guaranty fee income/average effective guaranty fee rate, excluding certain fair value adjustments and buy-up impairment	$ 1,546	24.7 bp	$ 1,235	22.8 bp	25%
Net change in fair value of buy-ups and guaranty assets	(63)	(1.0)	--	--	100
Buy-up impairment	(8)	(0.1)	(3)	--	167
Guaranty fee income/average effective guaranty fee rate(3)	$ 1,475	23.6 bp	$ 1,232	22.8 bp	20%
Average outstanding Fannie Mae MBS and other guarantees(4)	$ 2,502,254		$ 2,163,173		16%
Fannie Mae MBS issues(5)	106,991		171,204		(38)

	For the Nine Months Ended September 30,				
	2008		2007		Amount
	Amount	Rate(2)	Amount	Rate(2)	Variance
	(Dollars in millions)				
Guaranty fee income/average effective guaranty fee rate, excluding certain fair value adjustments and buy-up impairment	$ 4,723	25.8 bp	$ 3,439	21.9 bp	37%
Net change in fair value of buy-ups and guaranty assets	151	0.8	19	0.1	695
Buy-up impairment	(39)	(0.2)	(8)	--	388
Guaranty fee income/average effective guaranty fee rate(3)	$ 4,835	26.4 bp	$ 3,450	22.0 bp	40%
Average outstanding Fannie Mae MBS and other guarantees(4)	$ 2,438,143		$ 2,090,322		17%
Fannie Mae MBS issues(5)	453,346		453,506		--

(1) Losses recognized at inception on certain guaranty contracts for periods prior to January 1, 2008 are excluded from guaranty fee income and the average effective guaranty fee rate; however, as described in footnote 3 below, the accretion of these losses into income over time is included in our guaranty fee income and average effective guaranty fee rate.
(2) Presented in basis points and calculated based on annualized amounts of our guaranty fee income components divided by average outstanding Fannie Mae MBS and other guarantees for each respective period.
(3) Losses recognized at inception on certain guaranty contracts for periods prior to January 1, 2008, which are excluded from guaranty fee income, are recorded as a component of our guaranty obligation. We accrete a portion of our guaranty obligation, which includes these losses, into income each period in proportion to the reduction in the guaranty asset for payments received. This accretion increases our guaranty fee income and reduces the related guaranty obligation. Effective January 1, 2008, we no longer recognize losses at inception of our guaranty contracts due to a change in

our method for measuring the fair value of our guaranty obligations. Although we will no longer recognize losses at inception of our guaranty contracts, we will continue to accrete previously recognized losses into our guaranty fee income over the remaining life of the mortgage loans underlying the Fannie Mae MBS.

(4) Other guarantees includes $32.2 billion and $41.6 billion as of September 30, 2008 and December 31, 2007, respectively, and $35.5 billion and $19.7 billion as of September 30, 2007 and December 31, 2006, respectively, related to long-term standby commitments we have issued and credit enhancements we have provided.

(5) Reflects unpaid principal balance of Fannie Mae MBS issued and guaranteed by us, including mortgage loans held in our portfolio that we securitized during the period and Fannie Mae MBS issued during the period that we acquired for our portfolio.

The 20% increase in guaranty fee income for the third quarter of 2008 over the third quarter of 2007 resulted from a 16% increase in average outstanding Fannie Mae MBS and other guarantees, and a 4% increase in the average effective guaranty fee rate to 23.6 basis points from 22.8 basis points. The 40% increase in guaranty fee income for the first nine months of 2008 over the first nine months of 2007 resulted from a 17% increase in average outstanding Fannie Mae MBS and other guarantees, and a 20% increase in the average effective guaranty fee rate to 26.4 basis points from 22.0 basis points.

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The increase in average outstanding Fannie Mae MBS and other guarantees reflected our higher market share of mortgage-related securities issuances during the first nine months of 2008, as compared to the first nine months of 2007. We experienced this market share increase in large part due to the near-elimination of competition from issuers of private-label mortgage-related securities. The increase in our average effective guaranty fee rate was affected by guaranty fee pricing changes designed to price for the current risks in the housing market. These pricing changes include an adverse market delivery charge of 25 basis points for all loans delivered to us, which became effective March 1, 2008. The impact of our guaranty fee pricing changes was partially offset by a shift in the composition of our guaranty book of business to a greater proportion of higher-quality, lower risk and lower guaranty fee mortgages, as we reduced our acquisitions of higher risk, higher fee product categories, such as Alt-A loans. Our average charged guaranty fee on new single-family business was 31.9 basis points and 28.1 basis points for the third quarter and first nine months of 2008, respectively, compared with 31.4 basis points and 28.7 basis points for the third quarter and first nine months of 2007, respectively. The average charged guaranty fee on our new single-family business represents the average contractual fee rate for our single-family guaranty arrangements plus the recognition of any upfront cash payments ratably over an estimated life of four years. The increase in our average effective guaranty fee rate for the first nine months of 2008 was also driven by the accelerated recognition of deferred amounts into income as interest rates were generally lower in the first nine months of 2008 than the first nine months of 2007. Our guaranty fee income also includes accretion of deferred amounts on guaranty contracts where we recognized losses at the inception of the contract, which totaled an estimated $131 million and $555 million for the three and nine months ended September 30, 2008, compared with $144 million and $327 million for the three and nine months ended September 30, 2007. See "Part II--Item 7--MD&A--Critical Accounting Policies and Estimates" of our 2007 Form 10-K for additional information on our accounting for these losses and the impact on our financial statements. Trust Management Income Trust management income consists of the fees we earn as master servicer, issuer and trustee for Fannie Mae MBS. We derive these fees from the interest earned on cash flows between the date of remittance of mortgage and other payments to us by servicers and the date of distribution of these payments to MBS certificateholders, which we refer to as float income. Trust management income decreased to $65 million and $247 million for the third quarter and first nine months of 2008, respectively, from $146 million and $460 million for the third quarter and first nine months of 2007, respectively. The decrease during each period was attributable to significantly lower short-term interest rates during the first nine months of 2008 relative to the first nine months of 2007, which reduced the amount of float income we earned. Fee and Other Income Fee and other income consists of transaction fees, technology fees and multifamily fees. Fee and other income decreased to $164 million and $616 million for the third quarter and first nine months of 2008, respectively, from $217 million and $751 million for the third quarter and first nine months of 2007, respectively. The decrease during each period was primarily attributable to lower multifamily fees due to a reduction in multifamily loan liquidations for the first nine months of 2008. Losses on Certain Guaranty Contracts Effective January 1, 2008 with our adoption of SFAS 157, we no longer recognize losses or record deferred profit in our consolidated financial statements at inception of our guaranty contracts for MBS issued subsequent to December 31, 2007 because the estimated fair value of the guaranty obligation at inception now equals the estimated fair value of the total compensation received. For further discussion of this change, see "Critical Accounting Policies and Estimates--Fair Value of Financial Instruments--Change in Measuring the Fair Value of Guaranty Obligations" and "Notes to Condensed Consolidated Financial Statements--Note 2, Summary of Significant Accounting Policies."

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We recorded losses at inception on certain guaranty contracts totaling $294 million and $1.0 billion for the three and nine months ended September 30, 2007, respectively. These losses reflected the increase in the estimated market risk premium that a market participant would require to assume our guaranty obligations due to the decline in home prices and deterioration in credit conditions. We will continue to accrete these losses into income over time as part of the accretion of the related guaranty obligation on contracts where we recognized losses at inception of the contract. See "Notes to Condensed Consolidated Financial Statements--Note 7, Financial Guarantees" for additional information. Investment Gains (Losses), Net Investment losses, net includes other-than-temporary impairment on available-for-sale securities, lower-of-cost-or-market adjustments on held for sale loans, gains and losses recognized on the securitization of loans or securities from our portfolio and the sale of available-for-sale securities and other investment losses. Investment gains and losses may fluctuate significantly from period to period depending upon our portfolio investment and securitization activities and changes in market and credit conditions that may result in other-than-temporary impairment. We summarize the components of investment gains (losses), net for the three and nine months ended September 30, 2008 and 2007 below in Table 6 and discuss significant changes in these components between periods. Table 6: Investment Gains (Losses), Net

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2008	2007	2008	2007
	(Dollars in millions)			
Other-than-temporary impairment on available-for-sale securities(1)	$ (1,843)	$ (75)	$ (2,405)	$ (78)
Lower-of-cost-or-market adjustments on held for sale	5	3	(306)	(115)

loans				
Gains (losses) on Fannie Mae portfolio securitizations, net	17	(65)	(8)	(27)
Gains on sale of available-for-sale securities, net	293	47	306	373
Other investment losses, net	(96)	(69)	(205)	(110)
Investment gains (losses), net	$ (1,624)	$ (159)	$ (2,618)	$ 43

(1) Excludes other-than-temporary impairment on guaranty assets and buy-ups as these amounts are recognized as a component of guaranty fee income. Refer to Table 5: Guaranty Fee Income and Average Effective Guaranty Fee Rate.

The increase in investment losses for the third quarter and first nine months of 2008 over the third quarter and first nine months of 2007 was primarily attributable to the significant increase in other-than-temporary impairment on available-for-sale securities, principally for Alt-A and subprime private-label securities. We recognized other-than-temporary impairment on these securities of $1.8 billion and $2.4 billion in the third quarter and first nine months of 2008, respectively, reflecting a reduction in expected cash flows due to an increase in expected defaults and loss severities on the mortgage loans underlying these securities. See "Critical Accounting Policies and Estimates--Other-than-temporary Impairment of Investment Securities" and "Consolidated Balance Sheet Analysis--Trading and Available-for-Sale Investment Securities--Investments in Private-Label Mortgage Related Securities" for additional information on impairment of our investment securities. Fair Value Gains (Losses), Net Fair value gains and losses, net consists of (1) derivatives fair value gains and losses, including gains and losses on derivatives designated as accounting hedges; (2) trading securities gains and losses; (3) fair value adjustments to the carrying value of mortgage assets designated for hedge accounting that are attributable to changes in interest rates; (4) foreign exchange gains and losses on our foreign-denominated debt; and (5) fair value gains and losses on certain debt securities carried at fair value. By presenting these items together in our

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condensed consolidated results of operations, we are able to show the net impact of mark-to-market adjustments that generally result in offsetting gains and losses attributable to changes in interest rates. Beginning in mid-April 2008, we implemented fair value hedge accounting with respect to a portion of our derivatives to hedge, for accounting purposes, the interest rate risk related to some of our mortgage assets, including mortgage loans classified as held for investment. Fair value hedge accounting allows us to offset the fair value gains or losses on some of our derivative instruments against the corresponding fair value losses or gains attributable to changes in interest rates on the specific hedged mortgage assets. We implemented this hedging strategy to reduce the level of volatility in our earnings attributable to changes in interest rates for our interest rate risk management derivatives. However, our application of hedge accounting does not affect volatility in our financial results that is attributable to changes in credit spreads. The provisions of the conservatorship and Treasury agreements caused us to change our focus from reducing the volatility in our earnings attributable to changes in interest rates to maintaining a positive net worth. As a result of this change, we modified our hedge accounting strategy during the third quarter of 2008 to discontinue the application of hedge accounting for multifamily mortgage loans. Applying hedge accounting to these loans requires that we record in earnings changes in fair value attributable to changes in interest rates. These fair value changes offset some of the volatility in our earnings caused by fluctuations in the fair value of our derivatives. However, recording fair value adjustments on these loans introduces an additional element of volatility in our net worth. By discontinuing hedge accounting for these loans, we will account for these loans at amortized cost and no longer record changes in the fair value in earnings. We believe this change eliminates one factor that causes volatility in our net worth. We generally expect that gains and losses on our trading securities, to the extent they are attributable to changes in interest rates, will offset a portion of the losses and gains on our derivatives because changes in the fair value of our trading securities typically move inversely to changes in the fair value of our derivatives. The fair value of our trading securities, however, may not always move inversely to changes in the fair value of our derivatives because the fair values of these financial instruments are affected not only by interest rates, but also by other factors such as spreads. Consequently, the gains and losses on our trading securities may not fully offset losses and gains on our derivatives. We seek to eliminate our exposure to fluctuations in foreign exchange rates by entering into foreign currency swaps that effectively convert debt denominated in a foreign currency to debt denominated in U.S. dollars. The foreign currency exchange gains and losses on our foreign-denominated debt are offset in part by corresponding losses and gains on foreign currency swaps. Table 7 summarizes the components of fair value gains (losses), net for the three and nine months ended September 30, 2008 and 2007. We experienced a significant increase in fair value losses for the third quarter and first nine months of 2008, compared with the same prior year periods. The increased losses were driven by: (1) a decline in interest rates, which resulted in losses on our derivatives and gains on our hedged mortgage assets; (2) the significant widening of spreads, which resulted in losses on our trading securities; and (3) the distressed condition of several financial institutions, which resulted in significant write-downs of some of our non-mortgage investments. We provide additional information below on the most significant components of the fair value gains (losses), net line item.

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Table 7: Fair Value Gains (Losses), Net

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2008	2007	2008	2007
	(Dollars in millions)			
Derivatives fair value losses, net(1)	$ (3,302)	$ (2,244)	$ (4,012)	$ (891)
Trading securities gains (losses) net(2)	(2,934)	295	(5,126)	(145)
Hedged mortgage assets gains, net(3)	2,028	--	1,225	--
Fair value losses on derivatives, trading securities and hedged mortgage assets, net	(4,208)	(1,949)	(7,913)	(1,036)
Debt foreign exchange gains (losses), net	227	(133)	58	(188)
Debt fair value gains, net	34	--	48	--
Fair value losses, net	$ (3,947)	$ (2,082)	$ (7,807)	$ (1,224)

(1) Includes losses of approximately $104 million for the three and nine months ended September 30, 2008, which resulted from the termination of our

derivative contracts with a subsidiary of Lehman Brothers.
(2) Includes trading losses of $559 million recorded during the third quarter of 2008, which resulted from the write-down to fair value of our investment in corporate debt securities issued by Lehman Brothers.
(3) Represents adjustments to the carrying value of mortgage assets designated for hedge accounting that are attributable to changes in interest rates.

Derivatives Fair Value Gains (Losses), Net Derivative instruments are an integral part of our strategy in managing interest rate risk. We supplement our issuance of debt with derivative instruments to further reduce duration and prepayment risks. We are generally an end user of derivatives and our principal purpose in using derivatives is to manage our aggregate interest rate risk profile within prescribed risk parameters. We generally only use derivatives that are highly liquid and relatively straightforward to value. We consider the cost of derivatives used in our management of interest rate risk to be an inherent part of the cost of funding and hedging our mortgage investments and to be economically similar to the interest expense that we recognize on the debt we issue to fund our mortgage investments. For example, by combining a pay-fixed interest rate swap with short-term floating-rate debt, we can achieve the economic effect of converting short-term floating-rate debt into long-term fixed-rate debt. However, because we do not apply hedge accounting, the net contractual interest accrual on the pay-fixed swap would be reflected in "Derivatives fair value gains (losses), net" instead of as a component of interest expense. If we instead issued long-term fixed rate debt to achieve the same economic effect, the interest on the debt would be reflected as a component of interest expense. We provide a more detailed discussion of our use of derivatives in "Risk Management--Interest Rate Risk Management and Other Market Risks--Interest Rate Risk Management Strategies--Derivatives Activity." Table 8 presents, by type of derivative instrument, the fair value gains and losses on our derivatives for the three and nine months ended September 30, 2008 and 2007. Table 8 also includes an analysis of the components of derivatives fair value gains and losses attributable to net contractual interest accruals on our interest rate swaps, the net change in the fair value of terminated derivative contracts through the date of termination and the net change in the fair value of outstanding derivative contracts. The 5-year swap interest rate, which is shown below in Table 8, is a key reference interest rate that affects the fair value of our derivatives.

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Table 8: Derivatives Fair Value Gains (Losses), Net

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2008	2007	2008	2007
	(Dollars in millions)			
Risk management derivatives:				
Swaps:				
Pay-fixed	$ (9,492)	$ (7,500)	$ (9,605)	$ (1,780)
Receive-fixed	5,417	3,834	7,117	956
Basis	(145)	90	(213)	(35)
Foreign currency(1)	(145)	140	(19)	97
Swaptions:				
Pay-fixed	(159)	(237)	(78)	32
Receive-fixed	1,218	1,460	(1,008)	(199)
Interest rate caps	(1)	(3)	2	5
Other(2)(3)	(61)	3	(10)	4

Total risk management derivatives fair value losses, net	(3,368)	(2,213)	(3,814)	(920)
Mortgage commitment derivatives fair value gains (losses), net	66	(31)	(198)	29
Total derivatives fair value losses, net	$ (3,302)	$ (2,244)	$ (4,012)	$ (891)
Risk management derivatives fair value gains (losses) attributable to:				
Net contractual interest income (expense) on interest rate swaps	$ (681)	$ 95	$ (1,011)	$ 193
Net change in fair value of terminated derivative contracts from end of prior period to date of termination(3)	(310)	(50)	(275)	(187)
Net change in fair value of outstanding derivative contracts, including derivative contracts entered into during the period	(2,377)	(2,258)	(2,528)	(926)
Risk management derivatives fair value losses, net(4)	$ (3,368)	$ (2,213)	$ (3,814)	$ (920)

	2008	2007
5-year swap interest rate:		
As of January 1	4.19%	5.10%
As of March 31	3.31	4.99
As of June 30	4.26	5.50
As of September 30	4.11	4.87

(1) Includes the effect of net contractual interest income of approximately $6 million and interest expense of $16 million for the three months ended September 30, 2008 and 2007, respectively, and interest income of $9 million and interest expense of $50 million for the nine months ended September 30, 2008 and 2007, respectively. The change in fair value of foreign currency swaps excluding this item resulted in a net loss of $151 million and a net gain of $156 million for the three months ended September 30, 2008 and 2007, respectively, and a net loss of $28 million and a net gain of $147 million for the nine months ended September 30, 2008 and 2007, respectively.
(2) Includes MBS options, swap credit enhancements and mortgage insurance contracts.
(3) Includes losses of approximately $104 million for the three and nine months ended September 30, 2008, which resulted from the termination of our derivative contracts with a subsidiary of Lehman Brothers.
(4) Reflects net derivatives fair value losses, excluding mortgage commitments, recognized in the condensed consolidated statements of operations.

The derivatives fair value losses of $3.3 billion for the third quarter of 2008, which includes $2.2 billion of losses on pay-fixed swaps designated as fair value hedges, reflected the combined impact of a decrease in swap interest rates during the quarter and time decay associated with our purchased options, which was partially offset by an increase in value due to an increase in implied volatility during the quarter. The 5-year

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swap interest rate fell by 15 basis points to 4.11% as of September 30, 2008 from 4.26% as of June 30, 2008. This decrease in swap interest rates resulted in fair value losses on our pay-fixed swaps that exceeded the fair value gains on our receive-fixed swaps. The derivatives fair value losses of $2.2 billion for the third quarter of 2007 were attributable to a decrease in swap interest rates during the quarter, which resulted in fair value losses on our pay-fixed swaps that more than offset the fair value gains on our receive-fixed swaps. The derivatives fair value losses of $4.0 billion for the first nine months of 2008 were largely attributable to losses resulting from the decrease in interest rates, the time decay of our purchased options and rebalancing activity. The derivatives fair value losses of $891 million for the first nine months of 2007 were largely attributable to a decrease in swap interest rates during the third quarter of 2007, which resulted in fair value losses on our interest rate swaps that were partially offset by fair value gains on our option-based derivatives. Although we recorded fair value losses on our derivatives for the third quarter and first nine months of 2008, these losses were partially offset by gains on mortgage assets designated for hedge accounting as shown in Table 7. Because derivatives are an important part of our interest rate risk management, it is important to evaluate the impact of our derivatives in the context of our overall interest rate risk profile and in conjunction with the other offsetting mark-to-market gains and losses presented in Table 7. For additional information on our interest rate risk management strategy and our use of derivatives, see "Risk Management--Interest Rate Risk Management and Other Market Risks--Interest Rate Risk Management Strategies." Also see "Consolidated Balance Sheet Analysis--Derivative Instruments" for a discussion of the effect of derivatives on our condensed consolidated balance sheets. Trading Securities Gains (Losses), Net Our portfolio of trading securities increased to $98.7 billion as of September 30, 2008, from $64.0 billion as of December 31, 2007. We recorded net losses on trading securities of $2.9 billion and $5.1 billion for the third quarter and first nine months of 2008, respectively. These losses were due in part to the significant widening of spreads, particularly related to private-label mortgage-related securities backed by Alt-A and subprime loans and commercial mortgage-backed securities ("CMBS") backed by multifamily mortgage loans. These losses were also due to significant declines in the market value of the non-mortgage securities in our cash and other investments portfolio during the third quarter of 2008 resulting from the financial market crisis. Of the $1.5 billion in net trading losses on the non-mortgage securities in our cash and other investments portfolio, approximately $892 million related to investments in corporate debt securities issued by Lehman Brothers, Wachovia Corporation, Morgan Stanley and American International Group, Inc. (referred to as AIG). Our exposure to Lehman Brothers accounted for $559 million of the $892 million in losses. In comparison, we recorded net gains on trading securities of $295 million for the third quarter of 2007, attributable to a decline in interest rates during the quarter, and net losses of $145 million for the first nine months of 2007, reflecting the combined effect of an increase in our portfolio of trading securities and a decrease in the fair value of these securities due to a widening of credit spreads during the period. We provide additional information on our trading and available-for-sale securities in "Consolidated Balance Sheet Analysis--Trading and Available-for-Sale Investment Securities" and disclose the sensitivity of changes in the fair value of our trading securities to changes in interest rates in "Risk Management--Interest Rate Risk Management and Other Market Risks--Interest Rate Risk Metrics." Hedged Mortgage Assets Gains (Losses), Net Our hedge accounting relationships during the third quarter of 2008 consisted of pay-fixed interest rate swaps designated as fair value hedges of changes in the fair value, attributable to changes in the LIBOR benchmark interest rate, of specified mortgage assets. As of September 30, 2008, we had a notional amount of $15.5 billion of pay-fixed swaps designated as fair value hedges of specified mortgage assets. We include changes in fair value of hedged mortgage assets attributable to changes in the benchmark interest rate in our assessment of hedge effectiveness. These fair value accounting hedges resulted in gains on the hedged mortgage assets of $2.0 billion and $1.2 billion for the three and nine months ended September 30, 2008, respectively, which were offset by losses of $2.1 billion and $1.3 billion, respectively, on the pay-fixed swaps

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designated as hedging instruments excluding valuation changes due to the passage of time. The losses on these pay-fixed swaps are included as a component of derivatives fair value gains (losses), net. We also record as a component of derivatives fair value gains (losses) the ineffectiveness, or the portion of the change in the fair value of our derivatives that was not effective in offsetting the change in the fair value of the designated hedged mortgage assets. We had losses of $101 million and $115 million for the third quarter and first nine months of 2008, respectively, attributable to ineffectiveness of our fair value hedges. We provide additional information on our application of hedge accounting in "Notes to Condensed Consolidated Financial Statements, Note 2--Summary of Significant Accounting Policies" and "Note 10--Derivative Instruments and Hedging Activities." Losses from Partnership Investments Losses from partnership investments increased to $587 million and $923 million for the third quarter and first nine months of 2008, respectively, from $147 million and $527 million for the third quarter and first nine months of 2007. The increase in losses was primarily due to an impairment charge of $245 million on our low income housing tax credit, or LIHTC, partnership investments that we recorded during the third quarter of 2008. Our decision in the third quarter of 2008 to establish a deferred tax asset valuation allowance was indicative of our potential inability to realize the future tax benefits by our LIHTC partnership investments. As a result, we determined that the potential loss on the carrying value of these investments was other than temporary. Accordingly, we recorded other-than-temporary impairment in the third quarter of 2008 on our LIHTC partnership investments that had a carrying value that exceeded the fair value. In addition, we experienced an increase in losses on our investments in rental and for-sale affordable housing. Administrative Expenses Administrative expenses include ongoing operating costs, such as salaries and employee benefits, professional services, occupancy costs and technology expenses. Administrative expenses decreased to $401 million and $1.4 billion for the third quarter and first nine months of 2008, respectively, from $660 million and $2.0 billion for the third quarter and first nine months of 2007, respectively, reflecting significant reductions in restatement and related regulatory expenses and a reduction in our ongoing operating costs due to efforts we undertook in 2007 to increase productivity and lower our administrative costs. In addition, because our corporate goals for 2008 were not met, in the third quarter of 2008 we reversed amounts that we had previously accrued for 2008 bonuses, which reduced our administrative expenses for the quarter and for the first nine months of 2008. Pension and other postretirement benefit expenses included in our administrative expenses totaled $10 million and $47 million for the third quarter and first nine months of 2008, respectively, compared with $39 million and $91 million for the third quarter and first nine months of 2007, respectively. We made contributions of $9 million to fund our nonqualified pension plans and other postretirement benefit plans for the first nine months of 2008, and we anticipate contributing an additional $4 million in the fourth quarter of 2008 to fund these plans. For our qualified pension plan, the plan assets exceeded the projected benefit obligation as of December 31, 2007, reflecting a funding surplus of $44 million. The current funding policy for our qualified pension plan is to contribute an amount equal to the required minimum contribution under the Employee Retirement Income Security Act of 1974 ("ERISA") and to maintain a funded status of 105% of the current liability as of January 1 of each year. Because the criteria of our funding policy were met as of December 31, 2007, our most recent measurement date, we did not expect to make a contribution during 2008 and as such, had not made a contribution to our qualified pension plan during the nine month period ended September 30, 2008. However, in light of the extreme market volatility and recent dramatic decline in the global equity markets, we determined in October 2008 that a review of the value of our qualified pension plan assets and the funded status should be completed prior to our next annual valuation. During our review, we determined that plan assets would likely be below our funding target as of our next measurement date. Accordingly, in November 2008, consistent with our funding policy, we elected to make a voluntary contribution of $80 million to our qualified pension plan for 2008 to offset some of the recent investment losses. We will re-

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evaluate the funded status at year-end to determine if additional contributions are needed under our funding policy. We disclose the key actuarial assumptions for our principal employee retirement benefit plans in our 2007 Form 10-K in "Notes to Consolidated Financial Statements--Note 14, Employee Retirement Benefits." Also see "Notes to Condensed Consolidated Financial Statements, Note 13--Employee Retirement Benefits" for additional information on our retirement benefit plans. As disclosed in note 14 of our 2007 Form 10-K, we made some changes to our employee benefit plans in the fourth quarter of 2007, including freezing the benefits under our defined benefit pension plans for active employees who did not meet certain grandfather provisions as of December 31, 2007 and terminating plan coverage for employees hired on or after December 31, 2007. We continue to accrue benefits under these plans for employees who met the grandfather provisions as of December 31, 2007. Credit-Related Expenses Credit-related expenses included in our condensed consolidated statements of operations consist of the provision for credit losses and foreclosed property expense. We detail the components of our credit-related expenses in Table 9. The substantial increase in our credit-related expenses for the third quarter and first nine months of 2008, compared with the third quarter and first nine months of 2007, was attributable to significant increases in our provision for credit losses and foreclosed property expense, reflecting continued building of our loss reserves and increases in the level of net charge-offs due to the severe deterioration in the housing market and worsening economic conditions.
Table 9: Credit-Related Expenses

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2008	2007	2008	2007
	(Dollars in millions)			
Provision for credit losses attributable to guaranty book of business	$ 8,244	$ 417	$ 15,171	$ 965
Provision for credit losses attributable to SOP 03-3 and HomeSaver Advance fair value losses	519	670	1,750	805
Total provision for credit losses(1)	8,763	1,087	16,921	1,770
Foreclosed property expense	478	113	912	269
Credit-related expenses	$ 9,241	$ 1,200	$ 17,833	$ 2,039

(1) Reflects total provision for credit losses reported in Table 10 below under "Combined loss reserves."

Provision Attributable to Guaranty Book of Business Our allowance for loan losses and reserve for guaranty losses, which we collectively refer to as our combined loss reserves, provide for probable credit losses inherent in our guaranty book of business as of each balance sheet date. The change in our combined loss reserves each period is driven by the provision for credit losses recognized in our condensed consolidated statements of operations and the net charge-offs recorded against our loss reserves. Table 10 below summarizes changes in our combined loss reserves for the three and nine months ended September 30, 2008 and 2007.

Table 10: Allowance for Loan Losses and Reserve for Guaranty Losses (Combined Loss Reserves)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2008	2007	2008	2007
	(Dollars in millions)			
Changes in loss reserves:				
Allowance for loan losses:				
Beginning balance	$ 1,476	$ 337	$ 698	$ 340
Provision for credit losses	1,120	148	2,544	238
Charge-offs(1)(2)	(829)	(115)	(1,603)	(241)
Recoveries	36	25	164	58
Ending balance(3)	$ 1,803	$ 395	$ 1,803	$ 395
Reserve for guaranty losses:				
Beginning balance	$ 7,450	$ 821	$ 2,693	$ 519
Provision for credit losses	7,643	939	14,377	1,532
Charge-offs(2)(4)	(1,369)	(757)	(3,395)	(1,078)
Recoveries	78	9	127	39
Ending balance	$ 13,802	$ 1,012	$ 13,802	$ 1,012
Combined loss reserves:				
Beginning balance	$ 8,926	$ 1,158	$ 3,391	$ 859
Provision for credit losses	8,763	1,087	16,921	1,770
Charge-offs(1)(2)(4)	(2,198)	(872)	(4,998)	(1,319)
Recoveries	114	34	291	97
Ending balance(3)	$ 15,605	$ 1,407	$ 15,605	$ 1,407

	As of September 30, 2008	As of December 31, 2007
Allocation of combined loss reserves:		
Balance at end of each period attributable to:		
Single-family	$ 15,528	$ 3,318
Multifamily	77	73
Total	$ 15,605	$ 3,391
Single-family and multifamily loss reserve ratios:(5)		
Single-family loss reserves as % of single-family guaranty book of business	0.56%	0.13%
Multifamily loss reserves as % of multifamily guaranty book of business	0.05	0.05
Combined loss reserves as a percentage of:		
Total guaranty book of business	0.53	0.12
Total nonperforming loans(6)	24.52	9.47

(1) Includes accrued interest of $229 million and $32 million for the three months ended September 30, 2008 and 2007, respectively, and $468 million and $84 million for the nine months ended September 30, 2008 and 2007, respectively.
(2) Includes charges recorded for our HomeSaver Advance initiative of $171 million and $294 million for the three and nine months ended September 30, 2008, respectively.
(3) Includes $108 million and $35 million as of September 30, 2008 and 2007, respectively, for acquired loans subject to the application of SOP 03-3.
(4) Includes charges recorded at the date of acquisition of $348 million and $670 million for the three months ended September 30, 2008 and 2007, respectively, and $1.5 billion and $805 million for the nine months ended

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September 30, 2008 and 2007, respectively, for acquired loans subject to the application of SOP 03-3 where the acquisition cost exceeded the fair value of the acquired loan.
(5) Represents loss reserves amount attributable to each loan type as a percentage of the guaranty book of business for each loan type.
(6) Loans are classified as nonperforming at the earlier of when payment of principal and interest is three months or more past due according to the loan's contractual terms (unless we have recourse against the seller of the loan in the event of default) or when, in our opinion, collectability of interest or principal on the loan is not reasonably assured. See Table 44: Nonperforming Single-Family and Multifamily Loans for detail on nonperforming loans as of September 30, 2008 and December 31, 2007.

We have continued to build our combined loss reserves through provisions that have been well in excess of our charge-offs. The provision for credit losses attributable to our guaranty book of business of $8.3 billion and $15.2 billion for the third quarter and first nine months of 2008, respectively, exceeded net charge-offs of $1.6 billion and $3.0 billion, respectively, reflecting an incremental build in our combined loss reserves of $6.7 billion for the third quarter of 2008 and $12.2 billion for the first nine months of 2008. In comparison, we recorded a provision for credit losses attributable to our guaranty book of business of $417 million and $965 million for the third quarter and first nine months of 2007, respectively. As a result of our higher loss provisioning levels, we have substantially increased our combined loss reserves both in absolute terms and as a percentage of our guaranty book of business, to $15.6 billion, or 0.53% of our guaranty book of business, as of September 30, 2008, from $3.4 billion, or 0.12% of our guaranty book of business, as of December 31, 2007. The increase in our loss provisioning levels and combined loss reserves reflects our current estimate of inherent losses in our guaranty book of business as of September 30, 2008. The continued decline in home prices has resulted in higher delinquencies and defaults and an increase in the average loan loss severity or charge-off per default. As a result of the rapidly changing housing and credit market conditions during the third quarter of 2008, we have observed a more significant impact on our allowance caused by: (1) more severe estimates of default rates, our unpaid principal balance loan exposure at default and loss severity relating to Alt-A loans; (2) increasing default rates on our 2005 vintage Alt-A loans; and (3) a shorter estimated period of time between the identification of a loss triggering event, such as a borrower's loss of employment, and the actual realization of the loss, which is referred to as the loss emergence period, for higher risk loan categories, including Alt-A loans. Our conventional single-family serious delinquency rate has increased to 1.72% as of September 30, 2008, from 0.98% as of December 31, 2007 and 0.78% as of September 30, 2007. The average default rate and loan loss charge-off severity, excluding fair value losses related to SOP 03-3 loans, was 0.19% and 28%, respectively, for the third quarter of 2008, compared with 0.09% and 10% for the third quarter of 2007. These worsening credit performance trends have been most notable in certain states, certain higher risk loan categories and our 2006 and 2007 loan vintages. The Midwest, which has experienced prolonged economic weakness, and California, Florida, Arizona and Nevada, which previously experienced rapid home price increases and are now experiencing steep home price declines, have accounted for a disproportionately large share of our seriously delinquent loans and charge-offs. Our Alt-A book, particularly the 2006 and 2007 loan vintages, has exhibited early stage payment defaults and represented a disproportionate share of our seriously delinquent loans and charge-offs for the first nine months of 2008. Provision Attributable to SOP 03-3 and HomeSaver Advance Fair Value Losses "SOP 03-3" refers to the American Institute of Certified Public Accountants Statement of Position No. 03-3, Accounting for Certain Loans or Debt Securities Acquired in a Transfer. SOP 03-3 is an accounting rule requiring that, when we purchase delinquent loans from MBS trusts that are within its scope, we record our net investment in these loans at the lower of the acquisition cost of the loan or the estimated fair value at the date of purchase. To the extent the acquisition cost exceeds the estimated fair value, we record a SOP 03-3 fair value loss charge-off against the "Reserve for guaranty losses" at the time we acquire the loan. We introduced HomeSaver Advance in the first quarter of 2008. HomeSaver Advance, which serves as a loss mitigation tool earlier in the delinquency cycle than a modification can be offered due to our MBS trust

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constraints, allows borrowers to cure their payment defaults without requiring modification of their mortgage loans. HomeSaver Advance allows servicers to provide qualified borrowers with a 15-year unsecured personal loan in an amount equal to all past due payments relating to their mortgage loan, up to the lesser of $15,000 or 15% of the unpaid principal balance of the delinquent first lien loan. Because HomeSaver Advance does not require modification of the first lien loan, we are not required to purchase the delinquent loans from the MBS trusts. We record HomeSaver Advance loans at their estimated fair value at the date of purchase of these loans from servicers, and, to the extent the acquisition cost exceeds the estimated fair value, we record a HomeSaver fair value loss charge-off against the "Reserve for guaranty losses" at the time we acquire the loan. We experienced a substantial increase in the SOP 03-3 fair value losses recorded upon the purchase of delinquent loans from MBS trusts for the first nine months of 2008 relative to the first nine months of 2007, due to the significant disruption in the mortgage market and severe reduction in market liquidity for certain mortgage products, such as delinquent loans, that has persisted since July 2007. As indicated in Table 9 above, SOP 03-3 and HomeSaver Advance fair value losses totaled $519 million and $1.8 billion for the third quarter and first nine months of 2008, respectively, compared to $670 million and $805 million for the third quarter and first nine months of 2007, respectively. The decrease in losses during the third quarter of 2008 reflected the impact of our loss mitigation strategies, including the implementation of HomeSaver Advance to reduce the number of delinquent loans purchased from MBS trusts. We describe how we account for SOP 03-3 fair value losses and the process we use to value loans subject to SOP 03-3 in "Part II--Item 7--MD&A--Critical Accounting Policies and Estimates--Fair Value of Financial Instruments--Fair Value of Loans Purchased with Evidence of Credit Deterioration--Effect on Credit-Related Expenses" of our 2007 Form 10-K. Seriously Delinquent Loans Purchased from MBS Trusts We purchase loans or REO property from MBS trusts for a variety of reasons. Under our trust documents, we are required to purchase loans or REO property from MBS trusts in a number of specified circumstances, including when a mortgage loan becomes and remains delinquent for 24 consecutive months (excluding months during which the borrower is complying with a loss mitigation remedy) and when a mortgage insurer or mortgage guarantor requires the trust to transfer a mortgage loan or related REO property in connection with an insurance or guaranty payment. Our trust documents also provide us with the option to purchase loans from MBS trusts in specified circumstances, such as when four or more consecutive monthly payments due under the loan are delinquent in whole or in part or when the mortgaged property is acquired by the trust as REO property. In general, we do not exercise our contractual option to purchase a delinquent mortgage loan from an MBS trust. If a loan becomes delinquent, we generally attempt to assist the borrower in curing the default and bringing the loan current through our HomeSaver Advance loss mitigation tool. In some circumstances, we may consider purchasing delinquent loans from MBS under our contractual option. Our decision about whether and when to purchase a loan from an MBS trust is based on variety of factors. In general, these factors include: our loss mitigation strategies and the exposure to credit losses we face under our guaranty; our cost of funds and ability to maintain a positive net worth; relevant market yields; the administrative costs associated with purchasing and holding the loan; mission and policy considerations; counterparty exposure to lenders that have agreed to cover losses associated with delinquent loans; general market conditions; our statutory obligations under the Charter Act; and other legal obligations such as those established by consumer finance laws. Our current practices relating to exercising our contractual option to purchase a delinquent mortgage loan from an MBS trust are subject to change, including at the direction of the conservator. Table 11 provides a quarterly comparison of the average market price, as a percentage of the unpaid principal balance and accrued interest, of seriously delinquent loans subject to SOP 03-3 purchased from MBS trusts and additional information related to these loans. Beginning in November 2007, we decreased the number of optional delinquent loan purchases from our single-family MBS trusts in order to preserve capital in compliance with our regulatory capital requirements. HomeSaver Advance, which we implemented in the first quarter of 2008, has reduced the level of our optional delinquent loan purchases. The decline in national home prices and significant reduction in liquidity in the mortgage markets, along with the increase in mortgage

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credit risk, that was observed in the second half of 2007 has persisted and become severe, resulting in continued downward pressure on the value of the collateral underlying these loans. Table 11: Statistics on Delinquent Loans Purchased from MBS Trusts Subject to SOP 03-3

	2008			2007			
	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Average market price(1)	49%	53%	60%	70%	72%	93%	94%
Unpaid principal balance and accrued interest of loans purchased (dollars in millions)	$ 744	$ 807	$ 1,704	$ 1,832	$ 2,349	$ 881	$ 1,057
Number of delinquent loans purchased	3,678	4,618	10,586	11,997	15,924	6,396	8,009

(1) The value of primary mortgage insurance is included as a component of the average market price.

Table 12 presents activity related to delinquent loans subject to SOP 03-3 purchased from MBS trusts under our guaranty arrangements for the three months ended September 30, 2008, June 30, 2008 and March 31, 2008. Table 12: Activity of Delinquent Loans Purchased from MBS Trusts Subject to SOP 03-3

	Contractual Amount(1)	Market Discount	Allowance for Loan Losses	Net Investment
	(Dollars in millions)			
Balance as of December 31, 2007	$ 8,096	$ (991)	$ (39)	$ 7,066
Purchases of delinquent loans	1,704	(728)	--	976
Provision for credit losses	--	--	(35)	(35)
Principal repayments	(180)	46	1	(133)
Modifications and troubled debt restructurings	(915)	331	5	(579)
Foreclosures, transferred to REO	(619)	169	18	(432)
Balance as of March 31, 2008	$ 8,086	$ (1,173)	$ (50)	$ 6,863
Purchases of delinquent loans	807	(380)	--	427
Provision for credit losses	--	--	(86)	(86)
Principal repayments	(192)	28	2	(162)
Modifications and troubled debt restructurings	(582)	240	5	(337)
Foreclosures, transferred to REO	(471)	129	15	(327)
Balance as of June 30, 2008	$ 7,648	$ (1,156)	$ (114)	$ 6,378
Purchases of delinquent loans	744	(348)	--	396
Provision for credit losses	--	--	12	12
Principal repayments	(148)	23	2	(123)
Modifications and troubled debt restructurings	(472)	198	9	(265)
Foreclosures, transferred to REO	(406)	128	(17)	(295)
Balance as of September 30, 2008	$ 7,366	$ (1,155)	$ (108)	$ 6,103

(1) Reflects contractually required principal and accrued interest payments that we believe are probable of collection.

Tables 13 and 14 provide information about the re-performance, or cure rates, of seriously delinquent single-family loans we purchased from MBS trusts during the first three quarters of 2008, each of the quarters for 2007 and each of the years 2004 to 2007, as of both (1) September 30, 2008 and (2) the end of each respective period in which the loans were purchased. Table 13 includes all seriously delinquent loans we purchased from our MBS trusts, while Table 14 includes only those seriously delinquent loans that we purchased from our MBS trusts because we intended to modify the loan. We believe there are inherent limitations in the re-performance statistics presented in Tables 13 and 14, both because of the significant lag between the time a loan is purchased from an MBS trust and the conclusion of

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the delinquent loan resolution process and because, in our experience, it generally takes at least 18 to 24 months to assess the ultimate re-performance of a delinquent loan. Accordingly, these re-performance statistics, particularly those for more recent loan purchases, are likely to change, perhaps materially. As a result, we believe the re-performance rates as of September 30, 2008 for delinquent loans purchased from MBS trusts during 2008 and 2007 may not be indicative of the ultimate long-term performance of these loans. In addition, our cure rates may be affected by changes in our loss mitigation efforts and delinquent loan purchase practices.

Table 13: Re-performance Rates of Seriously Delinquent Single-Family Loans Purchased from MBS Trusts(1)

	Status as of September 30, 2008										
	2008			2007							
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	2007	2006	2005	2004
Cured without modification(2)	6%	15%	15%	16%	19%	18%	25%	19%	37%	44%	43%
Cured with modification(3)	32	41	39	27	16	32	28	24	28	16	15
Total cured	38	56	54	43	35	50	53	43	65	60	58
Defaults(4)	4	6	9	21	36	24	27	28	24	33	37
90 days or more delinquent	58	38	37	36	29	26	20	29	11	7	5
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

	Status as of the End of Each Respective Period										
	2008			2007							
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	2007	2006	2005	2004
Cured without modification(2)	6%	10%	7%	11%	10%	11%	17%	16%	32%	31%	33%
Cured with modification(3)	32	35	37	26	12	31	26	26	29	12	12
Total cured	38	45	44	37	22	42	43	42	61	43	45
Defaults(4)	4	2	2	4	6	3	3	13	9	12	14
90 days or more delinquent	58	53	54	59	72	55	54	45	30	45	41
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

(1) Re-performance rates calculated based on number of loans.

(2) Loans classified as cured without modification consist of the following: (1) loans that are brought current without modification; (2) loans that are paid in full; (3) loans that are repurchased by lenders; (4) loans that have not been modified but are returned to accrual status because they are less than 90 days delinquent; (5) loans for which the default is resolved through long-term forbearance; and (6) loans for which the default is resolved through a repayment plan. We do not extend the maturity date, change the interest rate or otherwise modify the principal amount of any loan that we resolve through long-term forbearance or a repayment plan unless we first purchase the loan from the MBS trust.

(3) Loans classified as cured with modification consist of loans that are brought current or are less than 90 days delinquent as a result of resolution of the default under the loan through the following: (1) a modification that does not result in a concession to the borrower; or (2) a modification that results in a concession to a borrower, which is referred to as a troubled debt restructuring. Concessions may include an extension of the time to repay the loan beyond its original maturity date or a temporary or permanent reduction in the loan's interest rate.

(4) Consists of foreclosures, preforeclosure sales, sales to third parties and deeds in lieu of foreclosure.

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Table 14 below presents cure rates for only those seriously delinquent single-family loans that have been modified after their purchase from MBS trusts. The cure rates for these modified seriously delinquent loans differ substantially from those shown in Table 13, which presents the information for all seriously delinquent loans purchased from our MBS trusts. Loans that have not been modified tend to start with a lower cure rate than those of modified loans, and the cure rate tends to rise over time as loss mitigation strategies for those loans are developed and then implemented. In contrast, modified loans tend to start with a high cure rate, and the cure rate tends to decline over time. For example, as shown below in Table 14, the initial cure rate for modified loans as of the end of 2007 was 85%, compared with 64% as of September 30, 2008.

Table 14: Re-performance Rates of Seriously Delinquent Single-Family Loans Purchased from MBS Trusts and Modified(1)

	Status as of September 30, 2008										
	2008			2007							
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	2007	2006	2005	2004
Cured	98%	85%	74%	65%	61%	64%	68%	64%	77%	74%	71%
Defaults(2)	--	--	1	2	5	7	8	5	9	13	18
90 days or more delinquent	2	15	25	33	34	29	24	31	14	13	11
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

	Status as of the End of Each Respective Period										
	2008			2007							
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	2007	2006	2005	2004
Cured	98%	99%	99%	100%	100%	99%	99%	85%	91%	87%	88%
Defaults(2)	--	--	--	--	--	--	--	1	1	1	1
90 days or more delinquent	2	1	1	--	--	1	1	14	8	12	11
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

(1) Re-performance rates calculated based on number of loans.
(2) Consists of foreclosures, preforeclosure sales, sales to third parties and deeds in lieu of foreclosure.

The substantial majority of the loans reported as cured in Tables 13 and 14 above represent loans for which we believe it is probable that we will collect all of the original contractual principal and interest payments because one or more of the following has occurred: (1) the borrower has brought the loan current without servicer intervention; (2) the loan has paid off; (3) the lender has repurchased the loan; or (4) we have resolved the loan through modification, long-term forbearances or repayment plans. The variance in the cumulative cure rates as of September 30, 2008, compared with the cure rates as of the end of each period in which the loans were purchased from the MBS trust, as displayed in Tables 13 and 14, is primarily due to the amount of time that has elapsed since the loan was purchased to allow for the implementation of a workout solution if necessary. A troubled debt restructuring is the only form of modification in which we do not expect to collect the full original contractual principal and interest amount due under the loan, although other resolutions and modifications may result in our receiving the full amount due, or certain installments due, under the loan over a period of time that is longer than the period of time originally provided for under the loan. Of the percentage of loans in Table 14 reported as cured as of September 30, 2008 for the first three quarters of 2008 and for the years 2007, 2006, 2005 and 2004, approximately 80%, 69%, 63%, 37%, 16% , 4% and 2%, respectively, represented troubled debt restructurings where we have provided a concession to the borrower.

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Required and Optional Purchases of Single Family Loans from MBS Trusts Table 15 presents information on our required and optional purchases of single-family loans from MBS trusts. In this table, we include under "required purchases" our purchases of loans we plan to modify, which typically are considered optional purchases under the trust agreements governing the MBS trusts, because we are not permitted to modify a loan under those trust agreements as long as the loan remains in the MBS trust. Accordingly, we effectively are required to purchase any loans that we plan to modify from the MBS trust.

Table 15: Required and Optional Purchases of Single-Family Loans from MBS Trusts

	Serious Delinquency Rate(1)	Approximate Number of Loans Purchased	Aggregate Unpaid Principal Balance(2)	Required Purchases(3)(4)	Optional Purchases(4)(5)
			(Dollars in billions)		
For the quarter ended:					
December 31, 2007	0.67%	13,200	$ 2.0	74%	26%
March 31, 2008	0.85	11,400	1.8	97	3
June 30, 2008	1.10	5,000	0.9	91	9
September 30, 2008	1.46	3,900	0.7	76	24

(1) Represents serious delinquency rates for conventional single-family loans in Fannie Mae MBS trusts.
(2) Represents unpaid principal balance and accrued interest for single-family loans purchased from MBS trusts during the quarter.
(3) Calculated based on the number of loans purchased that we have classified as "required purchases," divided by the total number of loans we purchased from MBS trusts, during the quarter. Under the applicable trust agreements governing the MBS trusts, we are required to purchase loans from MBS trusts in specific circumstances and have the option to purchase loans from MBS trusts under other conditions.
(4) Beginning with the quarter ended September 30, 2008, we re-examined and enhanced our system for classifying purchases from MBS trusts as required

or optional. If we had we applied the same classifications in prior quarters, our required purchases for the quarters ended December 31, 2007, March 31, 2008, and June 30, 2008, would have been 47%, 80% and 91%, respectively, and our optional purchases for each of those quarters would have been 53%, 20%, and 9%, respectively.

(5) Calculated based on the number of loans purchased on an optional basis divided by the total number of loans we purchased from MBS trusts during the quarter.

The proportion of delinquent loans purchased from MBS trusts for the purpose of modification varies from period to period, driven primarily by factors such as changes in our loss mitigation efforts, as well as changes in interest rates and other market factors. The implementation of HomeSaver Advance has contributed to a reduction in the number of delinquent loans we purchase from MBS trusts. We purchased approximately 45,000 unsecured, outstanding HomeSaver Advance loans with an unpaid principal balance of $301 million as of September 30, 2008. The average advance made was approximately $6,700. These loans, which we report in our condensed consolidated balance sheets as a component of "Other assets," are recorded at their estimated fair value at the date of purchase and assessed for impairment subsequent to the date of purchase. The carrying value of our HomeSaver Advances was $7 million as of September 30, 2008. The fair value of these loans is substantially less than the outstanding unpaid principal balance for several reasons, including the lack of underlying collateral to secure the loans, the large discount that market participants have placed on mortgage-related financial assets, and the uncertainty about how these loans will perform given the current housing market and insufficient amount of time to adequately assess their performance. Several months of payment history is generally required to assess the status of loans that have been resolved through workout alternatives, such as HomeSaver Advance. Because HomeSaver Advance was introduced in 2008, we do not have sufficient history to fully assess the performance of the first lien loans associated with HomeSaver Advance loans. We expect HomeSaver Advance to continue to reduce the number of delinquent loans that we otherwise would have purchased from our MBS trusts for the remainder of 2008. Although our loan purchases have decreased since the end of 2007, we expect that our SOP 03-3 fair value losses for 2008 will be higher than the losses

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recorded for 2007, based on the number of required and optional loans we purchased from MBS trusts during the first nine months of 2008 and the continued weakness in the housing market, which has reduced the underlying value of these loans. Credit Loss Performance Metrics Management views our credit loss performance metrics, which include our historical credit losses and our credit loss ratio, as significant indicators of the effectiveness of our credit risk management strategies. Management uses these metrics together with other credit risk measures to assess the credit quality of our existing guaranty book of business, make determinations about our loss mitigation strategies, evaluate our historical credit loss performance and determine the level of our loss reserves. These metrics, however, are not defined terms within GAAP and may not be calculated in the same manner as similarly titled measures reported by other companies. Because management does not view changes in the fair value of our mortgage loans as credit losses, we exclude SOP 03-3 and HomeSaver Advance fair value losses from our credit loss performance metrics. However, we include in our credit loss performance metrics the impact of any credit losses we experience on loans subject to SOP 03-3 or first lien loans associated with HomeSaver Advance loans that ultimately result in foreclosure. We believe that our credit loss performance metrics are useful to investors because they reflect how management evaluates our credit performance and the effectiveness of our credit risk management strategies and loss mitigation efforts. They also provide a consistent treatment of credit losses for on- and off-balance sheet loans. Moreover, by presenting credit losses with and without the effect of SOP 03-3 and HomeSaver Advance fair value losses, investors are able to evaluate our credit performance on a more consistent basis among periods. Table 16 below details the components of our credit loss performance metrics, which exclude the effect of SOP 03-3 and HomeSaver Advance fair value losses, for the three and nine months ended September 30, 2008 and 2007.

Table 16: Credit Loss Performance Metrics

	For the Three Months Ended September 30,				For the Nine Months Ended September 30,			
	2008		2007		2008		2007	
	Amount	Ratio(1)	Amount	Ratio(1)	Amount	Ratio(1)	Amount	Ratio(1)
	(Dollars in millions)							
Charge-offs, net of recoveries	$ 2,084	28.6 bp	$ 838	13.1 bp	$ 4,707	22.0 bp	$ 1,222	6.6 bp
Foreclosed property expense	478	6.5	113	1.8	912	4.3	269	1.4
Less: SOP 03-3 and HomeSaver Advance fair value losses(2)	(519)	(7.2)	(670)	(10.6)	(1,750)	(8.2)	(805)	(4.3)
Plus: Impact of SOP 03-3 on charge-offs and foreclosed property expense(3)	128	1.8	62	1.0	426	2.0	113	0.6
Credit losses(4)	$ 2,171	29.7 bp	$ 343	5.3 bp	$ 4,295	20.1 bp	$ 799	4.3 bp

(1) Based on the annualized amount for each line item presented divided by the average guaranty book of business during the period. We previously calculated our credit loss ratio based on annualized credit losses as a percentage of our mortgage credit book of business, which includes non-Fannie Mae mortgage-related securities held in our mortgage investment portfolio that we do not guarantee. Because losses related to non-Fannie Mae mortgage-related securities are not reflected in our credit losses, we revised the calculation of our credit loss ratio to reflect credit losses as a percentage of our guaranty book of business. Our credit loss ratio calculated based on our mortgage credit book of business would have been 28.4 basis points and 5.0 basis points for the three months ended September 30, 2008 and 2007, respectively. Our charge-off ratio calculated based on our mortgage credit book of business would have been 27.3 basis points and 12.3 basis points for the three months ended September 30, 2008 and 2007, respectively. Our credit loss ratio calculated based on our mortgage credit book of business would have been 19.1 basis points and 4.0 basis points for the nine months ended September 30, 2008 and 2007, respectively. Our charge-off ratio calculated based on our mortgage credit book of business

would have been 21.0 basis points and 6.2 basis points for the nine months ended September 30, 2008 and 2007, respectively.

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(2) Represents the amount recorded as a loss when the acquisition cost of a delinquent loan purchased from an MBS trust that is subject to SOP 03-3 exceeds the fair value of the loan at acquisition. Also includes the difference between the unpaid principal balance of HomeSaver Advance loans at origination and the estimated fair value of these loans that we record in our condensed consolidated balance sheets.
(3) For seriously delinquent loans purchased from MBS trusts that are recorded at a fair value amount at acquisition that is lower than the acquisition cost, any loss recorded at foreclosure would be less than it would have been if we had recorded the loan at its acquisition cost instead of at fair value. Accordingly, we have added back to our credit losses the amount of charge-offs and foreclosed property expense that we would have recorded if we had calculated these amounts based on the purchase price.
(4) Interest forgone on nonperforming loans in our mortgage portfolio, which is presented in Table 44, reduces our net interest income but is not reflected in our credit losses total. In addition, other-than-temporary impairment losses resulting from deterioration in the credit quality of our mortgage-related securities and accretion of interest income on loans subject to SOP 03-3 are excluded from credit losses.

Our credit loss ratio increased to 29.7 basis points and 20.1 basis points for the third quarter and first nine months of 2008, respectively, from 5.3 basis points and 4.3 basis points for the third quarter and first nine months of 2007, respectively. The substantial increase in our credit losses reflected the impact of a further deterioration of conditions in the housing and credit markets. The national decline in home prices and the general economic weakness affecting many states, including those in the Midwest, have continued to contribute to higher default rates and loan loss severities, particularly for certain higher risk loan categories, loan vintages and loans within certain states that have had the greatest home price depreciation from their recent peaks. Our credit loss ratio including the effect of SOP 03-3 and HomeSaver Advance fair value losses was 35.1 basis points and 26.3 basis points for the third quarter and first nine months of 2008, respectively, and 14.9 basis points and 8.0 basis points for the third quarter and first nine months of 2007, respectively. Certain higher risk loan types, such as Alt-A loans, interest-only loans, loans to borrowers with low credit scores and loans with high loan-to-value ratios, many of which were originated in 2006 and 2007, represented approximately 28% of our single-family conventional mortgage credit book of business as of September 30, 2008, but accounted for approximately 72% and 71% of our single-family credit losses for the third quarter and first nine months of 2008, respectively, compared with 56% and 53% for the third quarter and first nine months of 2007, respectively. The states of California, Florida, Arizona and Nevada, which represented approximately 27% of our single-family conventional mortgage credit book of business as of September 30, 2008, accounted for 55% and 48% of our single-family credit losses for the third quarter and first nine months of 2008, respectively, compared with 17% and 10% for the third quarter and first nine months of 2007, respectively. Michigan and Ohio, two key states driving credit losses in the Midwest, represented approximately 6% of our single-family conventional mortgage credit book of business as of September 30, 2008, but accounted for 14% and 18% of our single-family credit losses for the third quarter and first nine months of 2008, respectively, compared with 39% and 41% for the third quarter and first nine months of 2007, respectively. We provide more detailed credit performance information, including serious delinquency rates by geographic region, statistics on nonperforming loans and foreclosed property activity, in "Risk Management--Credit Risk Management--Mortgage Credit Risk Management--Mortgage Credit Book of Business." Regulatory Hypothetical Stress Test Scenario Pursuant to a September 2005 agreement with OFHEO, we disclose on a quarterly basis the present value of the change in future expected credit losses from our existing single-family guaranty book of business from an immediate 5% decline in single-family home prices for the entire United States. Table 17 shows the credit loss sensitivity before and after consideration of projected credit risk sharing proceeds, such as private mortgage insurance claims and other credit enhancement, as of September 30, 2008 and December 31, 2007 for first lien single-family whole loans we own or that back Fannie Mae MBS. The sensitivity results represent the difference between our base case scenario of the present value of expected credit losses and credit risk sharing proceeds, derived from our internal home price path forecast, and a scenario that assumes an instantaneous nationwide 5% decline in home prices.

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Table 17: Single-Family Credit Loss Sensitivity(1)

	As of September 30, 2008	As of December 31, 2007
	(Dollars in millions)	
Gross single-family credit loss sensitivity(2)	$ 12,766	$ 9,644
Less: Projected credit risk sharing proceeds	(3,898)	(5,102)
Net single-family credit loss sensitivity(2)	$ 8,868	$ 4,542
Outstanding single-family whole loans and Fannie Mae MBS	$ 2,693,735	$ 2,523,440
Single-family net credit loss sensitivity as a percentage of outstanding single-family whole loans and Fannie Mae MBS	0.33%	0.18%

(1) For purposes of this calculation, we assume that, after the initial 5% shock, home price growth rates return to the average of the possible growth rate paths used in our internal credit pricing models. The present value change reflects the increase in future expected credit losses under this shock scenario.
(2) Represents total economic credit losses, which consist of credit losses and forgone interest. Calculations are based on approximately 97% of our total single-family guaranty book of business as of both September 30, 2008 and December 31, 2007. The mortgage loans and mortgage-related securities that are included in these estimates consist of: (i) single-family Fannie Mae MBS (whether held in our mortgage portfolio or held by third parties), excluding certain whole loan REMICs and private-label wraps; (ii) single-family mortgage loans, excluding mortgages secured only by second liens, subprime mortgages, manufactured housing chattel loans and reverse mortgages; and (iii) long-term standby commitments. We expect the inclusion in our estimates of the excluded products may impact the estimated

sensitivities set forth in this table.

The increase in the credit loss sensitivities since December 31, 2007 reflects the decline in home prices during the first nine months of 2008 and the current negative near-term outlook for the housing and credit markets. These higher sensitivities also reflect the impact of updates to our underlying credit loss estimation models to capture the credit risk associated with the rapidly deteriorating conditions in the housing market. An environment of continuing lower home prices affects the frequency and timing of defaults and increases the level of credit losses, resulting in greater loss sensitivities. Although the anticipated credit risk sharing proceeds have increased as home prices have declined, the expected amount of proceeds resulting from a 5% home price shock are lower. As home prices decline, the number of loans without mortgage insurance that are projected to default increases and the losses on loans with mortgage insurance that default are more likely to increase to a level that exceeds the level of mortgage insurance. Our regulatory stress test scenario assumes an instantaneous uniform 5% nationwide decline in home prices, which is not representative of the historical pattern of changes in home prices. Changes in home prices generally vary on a regional basis. In addition, the stress test scenario is calculated independently without considering changes in other interrelated assumptions, such as unemployment rates or other economic factors, would likely have a significant impact on our future expected credit losses. Other Non-Interest Expenses Other non-interest expenses consists of credit enhancement expenses, which reflect the amortization of the credit enhancement asset we record at the inception of guaranty contracts, costs associated with the purchase of additional mortgage insurance to protect against credit losses, net gains and losses on the extinguishment of debt, the accrual of the costs of our possible contribution to the affordable housing trust fund, regulatory penalties and other miscellaneous expenses. Other non-interest expenses increased to $147 million and $938 million for the third quarter and first nine months of 2008, respectively, from $95 million and $259 million for the third quarter and first nine months of 2007, respectively. The increase in expenses for the third quarter of 2008 was predominately due to the accrual of the costs of our possible contribution to the affordable housing trust fund. Although we are accruing amounts for payment to the affordable housing trust fund, the amount of our first contribution has not yet been determined. The Director of FHFA has the authority to temporarily suspend this requirement if payment would contribute to our financial instability, cause us to be classified as undercapitalized or prevent us from successfully completing a capital restoration plan. The increase in expenses for the first nine months of 2008 was predominately due to a reduction in the

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amount of net gains recognized on the extinguishment of debt and interest expense related to an increase in our unrecognized tax benefit. Federal Income Taxes Although we incurred pre-tax losses for the third quarter and first nine months of 2008, we did not record a tax benefit for these losses. Instead, we recorded a provision for federal income taxes of $17.0 billion and $13.6 billion for the third quarter and first nine months of 2008, respectively. These amounts reflect the impact of a non-cash charge of $21.4 billion recorded in the third quarter of 2008 to establish a partial deferred tax asset valuation allowance against our net deferred tax assets as of September 30, 2008. As a result of the partial valuation allowance, we did not record tax benefits for the majority of the losses we incurred during the third quarter and first nine months of 2008. We discuss the factors that led us to record a partial valuation allowance against our net deferred tax assets in "Critical Accounting Policies and Estimates--Deferred Tax Assets" and "Notes to Condensed Consolidated Financial Statements--Note 11, Income Taxes." The amount of deferred tax assets considered realizable is subject to adjustment in future periods. We will continue to monitor all available evidence related to our ability to utilize our remaining deferred tax assets. If we determine that recovery is not likely, we will record an additional valuation allowance against the deferred tax assets that we estimate may not be recoverable. Our income tax expense in future periods will be reduced or increased to the extent of offsetting decreases or increases to our valuation allowance. We recorded a tax benefit of $582 million and $468 million for the third quarter and first nine months of 2007, respectively, which resulted from the combined effect of a pre-tax loss for the third quarter of 2007 and tax credits generated from our LIHTC partnership investments. BUSINESS SEGMENT RESULTS The presentation of the results of each of our three business segments is intended to reflect each segment as if it were a stand-alone business. We describe the management reporting and allocation process that we use to generate our segment results in our 2007 Form 10-K in "Notes to Consolidated Financial Statements--Note 15, Segment Reporting." We summarize our segment results for the three and nine months ended September 30, 2008 and 2007 in the tables below and provide a discussion of these results. We include more detail on our segment results in "Notes to Condensed Consolidated Financial Statements--Note 14, Segment Reporting." Single-Family Business Our Single-Family business recorded a net loss of $14.2 billion and $17.6 billion for the third quarter and first nine months of 2008, respectively, compared with a net loss of $186 million for the third quarter of 2007 and net income of $305 million for the first nine months of 2007. Table 18 summarizes the financial results for our Single-Family business for the periods indicated.

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Table 18: Single-Family Business Results

	For the Three Months Ended September 30, 2008	2007	For the Nine Months Ended September 30, 2008	2007	Quarterly Variance	%	Year-to-Date Variance	%
					(Dollars in millions)			
Statement of operations data:								
Guaranty fee income	$ 1,674	$ 1,424	$ 5,435	$ 4,015	$ 250	18%	$ 1,420	35%
Trust management income	63	138	242	433	(75)	(54)	(191)	(44)
Other income(1)(2)	184	133	569	493	51	38	76	15
Losses on certain guaranty contracts	--	(292)	--	(1,023)	292	100	1,023	100
Credit-related expenses(3)	(9,215)	(1,195)	(17,808)	(2,040)	(8,020)	(671)	(15,768)	(773)
Other expenses(1)(4)	(383)	(492)	(1,377)	(1,414)	109	22	37	3
Income (loss) before federal income taxes	(7,677)	(284)	(12,939)	464	(7,393)	(2,603)	(13,403)	(2,889)

Benefit (provision) for federal income taxes	(6,550)	98	(4,702)	(159)	(6,648)	(6,784)	(4,543)	(2,857)
Net income (loss)	$ (14,227)	$ (186)	$ (17,641)	$ 305	$ (14,041)	(7,549)%	$ (17,946)	(5,884)%
Other key performance data:								
Average single-family guaranty book of business(5)	$ 2,753,293	$ 2,432,904	$ 2,693,909	$ 2,359,126	$ 320,389	13%	$ 334,783	14%

(1) Certain prior period amounts have been reclassified to conform with the current period presentation in our condensed consolidated statements of operations.
(2) Consists of net interest income, investment gains and losses, and fee and other income.
(3) Consists of the provision for credit losses and foreclosed property expense.
(4) Consists of administrative expenses and other expenses.
(5) The single-family guaranty book of business consists of single-family mortgage loans held in our mortgage portfolio, single-family Fannie Mae MBS held in our mortgage portfolio, single-family Fannie Mae MBS held by third parties, and other credit enhancements that we provide on single-family mortgage assets. Excludes non-Fannie Mae mortgage-related securities held in our investment portfolio for which we do not provide a guaranty.

Key factors affecting the results of our Single-Family business for the third quarter and first nine months of 2008 compared with the third quarter and first nine months of 2007 included the following.

ù Increased guaranty fee income, attributable to growth in the average single-family guaranty book of business, coupled with an increase in the average effective single-family guaranty fee rate.

We experienced an increase of 13% and 14% in our average single-family guaranty book of business for the third quarter and first nine months of 2008 over the third quarter and first nine months of 2007, respectively, reflecting the significant increase in our market share since the end of the second quarter of 2007. Our single-family guaranty book of business increased to $2.8 trillion as of September 30, 2008, from, $2.4 trillion as of June 30, 2007. Our estimated market share of new single-family mortgage-related securities issuances, which is based on publicly available data and excludes previously securitized mortgages, increased to approximately 46% for the first nine months of 2008, from approximately 31% for the first nine months of 2007.
Our average effective single-family guaranty fee rate increased to 24.3 basis points and 26.9 basis points for the third quarter and first nine months of 2008, respectively, from 23.4 basis points and 22.7 basis points for the third quarter and first nine months of 2007, respectively. The growth in our average effective single-family guaranty fee rate for the third quarter and first nine months of 2008 reflected the impact of guaranty fee pricing changes and a shift in the composition of our guaranty book of business to a greater proportion of higher-quality, lower risk and lower guaranty fee mortgages, as we reduced our

acquisitions of higher risk, higher fee product categories, such as Alt-A

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loans. Our average effective single-family guaranty fee rate for the first nine months of 2008 also reflected the accelerated recognition of deferred amounts into income as interest rates were generally lower in the first nine months of 2008 than in the first nine months of 2007.

ù A substantial increase in credit-related expenses, primarily due to an increase in the provision for credit losses due to higher charge-offs, as well as a higher incremental provision to build our loss reserves, reflecting worsening credit performance trends, including significant increases in delinquencies, default rates and average loan loss severities, particularly in certain states and higher risk loan categories. We also experienced an increase in SOP 03-3 fair value losses for the first nine months of 2008.

ù A non-cash charge during the third quarter of 2008 to establish a partial deferred tax asset valuation allowance against our net deferred tax assets as of September 30, 2008. As a result of the partial deferred tax valuation allowance, we did not record tax benefits for the majority of the losses we incurred during the third quarter and first nine months of 2008. The allocation of this charge, which totaled $21.4 billion, to our Single-Family business resulted in a provision for federal income taxes of $6.6 billion and $4.7 billion for the third quarter and first nine months of 2008, respectively.

To assess the value of our underlying guaranty business, we focus primarily on changes in the fair value of our net guaranty business resulting from business growth, changes in the credit quality of existing guaranty arrangements and changes in anticipated future credit performance. As discussed in "Risk Management--Interest Rate Risk Management and Other Market Risks," we do not actively manage the change in the fair value of our guaranty business that is attributable to changes in interest rates. HCD Business Our HCD business recorded net loss of $2.6 billion and $2.4 billion for the third quarter and first nine months of 2008, respectively, compared with net income of $97 million and $370 million for the third quarter and first nine months of 2007, respectively. Table 19 summarizes the financial results for our HCD business for the periods indicated.

Table 19: HCD Business Results

	For the Three Months Ended September 30, 2008	2007	For the Nine Months Ended September 30, 2008	2007	Quarterly Variance	%	Year-to-Date Variance	%
	(Dollars in millions)							
Statement of operations data:								
Guaranty fee income	$ 161	$ 115	$ 443	$ 326	$ 46	40%	$ 117	36%
Other income(1)	45	78	161	278	(33)	(42)	(117)	(42)
Losses on partnership investments	(587)	(147)	(923)	(527)	(440)	(299)	(396)	(75)
Credit-related income (expenses)(2)	(26)	(5)	(25)	1	(21)	(420)	(26)	(2,600)
Other expenses(3)	(167)	(245)	(646)	(755)	78	32	109	14
Loss before federal income taxes	(574)	(204)	(990)	(677)	(370)	(181)	(313)	(46)
Benefit (provision) for federal income taxes	(2,025)	301	(1,387)	1,047	(2,326)	(773)	(2,434)	(232)
Net income (loss)	$ (2,599)	$ 97	$ (2,377)	$ 370	$ (2,696)	(2,779)%	$ (2,747)	(742)%
Other key performance data:								
Average multifamily guaranty book of business(4)	$ 166,369	$ 131,643	$ 158,824	$ 127,061	$ 34,726	26%	$ 31,763	25%

(1) Consists of trust management income and fee and other income (expense).
(2) Consists of provision for credit losses and foreclosed property income (expense).
(3) Consists of net interest expense, losses on certain guaranty contracts, administrative expenses, minority interest in (earnings) losses of consolidated subsidiaries and other expenses.
(4) The multifamily guaranty book of business consists of multifamily mortgage loans held in our mortgage portfolio, multifamily Fannie Mae MBS held in our mortgage portfolio, multifamily Fannie Mae MBS held by third parties and other credit enhancements that we provide on multifamily mortgage assets. Excludes non-Fannie Mae mortgage-related securities held in our investment portfolio for which we do not provide a guaranty.

Key factors affecting the results of our HCD business for the third quarter and first nine months of 2008 compared with the third quarter and first nine months of 2007 included the following.

ù Increased guaranty fee income, attributable to growth in the average multifamily guaranty book of business and an increase in the average effective multifamily guaranty fee rate. These increases reflect the increased investment and liquidity that we are providing to the multifamily mortgage market.

ù A decrease in other income, attributable to lower multifamily fees due to a reduction in multifamily loan liquidations for the first nine months of 2008.

ù An increase in losses on partnership investments, primarily due to other-than-temporary impairment of $245 million that we recorded in the third quarter of 2008 on our LIHTC partnership investments due to our potential inability to realize the future tax benefits generated by these investments. In addition, we experienced an increase in losses on our investments in rental and for-sale affordable housing

ù A non-cash charge during the third quarter of 2008 to establish a partial deferred tax asset valuation allowance against our net deferred tax assets as of September 30, 2008. As a result of the partial deferred tax valuation allowance, we did not record tax benefits for the majority of the losses we incurred during the third quarter and first nine months of 2008. The allocation of this charge, which totaled $21.4 billion, to our HCD business resulted in a provision for federal income taxes of $2.0 and $1.4 billion for the third quarter and first nine months of 2008, respectively. In comparison, we recorded a tax benefit of $301 million and $1.0 billion for the third quarter and first nine months of 2007, respectively, driven by tax credits of $231 million and $735 million, respectively.

Capital Markets Group Our Capital Markets group recorded a net loss of $12.2 billion and $13.5 billion for the third quarter and first nine months of 2008, respectively, compared with a net loss of $1.3 billion for the third quarter of 2007 and net income of $834 million for the first nine months of 2007. Table 20 summarizes the financial results for our Capital Markets group for the periods indicated.

Table 20: Capital Markets Group Results

	For the Three Months Ended September 30, 2008	2007	For the Nine Months Ended September 30, 2008	2007	Quarterly Variance	%	Year-to-Date Variance	%
	(Dollars in millions)							
Statement of operations data:								
Net interest income	$ 2,308	$ 1,064	$ 5,970	$ 3,455	$ 1,244	117%	$ 2,515	73%
Investment losses, net(1)	(1,607)	(112)	(2,516)	89	(1,495)	(1,335)	(2,605)	(2,927)
Fair value gains (losses), net(1)	(3,947)	(2,082)	(7,807)	(1,224)	(1,865)	(90)	(6,583)	(538)
Fee and other income(1)	53	67	198	254	(14)	(21)	(56)	(22)
Other expenses(2)	(444)	(433)	(1,660)	(1,317)	(11)	(3)	(343)	(26)

Income (loss) before federal income taxes and extraordinary losses, net of tax effect	(3,637)	(1,496)	(5,815)	1,257	(2,141)	(143)	(7,072)	(563)
Benefit (provision) for federal income taxes	(8,436)	183	(7,518)	(420)	(8,619)	(4,710)	(7,098)	(1,690)
Extraordinary gains (losses), net of tax effect	(95)	3	(129)	(3)	(98)	(3,267)	(126)	(4,200)
Net income (loss)	$ (12,168)	$ (1,310)	$ (13,462)	$ 834	$ (10,858)	(829)%	$ (14,296)	(1,714)%

(1) Certain prior period amounts have been reclassified to conform with the current period presentation in our condensed consolidated statements of operations.
(2) Includes debt extinguishment losses, allocated guaranty fee expense, administrative expenses and other expenses.

Key factors affecting the results of our Capital Markets group for the third quarter and first nine months of 2008 compared with the third quarter and first nine months of 2007 included the following.

ù An increase in net interest income, primarily attributable to an expansion of our net interest yield driven by the reduction in short-term interest rates, which reduced the average cost of our debt, and a shift in our funding mix to more short-term debt. The reversal of accrued interest expense on step-rate debt that we paid off during the first quarter of 2008 also reduced the average cost of our debt. The increase in our net interest income does not reflect the impact of a significant increase in the net contractual interest expense on our interest rate swaps.
ù An increase in fair value losses, primarily attributable to losses on our trading securities and derivatives. The losses on our trading securities resulted from the significant widening of spreads, particularly on Alt-A and CMBS private-label securities and losses on some of our non-mortgage investments in corporate debt securities due to the default or distressed financial condition of the issuers of these securities. The losses on our derivatives resulted from a decrease in swap interest rates, which caused a significant increase in the net contractual interest expense on our interest rate swaps, and time decay associated with our purchased options, which was partially offset by an increase in value due to an increase in implied volatility during the quarter.
ù A significant increase in investment losses due to other-than-temporary impairment on available-for-sale securities, principally for Alt-A and subprime private-label securities, reflecting a reduction in expected cash flows due to higher expected defaults and loss severities on the underlying mortgages.
ù A non-cash charge during the third quarter of 2008 to establish a partial deferred tax asset valuation allowance against our net deferred tax assets as of September 30, 2008. As a result of the partial deferred

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tax valuation allowance, we did not record tax benefits for the majority of the losses we incurred during the third quarter and first nine months of 2008. The allocation of this charge, which totaled $21.4 billion, to our Capital Markets group resulted in a provision for federal income taxes of $8.4 and $7.5 billion for the third quarter and first nine months of 2008, respectively.

CONSOLIDATED BALANCE SHEET ANALYSIS Total assets of $896.6 billion as of September 30, 2008 increased by $17.2 billion, or 2%, from December 31, 2007. Total liabilities of $887.2 billion increased by $51.9 billion, or 6%, from December 31, 2007. Stockholders' equity of $9.3 billion decreased by $34.7 billion, or 79%, from December 31, 2007, primarily due to the non-cash charge of $21.4 billion that we recorded in the third quarter of 2008 to establish a partial deferred tax asset valuation allowance as well as pre-tax losses recognized during the periods. Following is a discussion of material changes in the major components of our assets and liabilities since December 31, 2007. See "Liquidity and Capital Management--Capital Management--Capital Activity," for additional discussion of changes in our stockholders' equity. Mortgage Investments Table 21 summarizes our mortgage portfolio activity for the three and nine months ended September 30, 2008 and 2007.

Table 21: Mortgage Portfolio Activity(1)

	For the Three Months Ended September 30,		Variance		For the Nine Months Ended September 30,		Variance	
	2008	2007		%	2008	2007		%
	(Dollars in millions)							
Purchases(2)	$ 45,391	$ 48,901	$ (3,510)	(7)%	$ 141,206	$ 132,905	$ 8,301	6%
Sales	13,038	20,190	(7,152)	(35)	35,618	45,229	(9,611)	(21)
Liquidations(3)	21,174	28,869	(7,695)	(27)	69,765	93,777	(24,012)	(26)

(1) Excludes unamortized premiums, discounts and other cost basis adjustments.
(2) Excludes advances to lenders and mortgage-related securities acquired through the extinguishment of debt.
(3) Includes scheduled repayments, prepayments and foreclosures.

Our mortgage portfolio activity for the first nine months of 2008 was affected by market conditions, as well as certain regulatory actions and requirements, including the following:

ù For the first two months of 2008, we were subject to an OFHEO-directed limitation on the size of our mortgage portfolio, which is described in our 2007 Form 10-K. Effective March 1, 2008, OFHEO removed the limitation on the size of our mortgage portfolio.

ù On March 19, 2006, OFHEO reduced the 30% capital surplus requirement, which was part of our May 2006 consent order with OFHEO, to 20%. In May 2008, OFHEO further reduced our capital surplus requirement to 15%.
ù As discussed in "Executive Summary--Managing Our Business During Conservatorship," the senior preferred stock purchase agreement requires us to decrease our mortgage portfolio by 10% per year beginning in 2010; however, we are permitted under that agreement to increase our mortgage portfolio temporarily to up to $850 billion and to maintain our mortgage portfolio at that level through December 31, 2009. In addition, FHFA has directed us to acquire and hold increased amounts of mortgage loans and mortgage-related securities in our mortgage portfolio to provide additional liquidity to the mortgage market.

Although the significant widening of mortgage-to-debt spreads during the first nine months presented more opportunities for us to purchase mortgage assets at attractive prices and spreads, we limited our mortgage

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portfolio purchases in the earlier part of the year to preserve capital. We were able to expand our mortgage portfolio purchases during the second quarter of 2008 as a result of OFHEO's reduction in our capital surplus and the additional capital raised from the issuance of equity securities in May and June 2008. Since July 2008, we have experienced significant limitations on our ability to issue callable or long-term debt. Because of these limitations, we increased our portfolio at a slower rate in the third quarter of 2008 than in the second quarter and we may not be able to further increase the size of our mortgage portfolio. For a discussion of these limitations, see "Liquidity and Capital Management--Liquidity--Funding--Debt Funding Activity." We experienced a decrease in mortgage sales during the third quarter and first nine months of 2008 relative to the third quarter and first nine months of 2007, due in part to the significant widening of spreads and less favorable market conditions for the sale of mortgage assets. We experienced a decrease in mortgage liquidations during the third quarter and first nine months of 2008 relative to the third quarter and first nine months of 2007, reflecting a decline in refinancing activity due to the continuing deterioration in the housing market and tightening of credit standards in the primary mortgage market, as well as higher mortgage interest rates. Table 22 shows the composition of our net mortgage portfolio by product type and the carrying value as of September 30, 2008 and December 31, 2007. Our net mortgage portfolio totaled $744.7 billion as of September 30, 2008, reflecting an increase of 3% from December 31, 2007.

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Table 22: Mortgage Portfolio Composition(1)

	As of	
	September 30,	December 31,

	2008	2007
	(Dollars in millions)	
Mortgage loans:(2)		
Single-family:		
Government insured or guaranteed(3)	$ 40,082	$ 28,202
Conventional:		
Long-term, fixed-rate	170,870	193,607
Intermediate-term, fixed-rate(4)	39,022	46,744
Adjustable-rate	44,873	43,278
Total conventional single-family	254,765	283,629
Total single-family	294,847	311,831
Multifamily:		
Government insured or guaranteed(3)	731	815
Conventional:		
Long-term, fixed-rate	5,589	5,615
Intermediate-term, fixed-rate(4)	87,886	73,609
Adjustable-rate	18,618	11,707
Total conventional multifamily	112,093	90,931
Total multifamily	112,824	91,746
Total mortgage loans	407,671	403,577
Unamortized premiums and other cost basis adjustments, net	82	726
Lower of cost or market adjustments on loans held for sale	(208)	(81)
Allowance for loan losses for loans held for investment	(1,803)	(698)
Total mortgage loans, net	405,742	403,524
Mortgage-related securities:		
Fannie Mae single-class MBS	152,255	102,258
Fannie Mae structured MBS	70,830	77,905
Non-Fannie Mae single-class mortgage securities	27,907	28,129
Non-Fannie Mae structured mortgage securities(5)	89,907	96,373
Mortgage revenue bonds	15,623	16,315
Other mortgage-related securities	2,973	3,346
Total mortgage-related securities	359,495	324,326
Market value adjustments(6)	(16,820)	(3,249)
Other-than-temporary impairments	(2,952)	(603)
Unamortized discounts and other cost basis adjustments, net(7)	(772)	(1,076)
Total mortgage-related securities, net	338,951	319,398
Mortgage portfolio, net(8)	$ 744,693	$ 722,922

(1) Mortgage loans and mortgage-related securities are reported at unpaid principal balance.
(2) Mortgage loans include unpaid principal balance totaling $59.0 billion and $81.8 billion as of September 30, 2008 and December 31, 2007, respectively, related to mortgage-related securities that were consolidated under Financial Accounting Standards Board Interpretation ("FIN") No. 46R (revised December 2003), Consolidation of Variable Interest Entities (an interpretation of ARB No. 51) ("FIN 46R"), and mortgage-related securities created from securitization transactions that did not meet the sales criteria under SFAS No. 140, Accounting for Transfer and Servicing of Financial Assets and Extinguishments of Liabilities (a replacement of FASB Statement No. 125) ("SFAS 140"), which effectively resulted in mortgage-related securities being accounted for as loans.

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(3) Refers to mortgage loans that are guaranteed or insured by the U.S.

government or its agencies, such as the Department of Veterans Affairs, Federal Housing Administration or the Rural Development Housing and Community Facilities Program of the Department of Agriculture.

(4) Intermediate-term, fixed-rate consists of mortgage loans with contractual maturities at purchase equal to or less than 15 years.

(5) Includes private-label mortgage-related securities backed by Alt-A or subprime mortgage loans totaling $54.6 billion and $64.5 billion as of September 30, 2008 and December 31, 2007, respectively. Refer to "Trading and Available-for-Sale Investment Securities--Investments in Private-Label Mortgage-Related Securities" for a description of our investments in Alt-A and subprime securities.

(6) Includes unrealized gains and losses on mortgage-related securities and securities commitments classified as trading and available-for-sale.

(7) Includes the impact of other-than-temporary impairments of cost basis adjustments.

(8) Includes consolidated mortgage-related assets acquired through the assumption of debt. Also includes $1.1 billion and $538 million as of September 30, 2008 and December 31, 2007, respectively, of mortgage loans and mortgage-related securities that we have pledged as collateral and which counterparties have the right to sell or repledge.

Cash and Other Investments Portfolio Our cash and other investments portfolio consists of cash and cash equivalents, federal funds sold and securities purchased under agreements to resell and non-mortgage investment securities. Our cash and other investments portfolio totaled $91.5 billion and $91.1 billion as of September 30, 2008 and December 31, 2007, respectively. Under our current liquidity policy, our initial source of liquidity in the event of a liquidity crisis that restricts our access to the unsecured debt market is the sale or maturation of assets in our cash and other investments portfolio. We significantly increased our cash and cash equivalents during the third quarter of 2008 to $36.3 billion as of September 30, 2008. In comparison, our cash and cash equivalents totaled $3.9 billion as of December 31, 2007. See "Liquidity and Capital Management--Liquidity--Liquidity Risk Management--Liquidity Contingency Plan--Cash and Other Investments Portfolio" for more information on our cash and other investments portfolio. Trading and Available-for-Sale Investment Securities Our mortgage investment securities are classified in our condensed consolidated balance sheets as either trading or available for sale and reported at fair value. In conjunction with our January 1, 2008 adoption of SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities ("SFAS 159"), we elected to reclassify all of our non-mortgage investment securities from available for sale to trading. Table 23 shows the composition of our trading and available-for-sale securities at amortized cost and fair value as of September 30, 2008, which totaled $379.4 billion and $360.7 billion, respectively. We also disclose the gross unrealized gains and gross unrealized losses related to our available-for-sale securities as of September 30, 2008, and a stratification of these losses based on securities that have been in a continuous unrealized loss position for less than 12 months and for 12 months or longer.

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Table 23: Trading and Available-for-Sale Investment Securities

As of September 30, 2008

	Amortized Cost(1)	Gross Unrealized Gains	Gross Unrealized Losses	Total Fair Value	Less Than 12 Consecutive Months Gross Unrealized Losses	Less Than 12 Consecutive Months Total Fair Value	12 Consecutive Months or Longer Gross Unrealized Losses	12 Consecutive Months or Longer Total Fair Value
	(Dollars in millions)							
Trading:								
Fannie Mae single-class MBS	$ 48,031	--	--	$ 48,576	--	--	--	--
Fannie Mae structured MBS	10,579	--	--	10,471	--	--	--	--
Non-Fannie Mae single-class mortgage-related securities	1,080	--	--	1,084	--	--	--	--
Non-Fannie Mae structured mortgage-related securities	20,080	--	--	16,106	--	--	--	--
Mortgage revenue bonds	799	--	--	660	--	--	--	--
Asset-backed securities	12,494	--	--	11,929	--	--	--	--
Corporate debt securities	8,916	--	--	7,657	--	--	--	--
Other non-mortgage-related securities	2,188	--	--	2,188	--	--	--	--
Total trading	$ 104,167	--	--	$ 98,671	--	--	--	--
Available for sale:								
Fannie Mae single-class MBS	$ 103,669	$ 665	$ (1,183)	$ 103,151	$ (974)	$ 60,991	$ (209)	$ 6,949
Fannie Mae structured MBS	59,989	489	(773)	59,705	(447)	27,410	(326)	7,532
Non-Fannie Mae single-class mortgage-related securities	26,634	261	(127)	26,768	(104)	10,427	(23)	1,132
Non-Fannie Mae structured mortgage-related securities	67,493	70	(10,903)	56,660	(3,267)	20,817	(7,636)	27,823
Mortgage revenue bonds	14,817	28	(1,682)	13,163	(800)	7,554	(882)	3,900
Other mortgage-related securities	2,600	114	(107)	2,607	(85)	1,102	(22)	132
Total available for sale	$ 275,202	$ 1,627	$ (14,775)	$ 262,054	$ (5,677)	$ 128,301	$ (9,098)	$ 47,468
Total investments in securities	$ 379,369	$ 1,627	$ (14,775)	$ 360,725	$ (5,677)	$ 128,301	$ (9,098)	$ 47,468

(1) Amortized cost includes unamortized premiums, discounts and other cost basis adjustments, as well as other-than-temporary impairment write downs.

The estimated fair value of our available-for-sale securities decreased to $262.1 billion as of September 30, 2008 from $293.6 billion as of December 31, 2007. Gross unrealized losses related to these securities totaled $14.8 billion as of September 30, 2008, compared with $4.8 billion as of December 31, 2007. The increase in gross unrealized losses during the first nine months of 2008 was primarily due to significantly wider spreads during the period, which reduced the fair value of substantially all of our mortgage-related securities, particularly our private-label mortgage-related securities backed by Alt-A, subprime, and commercial multifamily loans. We discuss our process for assessing our available-for-sale investment securities for other-than-temporary impairment below. Investments in Private-Label Mortgage-Related Securities The non-Fannie Mae mortgage-related security categories presented in Table 23 above include agency mortgage-related securities issued or guaranteed by Freddie Mac or Ginnie Mae and private-label mortgage-related securities backed by Alt-A, subprime, multifamily, manufactured housing or other mortgage loans. We do not have any exposure to collateralized debt obligations, or CDOs. We classify private-label securities as Alt-A, subprime, multifamily or manufactured housing if the securities were labeled as such when issued. We also have invested in private-label Alt-A and subprime mortgage-related securities that we have resecuritized to include our guaranty ("wraps"), which we report in Table 23 above as a component of Fannie Mae structured MBS. We generally have focused our purchases of these securities on the highest-rated tranches

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available at the time of acquisition. Higher-rated tranches typically are supported by credit enhancements to reduce the exposure to losses. The credit enhancements on our private-label security investments generally are in the form of initial subordination provided by lower level tranches of these securities and prepayment proceeds within the trust. In addition, monoline financial guarantors have provided secondary guarantees that are based on specific performance triggers. The characteristics of the subprime securities that we hold are different than the securities underlying the ABX indices, which is a widely used performance-tracking index for the U.S. structured finance market. For example, the pass-through securities in our portfolio reflect the entirety of the underlying AAA cash flows, while only a portion of the underlying AAA cash flows backs the securities in the ABX indices. We owned $101.4 billion of private-label mortgage-related securities backed by Alt-A, subprime, multifamily, manufactured housing and other mortgage loans and mortgage revenue bonds as of September 30, 2008, down from $111.1 billion as of December 31, 2007, reflecting a reduction of $9.7 billion due to principal payments. Table 24 summarizes, by loan type, the composition of our investments in private-label securities and mortgage revenue bonds as of September 30, 2008 and the average credit enhancement. The average credit enhancement generally reflects the level of cumulative losses that must be incurred before we experience a loss of principal on the tranche of securities that we own. Table 24 also provides information on the credit ratings of our private-label securities as of October 31, 2008. The credit rating reflects the lowest rating as reported by Standard & Poor's ("Standard & Poor's"), Moody's Investors Service ("Moody's"), Fitch Ratings ("Fitch") or Dominion Bond Rating Service Limited ("DBRS, Limited"), each of which is a nationally recognized statistical rating organization.

Table 24: Investments in Private-Label Mortgage-Related Securities and Mortgage Revenue Bonds

	As of September 30, 2008		As of October 31, 2008			
	Unpaid Principal Balance	Average Credit Enhancement(1)	% AAA(2)	% AA to BBB-(2)	% Below Investment Grade(2)	Current % Watchlist(3)
	(Dollars in millions)					
Private-label mortgage-related						

securities backed by:						
Alt-A mortgage loans:						
Option ARM Alt-A mortgage loans	$ 6,858	53%	89%	10%	1%	16%
Other Alt-A mortgage loans	21,749	14	66	28	6	11
Total Alt-A mortgage loans	28,607	24	71	24	5	12
Subprime mortgage loans	25,959	37	30	38	32	13
Multifamily mortgage loans (CMBS)	25,851	30	100	--	--	--
Manufactured housing loans	2,947	37	4	33	63	13
Other mortgage loans	2,368	6	96	1	3	1
Total private-label mortgage-related securities	85,732					
Mortgage revenue bonds(4)	15,623	35	46	52	2	24
Total	$ 101,355					

(1) Average credit enhancement percentage reflects both subordination and financial guarantees. Reflects the ratio of the current amount of the securities that will incur losses in a securitization structure before any losses are allocated to securities that we own. Percentage calculated based on the quotient of the total unpaid principal balance of all credit enhancement in the form of subordination or financial guarantee of the security divided by the total unpaid principal balance of all of the tranches of collateral pools from which credit support is drawn for the security that we own.
(2) Reflects credit ratings as of October 31, 2008, calculated based on unpaid principal balance as of September 30, 2008. Investment securities that have a credit rating below BBB- or its equivalent or that have not been rated are classified as below investment grade.
(3) Reflects percentage of investment securities, calculated based on unpaid principal balance as of September 30, 2008, that have been placed under review by either Standard & Poor's, Moody's, Fitch or DBRS, Limited.
(4) Reflects that 35% of the outstanding unpaid principal balance of our mortgage revenue bonds are guaranteed by third parties.

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Investments in Alt-A and Subprime Private-Label Mortgage-Related Securities As indicated in Table 24, the unpaid principal balance of our investments in private-label mortgage-related securities backed by Alt-A and subprime loans totaled $54.6 billion as of September 30, 2008. For our investments in Alt-A and subprime private-label securities, including wraps, classified as trading, we recognized fair value losses of $731 million for the third quarter of 2008 and fair value losses of $1.4 billion for the first nine months of 2008. These amounts are included in our condensed consolidated results of operations as a component of "Fair value gains (losses), net." The gross unrealized losses on our Alt-A and subprime private-label securities, including wraps, classified as available for sale were $8.8 billion as of September 30, 2008, compared with $3.3 billion as of December 31, 2007. The substantial majority of our Alt-A private-label mortgage-related securities, or 71%, continued to be rated AAA as of October 31, 2008, and 24% were rated AA to BBB- as of October 31, 2008. Approximately $3.5 billion, or 12%, of our Alt-A private-label mortgage-related securities had been placed under review for possible credit downgrade or on negative watch as of October 31, 2008. The percentages of our subprime private-label mortgage-related securities rated AAA and rated AA to BBB- were 30% and 38%, respectively, as of October 31, 2008, compared with 97% and 3%, respectively, as of December 31, 2007. The percentage of our subprime private-label mortgage-related securities rated below investment grade was 32% as of October 31, 2008. None of these securities were rated below investment grade as of December 31, 2007. Approximately $3.3 billion, or 13%, of our subprime private-label mortgage-related securities had been placed under review for possible credit downgrade or on negative watch as of October 31, 2008. Although our portfolio of Alt-A and subprime private-label mortgage-related securities primarily consists of senior level tranches, we believe we are likely to incur losses on some securities that are currently rated AAA as a result of the significant and continued deterioration in home prices and increasing delinquency, foreclosure and REO levels, particularly with regard to 2005 to 2007 loan vintages, which were originated in an environment of significant increases in home prices and relaxed underwriting and eligibility standards. These conditions, which have had an adverse effect on the performance of the loans underlying our Alt-A and subprime private-label securities, have contributed to a sharp rise in expected defaults and loss severities and slower voluntary prepayment rates, particularly for the 2006 and 2007 loan vintages. Table 25 presents a comparison, based on data provided by Intex Solutions, Inc. ("Intex"), where available, of the 60-plus days or more delinquency rates as of September 30, 2008 and June 30, 2008 for Alt-A and subprime loans backing private-label securities that we own or guarantee.

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Table 25: Delinquency Status of Loans Underlying Alt-A and Subprime Private-Label Securities

	> 60 Days Delinquent(1)	
Loan Categories:	September 30, 2008	June 30, 2008
Option ARM Alt-A loans:		
2004 and prior	18.88%	15.95%
2005	21.65	17.35
2006	27.97	21.44
2007	17.17	10.79
Other Alt-A loans:		
2004 and prior	3.87	3.36
2005	10.27	8.78
2006	16.99	15.40
2007	21.55	17.55
Subprime loans:		
2004 and prior	20.71	21.51
2005	38.58	36.51
2006	40.19	36.13
2007	29.62	23.87

(1) Delinquency data provided by Intex for Alt-A and subprime loans backing private-label securities that we own or guarantee. However, we have adjusted the Intex delinquency data for consistency purposes, where appropriate, to include in the delinquency rates all bankruptcies, foreclosures and real estate owned.

Other-than-temporary Impairment Assessment on Alt-A and Subprime Private-Label Securities Our other-than-temporary impairment assessment as of the end of the third quarter of 2008, including an evaluation of the individual performance of the securities and the potential for continued adverse developments, indicated an increased level of uncertainty as to whether we would collect all principal and interest amounts due in accordance with the contractual terms. As a result, we determined that we did not have sufficient persuasive evidence to conclude that the impairment of certain available-for-sale securities was temporary. For these securities, we recognized other-than-temporary impairment totaling $1.8 billion in the third quarter of 2008, of which $1.3 billion related to Alt-A securities with an unpaid principal balance of $4.1 billion as of September 30, 2008, and $537 million related to subprime securities with an unpaid principal balance of $3.1 billion as of September 30, 2008. As of September 30, 2008, we had recognized cumulative other-than-temporary impairment totaling $2.5 billion on our investments in Alt-A and subprime securities classified as available for sale, including the $1.8 billion that was recognized in the third quarter of 2008. The current market pricing of Alt-A and subprime securities, which reflects a significant discount to cost, has been adversely affected by a significant reduction in the liquidity of these securities and market perceptions that defaults on the mortgages underlying these securities will increase significantly. As a result, the current fair value of some of these is substantially less than what we believe is indicated by the performance of the collateral underlying the securities and our calculation of the expected cash flows of the securities. Although we have recognized other-than-temporary impairment equal to the difference between the cost basis and the fair value of the security, we anticipate at this time, based on the expected cash flows of the securities, that we will recover some of these impairment amounts. For the Alt-A securities classified as available for sale for which we recognized other-than-temporary impairment during the third quarter of 2008, the average credit enhancement was not sufficient to cover projected expected credit losses. The average credit enhancement as of September 30, 2008 was approximately 16% and the expected average collateral loss was approximately 22%, resulting in projected expected credit losses of $617 million. For the available-for-sale subprime securities for which we recognized other-than-temporary impairment during the third quarter of 2008, the average credit enhancement was approximately 28% and the expected average collateral loss was approximately 39%, resulting in projected expected credit losses of $320 million. However, the other-than-

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temporary impairment we recorded on our Alt-A and subprime securities totaled $1.3 billion and $537 million, respectively, for the third quarter of 2008. We will accrete into interest income the portion of the amounts we expect to recover that exceeds the cost basis of these securities over the remaining life of the securities. The amount accreted into earnings on our Alt-A and subprime securities for which we have recognized other-than-temporary impairment totaled $45 million and $93 million for the three and nine months ended September 30, 2008, respectively. We will continue to monitor and analyze the performance of these securities to assess the collectability of principal and interest as of each balance sheet date. If there is further deterioration in the housing and mortgage markets and the decline in home prices exceeds our current expectations, we may recognize significant other-than-temporary impairment amounts in the future. See "Part II--Item 1A--Risk Factors" of this report for a discussion of the risks related to potential future write-downs of our investment securities. Hypothetical Performance Scenarios Tables 26, 27 and 28 present additional information as of September 30, 2008 for our investments in Alt-A and subprime private-label mortgage-related securities, stratified by year of issuance (vintage) and by credit enhancement quartile for securities issued in 2005, 2006 and 2007. The 2006 and 2007 vintages of loans underlying these securities have experienced significantly higher delinquency rates than other vintages. Accordingly, the year of issuance or origination of the collateral underlying these securities is a significant factor in projecting expected cash flow performance and evaluating the ongoing credit performance. The credit enhancement quartiles presented range from the lowest level of credit enhancement to the highest. A higher level of credit enhancement generally reduces the exposure to loss. We have disclosed for information purposes the net present value of projected losses ("NPV") of our securities under four hypothetical scenarios, which assume specific cumulative constant default and loss severity rates against the loans underlying our Alt-A and subprime private-label securities. The projected loss results under these scenarios, which are considered stressful based on historical mortgage loan performance, are calculated based on the projected cash flows from each security and include the following additional key assumptions: (i) discount rate, (ii) expected constant prepayment rates ("CPR") and (iii) average life of the securities. These scenarios assume a discount rate based on LIBOR and constant default and loss severity rates experienced over a six-year period. We assume CPRs of 15% for our Alt-A securities and 10% to 15% for our subprime securities, which vary in each scenario based on the loan age. A CPR of 15% indicates that for each period, 15% of the remaining unpaid principal balance of the loans underlying the security will be paid off. We experienced an increase in the NPV loss amounts as of September 30, 2008 from the NPV loss amounts previously disclosed as of June 30, 2008, which reflected a significant deterioration in credit performance and decline in the prices of these securities during the third quarter of 2008.

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Table 26: Investments in Alt-A Private-Label Mortgage-Related Securities, Excluding Wraps*

	As of September 30, 2008											
	Unpaid Principal Balance				Credit Enhancement Statistics				Hypothetical Scenarios(6)			
Vintage and CE Quartile(1)	Trading Securities(2)	Available-for-Sale Securities(3)	Average Price	Fair Value	Average Current(4)	Original(4)	Minimum Current(4)	Monoline Financial Guaranteed Amount(5)	20d/50s NPV	30d/40s NPV	50d/50s NPV	60d/6 NP
	(Dollars in millions)											
Investments in Alt-A securities:(7)												
Option ARM Alt-A securities:												
2004 and prior	--	$ 669	$ 64.80	$ 433	22%	9%	15%	--			$ 27	$

2005-1(1)	--	136	64.22	87	20	7	19	--	4	
2005-1(2)	--	70	59.70	42	23	12	23	--	3	
2005-1(3)	--	191	61.36	118	26	15	24	--	5	
2005-1(4)	--	156	64.84	101	43	33	34	--	--	
2005-1 subtotal	--	553	62.83	348	29	18	19	--	12	
2005-2(1)	--	242	65.41	158	34	28	34	--	4	
2005-2(2)	--	243	59.54	145	38	33	38	--	4	
2005-2(3)	--	361	63.32	228	48	42	45	--	1	
2005-2(4)	--	328	62.98	207	100	100	100	329	--	
2005-2 subtotal	--	1,174	62.87	738	58	53	34	329	9	
2006-1(1)	--	134	60.32	81	21	19	11	--	32	
2006-1(2)	--	411	63.07	259	41	38	40	--	3	
2006-1(3)	--	377	62.43	235	45	42	45	--	--	
2006-1(4)	--	423	61.67	261	88	88	49	327	--	
2006-1 subtotal	--	1,345	62.18	836	55	53	11	327	35	
2006-2(1)	--	--	--	--	--	--	--	--	--	
2006-2(2)	--	210	64.20	136	37	35	37	--	--	
2006-2(3)	--	98	62.56	61	41	40	41	--	--	
2006-2(4)	--	221	63.88	141	69	68	47	90	--	
2006-2 subtotal	--	529	63.76	338	51	50	37	90	--	
2007-1(1)	204	--	62.11	127	25	24	24	--	10	
2007-1(2)	368	--	60.90	224	46	45	45	--	--	
2007-1(3)	262	--	59.12	155	48	47	48	--	--	
2007-1(4)	524	--	55.83	292	100	100	100	524	--	
2007-1 subtotal	1,358	--	58.78	798	64	64	24	524	10	
2007-2(1)	293	--	63.16	185	33	32	25	--	9	
2007-2(2)	214	--	60.19	129	47	47	47	--	--	
2007-2(3)	306	--	61.54	188	48	47	48	--	--	
2007-2(4)	417	--	60.67	253	100	100	100	417	--	
2007-2 subtotal	1,230	--	61.39	755	62	62	25	417	9	
2008-1(1)	--	--	--	--	--	--	--	--	--	
2008-1(2)	--	--	--	--	--	--	--	--	--	
2008-1(3)	--	--	--	--	--	--	--	--	--	
2008-1(4)	--	--	--	--	--	--	--	--	--	
2008-1 subtotal	--	--	--	--	--	--	--	--	--	
Total option ARM	$ 2,588	$ 4,270	$ 61.91	$ 4,246	53%	49%	11%	$ 1,687	$ 102	$
Alt-A securities										
Trading securities with hypothetical NPV losses:(9)										
Fair value									$ 244	$ 1,
UPB									392	1,
Difference									$ (148)	$ ((
Available-for-sale securities with hypothetical NPV losses:(9)										
Fair value									$ 1,295	$ 2,
UPB									2,074	3,
Difference									$ (779)	$ (1,:

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	As of September 30, 2008										
	Unpaid Principal Balance				Credit Enhancement Statistics				Hypothetical Scenarios		
Vintage and	Trading	Available-for-Sale	Average	Fair	Average		Minimum	Monoline Financial Guaranteed	20d/50s	30d/40s	30d/50s

CE Quartile(1)	Securities(2)	Securities(3)	Price	Value	Current(4)	Original(4)	Current(4)	Amount(5)	NPV	NPV	NPV
					(Dollars in millions)						
Investments in Alt-A securities:(7)											
Other Alt-A securities:											
2004 and prior	--	$ 8,896	$ 78.75	$ 7,005	12%	6%	5%	$ 27	$ 75	$ 120	$ 412
2005-1(1)	--	374	75.40	282	9	5	6	--	3	6	20
2005-1(2)	--	454	76.48	347	13	7	12	--	1	2	9
2005-1(3)	--	387	82.94	321	15	11	14	--	1	3	10
2005-1(4)	--	453	76.15	345	18	12	15	--	--	1	7
2005-1 subtotal	--	1,668	77.64	1,295	14	9	6	--	5	12	46
2005-2(1)	--	1,000	74.60	746	6	5	5	--	35	45	81
2005-2(2)	--	992	71.98	714	10	8	8	--	8	15	49
2005-2(3)	--	1,025	69.52	712	17	14	14	--	--	1	16
2005-2(4)	--	1,035	71.54	741	21	17	18	--	--	--	5
2005-2 subtotal	--	4,052	71.89	2,913	14	11	5	--	43	61	151
2006-1(1)	34	1,088	76.52	858	5	4	5	--	48	60	101
2006-1(2)	--	1,069	71.50	765	10	8	9	--	16	23	50
2006-1(3)	--	1,285	74.17	953	14	12	11	--	--	--	21
2006-1(4)	49	1,295	69.99	941	20	17	18	--	--	--	6
2006-1 subtotal	83	4,737	72.96	3,517	13	11	5	--	64	83	178
2006-2(1)	--	--	--	--	--	--	--	--	--	--	--
2006-2(2)	--	502	66.00	331	11	10	6	--	--	--	9
2006-2(3)	--	276	67.34	186	17	16	17	--	--	--	--
2006-2(4)	--	333	53.40	178	17	16	17	--	--	--	--
2006-2 subtotal	--	1,111	62.56	695	14	13	6	--	--	--	9
2007-1(1)	132	--	60.77	80	7	6	7	--	--	--	1
2007-1(2)	76	--	72.24	55	7	7	7	--	3	3	6
2007-1(3)	158	--	58.19	92	10	9	8	--	--	--	--
2007-1(4)	231	--	61.10	141	17	16	16	--	--	--	--
2007-1 subtotal	597	--	61.67	368	12	11	7	--	3	3	7
2007-2(1)	--	--	--	--	--	--	--	--	--	--	--
2007-2(2)	--	--	--	--	--	--	--	--	--	--	--
2007-2(3)	--	--	--	--	--	--	--	--	--	--	--
2007-2(4)	436	--	67.80	296	100	100	100	436	--	--	--
2007-2 subtotal	436	--	67.80	296	100	100	100	436	--	--	--
2008-1(1)	--	--	--	--	--	--	--	--	--	--	--
2008-1(2)	--	--	--	--	--	--	--	--	--	--	--
2008-1(3)	--	--	--	--	--	--	--	--	--	--	--
2008-1(4)	--	169	85.50	145	21	20	21	--	--	--	--
2008-1 subtotal(10)	--	169	85.50	145	21	20	21	--	--	--	--
Total other Alt-A securities	$ 1,116	$ 20,633	$ 74.64	$ 16,234	14%	11%	5%	$ 463	$ 190	$ 279	$ 803
Trading securities with hypothetical NPV losses:(9)											
Fair value									$ 80	$ 80	$ 185
UPB									110	110	284
Difference									$ (30)	$ (30)	$ (99)
Available-for-sale securities with hypothetical NPV losses:(9)											
Fair value									$ 7,088	$ 8,725	$ 12,200
UPB									9,066	11,266	15,945
Difference									$ (1,978)	$ (2,541)	$ (3,745)

* The footnotes to this table are presented following Table 27.

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Table 27: Investments in Subprime Private-Label Mortgage-Related Securities, Excluding Wraps

As of September 30, 2008

	Unpaid Principal Balance				Credit Enhancement Statistics				Hypothetical Scenarios(		
Vintage and CE Quartile(1)	Trading Securities(2)	AFS Securities(3)	Average Price	Fair Value	Average Current(4)	Original(4)	Minimum Current(4)	Monoline Financial Guaranteed Amount(5)	50d/60s NPV	60d/50s NPV	60d/60s NPV
				(Dollars in millions)							
Investments in subprime securities:(8)											
2004 and prior	--	$ 3,006	$ 84.42	$ 2,538	73%	53%	13%	$ 1,332	$ 4	$ 6	$ 23
2005-1(1)	--	--	--	--	--	--	--	--	--	--	--
2005-1(2)	--	23	96.17	22	71	36	71	--	--	--	--
2005-1(3)	--	--	--	--	--	--	--	--	--	--	--
2005-1(4)	--	38	90.21	34	81	29	81	--	--	--	--
2005-1 subtotal	--	61	92.48	56	77	31	71	--	--	--	--
2005-2(1)	--	87	94.00	82	41	23	38	--	--	--	--
2005-2(2)	--	36	94.83	34	55	38	55	--	--	--	--
2005-2(3)	--	111	89.34	99	59	30	59	--	--	--	--
2005-2(4)	--	126	87.12	109	86	73	68	69	--	--	--
2005-2 subtotal	--	360	90.25	324	64	44	38	69	--	--	--
2006-1(1)	--	1,330	78.19	1,040	26	19	24	--	--	--	7
2006-1(2)	--	1,730	82.22	1,422	30	20	28	--	--	--	--
2006-1(3)	--	1,514	84.88	1,285	37	24	34	--	--	--	--
2006-1(4)	--	1,610	84.45	1,360	49	33	41	52	--	--	--
2006-1 subtotal	--	6,184	82.58	5,107	36	24	24	52	--	--	7
2006-2(1)	--	2,789	73.79	2,058	22	18	17	--	--	2	97
2006-2(2)	--	2,767	78.04	2,160	26	19	24	--	--	--	21
2006-2(3)	--	2,779	75.77	2,105	29	23	28	--	--	--	--
2006-2(4)	--	3,088	80.67	2,491	36	28	31	--	--	--	--
2006-2 subtotal	--	11,423	77.16	8,814	28	22	17	--	--	2	118
2007-1(1)	600	--	35.62	214	17	16	9	--	155	203	283
2007-1(2)	498	--	80.73	402	27	24	25	--	--	--	2
2007-1(3)	812	--	81.24	660	28	24	28	--	--	--	--
2007-1(4)	727	--	77.09	560	53	50	30	222	--	--	--
2007-1 subtotal	2,637	--	69.62	1,836	32	29	9	222	155	203	285
2007-2(1)	465	--	58.41	272	26	23	14	--	32	50	114
2007-2(2)	385	189	81.79	469	32	29	29	--	--	--	4
2007-2(3)	--	505	82.11	415	35	32	34	--	--	--	--
2007-2(4)	563	181	82.84	616	42	38	38	--	--	--	--
2007-2 subtotal	1,413	875	77.45	1,772	34	31	14	--	32	50	118
2008-1(1)	--	--	--	--	--	--	--	--	--	--	--
2008-1(2)	--	--	--	--	--	--	--	--	--	--	--
2008-1(3)	--	--	--	--	--	--	--	--	--	--	--
2008-1(4)	--	--	--	--	--	--	--	--	--	--	--
2008-1 subtotal	--	--	--	--	--	--	--	--	--	--	--
Total subprime securities	$ 4,050	$ 21,909	$ 78.77	$ 20,447	37%	28%	9%	$ 1,675	$ 191	$ 261	$ 551

Trading securities with hypothetical

NPV losses:(9)				
Fair value	$ 124	$ 128	$ 604	$
UPB	520	541	1,167	
Difference	$ (396)	$ (413)	$ (563)	$ (
Available-for-sale securities with hypothetical NPV losses:(9)				
Fair value	$ 280	$ 844	$ 4,566	$
UPB	324	1,106	5,939	
Difference	$ (44)	$ (262)	$ (1,373)	$ (

(1) Reported based on half-year vintages for 2005, 2006, 2007 and 2008, with each half-year vintage stratified based on credit enhancement quartiles.
(2) For the third quarter 2008, we recognized net fair value losses on our investments in private-label Alt-A securities and subprime securities classified as trading of $555 million and $116 million, respectively. For the first nine months of 2008, we recognized net fair value losses on our investments in private-label Alt-A securities and subprime securities classified as trading of $1.1 billion and $630 million, respectively.
(3) Gross unrealized losses as of September 30, 2008 related to our investments in private-label Alt-A securities and subprime securities classified as AFS totaled $5.4 billion and $3.3 billion, respectively.

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(4) Reflects the ratio of the current amount of the securities that will incur losses in the securitization structure before any losses are allocated to securities that we own, taking into consideration subordination and financial guarantees. Percentage calculated based on the quotient of the total unpaid principal balance of all credit enhancement in the form of subordination or financial guaranty of the security divided by the total unpaid principal balance of all of the tranches of collateral pools from which credit support is drawn for the security that we own.
(5) Reflects amount of unpaid principal balance supported by financial guarantees from monoline financial guarantors.
(6) Reflects the present value of projected losses based on the disclosed hypothetical cumulative default and loss severity rates against the outstanding collateral balance.
(7) Consists of private-label securities backed by Alt-A mortgage loans that are reported in our mortgage portfolio as a component of non-Fannie Mae structured securities.
(8) Consists of private-label securities backed by subprime loans that are reported in our mortgage portfolio as a component of non-Fannie Mae structured securities. Excludes guaranteed resecuritizations of private-label securities backed by subprime loans held in our mortgage portfolio totaling $7.7 billion as of September 30, 2008, which are presented in Table 28--Alt-A and Subprime Private-Label Wraps.
(9) Reflects the unpaid principal balance and fair value amounts of all securities for which the expected cash flows of the security under the specified hypothetical scenario were less than the unpaid principal balance of the security as of September 30, 2008.
(10) The 2008-1 vintage for other Alt-A securities consists entirely of a security from a resecuritized REMIC transaction whose underlying bonds represent senior bonds from 2007 residential mortgage-backed securities

transactions backed by Alt-A loans. These bonds have a weighted average credit enhancement of 5.06% as of September 30, 2008 and an original weighted average credit enhancement of 4.67%.

The projected loss results for the scenarios presented above are for indicative purposes only and should not be construed as a prediction of our future results, market conditions or actual performance of these securities. These scenarios, which are based on numerous assumptions, including specific constant default and severity rates, are not the only way to analyze the performance of these securities. For example, as discussed above, we consider various factors in our assessment of other-than-temporary impairment, the most critical of which is whether it is probable that we will not collect all of the contractual amounts due. This assessment is not based on specific constant default and severity rates, but instead involves assumptions including, but not limited to the following: actual default, prepayment or loss severity rates; the effectiveness of subordination and credit enhancement; the level of interest rates; changes in loan characteristics; the level of losses covered by monoline financial guarantors; the financial condition of other transaction participants; and changes in applicable legislation and regulation that may impact performance. Alt-A and Subprime Private-Label Wraps In addition to Alt-A and subprime private-label mortgage-related securities included in our mortgage portfolio, we also have exposure to private-label Alt-A and subprime mortgage-related securities that have been resecuritized (or wrapped) to include our guaranty. The unpaid principal balance of these Fannie Mae guaranteed securities held by third parties is included in outstanding and unconsolidated Fannie Mae MBS held by third parties, which we discuss in "Off-Balance Sheet Arrangements and Variable Interest Entities." Table 28 presents the unpaid principal balance of our Alt-A and subprime private-label wraps as of September 30, 2008 and additional information to evaluate our potential loss exposure. We held $7.7 billion of these securities in our mortgage portfolio as of September 30, 2008.

Table 28: Alt-A and Subprime Private-Label Wraps

	As of September 30, 2008								
		Credit Enhancement Statistics				Hypothetical Scenarios(5)			
Vintage and CE Quartile(1)	Unpaid Principal Balance(2)	Average Current(3)	Original(3)	Minimum Current(3)	Monoline Financial Guaranteed Amount(4)	20d/50s NPV	30d/40s NPV	30d/50s NPV	50d/50s NPV
	(Dollars in millions)								
Alt-A wraps:									
2005-1(1)	--	--%	--%	--%					
2005-1(2)	--	--	--	--					
2005-1(3)	--	--	--	--					
2005-1(4)	230	6	4	6					
2005-1 subtotal	230	6	4	6					
2007-1(1)	--	--	--	--					
2007-1(2)	--	--	--	--					
2007-1(3)	--	--	--	--					
2007-1(4)	301	9	7	9					
2007-1 subtotal	301	9	7	9					

2008-1(1)	--	--	--	--
2008-1(2)	--	--	--	--
2008-1(3)	--	--	--	--
2008-1(4)	--	--	--	--
	--	--	--	--
2008-1 subtotal	--	--	--	--
Total Alt-A wraps	$ 531	8%	6%	6%

As of September 30, 2008

		Credit Enhancement Statistics				Hypothetical Scenarios(5)			
Vintage and CE Quartile(1)	Unpaid Principal Balance(2)	Average Current(3)	Original(3)	Minimum Current(3)	Monoline Financial Guaranteed Amount(4)	50d/60s NPV	60d/50s NPV	60d/60s NPV	70d/70s NPV
	(Dollars in millions)								
Subprime wraps:									
2004 and prior	$ 796	32%	13%	11%	$ 5	--	--	--	--
2005-1(1)	107	10	3	--	--	--	--	--	--
2005-1(2)	24	60	13	60	--	--	--	--	--
2005-1(3)	240	61	20	61	--	--	--	--	--
2005-1(4)	145	74	22	66	--	--	--	--	--
2005-1 subtotal	516	54	17	--	--	--	--	--	--
2005-2(1)	246	36	25	24	--	1	3	8	26
2005-2(2)	800	46	31	46	--	--	--	--	--
2005-2(3)	554	52	26	47	--	--	--	--	--
2005-2(4)	553	81	58	56	195	--	--	--	--
2005-2 subtotal	2,153	55	36	24	195	1	3	8	26
2007-1(1)	1,465	19	17	19	--	--	25	130	406
2007-1(2)	1,702	23	20	22	--	--	--	54	376
2007-1(3)	1,772	26	22	24	--	--	--	14	343
2007-1(4)	1,723	33	29	28	--	--	--	29	274
2007-1 subtotal	6,662	25	22	19	--	--	25	227	1,399
2007-2(1)	277	28	24	25	--	--	--	8	60
2007-2(2)	--	--	--	--	--	--	--	--	--
2007-2(3)	419	33	30	33	--	--	--	10	75
2007-2(4)	469	34	30	34	--	--	--	--	50
2007-2 subtotal	1,165	32	29	25	--	--	--	18	185
2008-1(1)	--	--	--	--	--	--	--	--	--
2008-1(2)	--	--	--	--	--	--	--	--	--
2008-1(3)	--	--	--	--	--	--	--	--	--
2008-1(4)	--	--	--	--	--	--	--	--	--
2008-1 subtotal	--	--	--	--	--	--	--	--	--
Total subprime wraps	$ 11,292	34%	25%	--%	$ 200	$ 1	$ 28	$ 253	$ 1,610
Total Alt-A and subprime wraps	$ 11,823	32%	24%	--%	$ 200	$ 1	$ 28	$ 253	$ 1,610

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(1) Reported based on half-year vintages for 2005, 2006, 2007 and 2008, with each half-year vintage stratified based on credit enhancement quartiles.
(2) For the third quarter and first nine months of 2008, we recognized net fair value losses of $60 million and net fair value gains of $316 million, respectively, on our investments in subprime private-label wraps classified as trading. We did not recognize any fair value gains or losses on our investments in Alt-A private-label wraps for the third quarter and first nine months of 2008. Gross unrealized losses related to our investments in subprime private-label wraps classified as AFS totaled $10 million as of September 30, 2008. We did not have any gross unrealized gains or losses on our investments in Alt-A private-label wraps as of September 30, 2008.
(3) Reflects the percentage of the current amount of the securities that will incur losses in the securitization structure before any losses are allocated to securities that we own, taking into consideration subordination and financial guarantees. Percentage calculated based on the quotient of the total unpaid principal balance of all credit enhancement in the form of subordination or financial guaranty of the security divided by the total unpaid principal balance of all of the tranches of collateral pools from which credit support is drawn for the security that we own.
(4) Reflects amount of unpaid principal balance supported by financial guarantees from monoline financial guarantors.
(5) Reflects the present value of projected losses based on the disclosed hypothetical cumulative default and loss severity rates against the outstanding collateral balance.

Debt Instruments We issue debt instruments as the primary means to fund our mortgage investments and manage our interest rate risk exposure. Our total outstanding debt, which includes federal funds purchased and securities sold under agreements to repurchase, short-term debt and long-term debt increased to $832.7 billion as of September 30, 2008 from $797.2 billion as of December 31, 2007. We provide a summary of our debt activity for the three and nine months ended September 30, 2008 and 2007 and a comparison of the mix between our outstanding short-term and long-term debt as of September 30, 2008 and December 31, 2007 in "Liquidity and Capital Management--Liquidity--Funding--Debt Funding Activity." Also see "Notes to Condensed Consolidated Financial Statements--Note 9, Short-Term Borrowings and Long-Term Debt" for additional detail on our outstanding debt. Derivative Instruments We supplement our issuance of debt with interest rate-related derivatives to manage the prepayment and duration risk inherent in our mortgage investments. We report derivatives at fair value as either assets or liabilities, net for each counterparty inclusive of cash collateral paid or received in our condensed consolidated balance sheets. We present, by derivative instrument type, the estimated fair value of derivatives recorded in our condensed consolidated balance sheets and the related outstanding notional amount as of September 30, 2008 and December 31, 2007 in "Notes to Condensed Consolidated Financial Statements--Note 10, Derivative Instruments and Hedging Activities." We refer to the difference between the derivative assets and derivative liabilities recorded on our condensed consolidated balance sheets as our net derivative asset or liability. Table 29 provides an analysis of the change in the estimated fair value of our net derivative liability, excluding mortgage commitments, recorded in our condensed consolidated balance sheets between December 31, 2007 and September 30, 2008.

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Table 29: Changes in Risk Management Derivative Assets (Liabilities) at Fair Value, Net(1)

	For the Nine Months Ended September 30, 2008
	(Dollars in millions)
Net derivative liability as of December 31, 2007(2)	$ (1,321)
Effect of cash payments:	
Fair value at inception of contracts entered into during the period(3)	1,824
Fair value at date of termination of contracts settled during the period(4)	(1,246)
Net collateral posted	5,271
Periodic net cash contractual interest payments (receipts)(5)	(1,138)
Total cash payments (receipts)	4,711
Income statement impact of recognized amounts:	
Periodic net contractual interest income (expense) accruals on interest rate swaps	(1,011)
Net change in fair value of terminated derivative contracts from end of prior year to date of termination(6)	(275)
Net change in fair value of outstanding derivative contracts, including derivative contracts entered into during the period	(2,528)
Derivatives fair value losses, net(7)	(3,814)
Net derivative liability as of September 30, 2008(2)	$ (424)

(1) Excludes mortgage commitments.
(2) Reflects the net amount of "Derivative assets at fair value" and "Derivative liabilities at fair value" recorded in our condensed consolidated balance sheets, excluding mortgage commitments, and reflects our adoption of FASB Staff Position No. 39-1, Amendment of FASB Interpretation No. 39.
(3) Cash payments made to purchase derivative option contracts (purchased options premiums) increase the derivative asset recorded in the condensed consolidated balance sheets. Primarily includes upfront premiums paid or received on option contracts. Also includes upfront cash paid or received on other derivative contracts.
(4) Cash payments to terminate and/or sell derivative contracts reduce the derivative liability recorded in the condensed consolidated balance sheets. Primarily represents cash paid (received) upon termination of derivative contracts.
(5) We accrue interest on our interest rate swap contracts based on the contractual terms and recognize the accrual as an increase to the net derivative liability recorded in the condensed consolidated balance sheets. The corresponding offsetting amount is recorded as an expense and included as a component of derivatives fair value losses in the condensed consolidated statements of operations. Periodic interest payments on our interest rate swap contracts reduce the derivative liability.
(6) Includes a loss of approximately $104 million related to the termination of outstanding derivatives contracts with Lehman Brothers Special Financing Inc., as a result of the bankruptcy of its parent-guarantor, Lehman Brothers Holdings Inc.
(7) Reflects net derivatives fair value losses recognized in the condensed consolidated statements of operations, excluding mortgage commitments.

The decrease in the net derivative liability to $424 million as of September 30, 2008, from $1.3 billion as of December 31, 2007 was primarily attributable to an increase in purchased swaption activity and additional cash posted as collateral. We also had a decrease in the aggregate net fair value of our interest rate swaps, which was due to the decrease in swap interest rates during the first nine months of 2008 and the time decay of our purchased options. We present, by derivative instrument type, our risk management derivative activity for the nine months ended September 30, 2008, along with the stated maturities of our derivatives outstanding as of September 30, 2008, in Table 48 in "Risk Management--Interest Rate Risk Management and Other Market Risks."

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SUPPLEMENTAL NON-GAAP INFORMATION--FAIR VALUE BALANCE SHEETS The balance sheets presented in our condensed consolidated financial statements reflect some financial assets measured and reported at fair value while other financial assets, along with most of our financial liabilities, are measured and reported at amortized cost. We present the fair value of all of our financial assets and financial liabilities and describe our process for determining fair value of these financial instruments in "Notes to Condensed Consolidated Financial Statements--Note 18, Fair Value of Financial Instruments." In addition, as part of our disclosure commitments with FHFA, we disclose on a quarterly basis a supplemental non-GAAP consolidated fair value balance sheet, which reflects all of our assets and liabilities at estimated fair value. Table 30 presents our supplemental non-GAAP fair value balance sheets as of September 30, 2008 and December 31, 2007. Table 30 also presents the non-GAAP estimated fair value of our net assets, which is derived from our non-GAAP fair value balance sheets. The estimated fair value of our net assets is not a measure defined within GAAP and may not be comparable to similarly titled measures reported by other companies. Moreover, the estimated fair value of our net assets is not intended as a substitute for the stockholders' equity amounts reported in our consolidated financial statements. Because our assets and liabilities consist predominately of financial instruments, we routinely use fair value measures to make investment decisions and to measure, monitor and manage our risk. We believe that the non-GAAP supplemental consolidated fair value balance sheets are useful to investors because they provide consistency in the measurement and reporting of all of our assets and liabilities. In addition, we believe that the non-GAAP supplemental consolidated fair value balance sheets and the fair value of our net assets, when used in conjunction with our consolidated financial statements, can serve as valuable incremental tools for investors to assess the current replacement value, at current prices, of our portfolio holdings and guaranty book of business, and changes in this value over time relative to changes in market conditions. Cautionary Language Relating to Supplemental Non-GAAP Financial Measures In reviewing our non-GAAP supplemental consolidated fair value balance sheets, there are a number of important factors and limitations to consider. The estimated fair value of our net assets is calculated as of a particular point in time based on our existing assets and liabilities and does not incorporate other factors that may have a significant impact on fair value. These factors include any value from future business activities in which we expect to engage. As a result, the estimated fair value of our net assets presented in our non-GAAP supplemental consolidated fair value balance sheets does not represent an estimate of our net realizable value, liquidation value or our market value as a whole. Amounts we ultimately realize from the disposition of assets or settlement of liabilities may vary significantly from the estimated fair values presented in our non-GAAP supplemental consolidated fair value balance sheets. Because temporary changes in market conditions can substantially affect the fair value of our net assets, we do not believe that short-term fluctuations in the fair value of our net assets attributable to mortgage-to-debt option-adjusted spread ("OAS") or changes in the fair value of our net guaranty assets are necessarily representative of the effectiveness of our investment strategy or the long-term underlying value of our business. We believe the long-term value of our business depends primarily on our ability to acquire new assets and funding at attractive prices and to effectively manage the risks of these assets and liabilities over time. However, we believe that focusing on the factors that affect near-term changes in the estimated fair value of our net assets helps us evaluate our long-term value and assess whether temporary market factors have caused our net assets to become overvalued or undervalued relative to the level of risk and expected long-term fundamentals of our business. In addition, as discussed in "Critical Accounting Policies and Estimates--Fair Value of Financial Instruments," the process to determine fair value for some of our financial instruments may be more subjective and involve a high degree of management judgment and assumptions. These assumptions may have a significant effect on our estimates of fair value, and the use of different assumptions as well as changes in market conditions could have a material effect on our results of operations, financial condition or net worth.

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Table 30: Supplemental Non-GAAP Consolidated Fair Value Balance Sheets

	As of September 30, 2008				As of December 31, 2007			
	GAAP Carrying Value	Fair Value Adjustment(1)	Estimated Fair Value		GAAP Carrying Value	Fair Value Adjustment(1)	Estimated Fair Value(2)	
	(Dollars in millions)							
Assets:								
Cash and cash equivalents	$ 36,489	--	$ 36,489	(3)	$ 4,502	--	$ 4,502	(3)
Federal funds sold and securities purchased under agreements to resell	33,420	(31)	33,389	(3)	49,041	--	49,041	(3)
Trading securities	98,671	--	98,671	(3)	63,956	--	63,956	(3)
Available-for-sale securities	262,054	--	262,054	(3)	293,557	--	293,557	(3)
Mortgage loans:								
Mortgage loans held for sale	7,908	116	8,024	(4)	7,008	75	7,083	(4)
Mortgage loans held for investment, net of allowance for loan losses	397,834	(4,151)	393,683	(4)	396,516	70	396,586	(4)
Guaranty assets of mortgage loans held in portfolio	--	3,487	3,487	(4)(5)	--	3,983	3,983	(4)(5)
Guaranty obligations of mortgage loans held in portfolio	--	(10,001)	(10,001)	(4)(5)	--	(4,747)	(4,747)	(4)(5)
Total mortgage loans	405,742	(10,549)	395,193	(3)(4)	403,524	(619)	402,905	(3)(4)
Advances to lenders	9,605	(184)	9,421	(3)	12,377	(328)	12,049	(3)
Derivative assets at fair value	1,099	--	1,099	(3)	885	--	885	(3)

Guaranty assets and buy-ups, net	11,318	3,843	15,161	(3)(5)	10,610	3,648	14,258	(3)(5)
Total financial assets	858,398	(6,921)	851,477	(3)	838,452	2,701	841,153	(3)
Master servicing assets and credit enhancements	1,582	5,957	7,539	(5)(6)	1,783	2,844	4,627	(5)(6)
Other assets	36,635	82	36,717	(6)(7)	39,154	5,418	44,572	(6)(7)
Total assets	$ 896,615	$ (882)	$ 895,733		$ 879,389	$ 10,963	$ 890,352	
Liabilities:								
Federal funds purchased and securities sold under agreements to repurchase	$ 1,357	$ 20	$ 1,377	(3)	$ 869	--	$ 869	(3)
Short-term debt	280,382 (8)	31	280,413	(3)	234,160	208	234,368	(3)
Long-term debt	550,928 (8)	11,701	562,629	(3)	562,139	18,194	580,333	(3)
Derivative liabilities at fair value	1,305	--	1,305	(3)	2,217	--	2,217	(3)
Guaranty obligations	16,816	58,097	74,913	(3)	15,393	5,156	20,549	(3)
Total financial liabilities	850,788	69,849	920,637	(3)	814,778	23,558	838,336	(3)
Other liabilities	36,392	(15,033)	21,359	(9)	20,493	(4,383)	16,110	(9)
Total liabilities	887,180	54,816	941,996		835,271	19,175	854,446	
Minority interests in consolidated subsidiaries	159	--	159		107	--	107	
Stockholders' Equity (Deficit):								
Senior preferred	1,000	--	1,000	(10)	--	--	--	
Preferred	21,725	(20,255)	1,470	(11)	16,913	(1,565)	15,348	(11)
Common	(13,449)	(35,443)	(48,892)	(12)	27,098	(6,647)	20,451	(12)
Total stockholders' equity (deficit)/non-GAAP fair value of net assets	$ 9,276	$ (55,698)	$ (46,422)		$ 44,011	$ (8,212)	$ 35,799	
Total liabilities and stockholders' equity	$ 896,615	$ (882)	$ 895,733		$ 879,389	$ 10,963	$ 890,352	

Explanation and Reconciliation of Non-GAAP Measures to GAAP Measures

(1) Each of the amounts listed as a "fair value adjustment" represents the difference between the carrying value included in our GAAP condensed consolidated balance sheets and our best judgment of the estimated fair value of the listed item.
(2) Certain prior period amounts have been reclassified to conform to the current period presentation.
(3) We determined the estimated fair value of these financial instruments in accordance with the fair value guidelines outlined in SFAS 157, as described in "Notes to Condensed Consolidated Financial Statements--Note 18, Fair Value of Financial Instruments." In Note 18, we also disclose the carrying value and estimated fair value of our total financial assets and total financial liabilities as well as discuss the methodologies and assumptions we use in estimating the fair value of our financial instruments.

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(4) For business segment reporting purposes, we allocate intra-company guaranty fee income to our Single-Family and HCD businesses for managing the credit risk on mortgage loans held in portfolio by our Capital Markets group and charge a corresponding fee to our Capital Markets group. In computing this intra-company allocation, we disaggregate the total mortgage loans reported in our GAAP condensed consolidated balance sheets, which consists of "Mortgage loans held for sale" and "Mortgage loans held for investment, net of allowance for loan losses" into components that separately reflect the value associated with credit risk, which is managed by our guaranty businesses, and the interest rate risk, which is managed by our capital markets business. We report the estimated fair value of the credit risk components separately in our supplemental non-GAAP consolidated fair value balance sheets as "Guaranty assets of mortgage loans held in portfolio" and "Guaranty obligations of mortgage loans held in portfolio." We report the estimated fair value of the interest rate risk components in our supplemental non-GAAP consolidated fair value balance sheets as "Mortgage loans held for sale" and "Mortgage loans held for investment, net of allowance for loan losses." Taken together, these four components represent the estimated fair value of the total mortgage loans reported in our GAAP condensed consolidated balance sheets. We believe this presentation provides transparency into the components of the fair value of the mortgage loans associated with the activities of our guaranty businesses and the components of the activities of our capital markets business, which is consistent with the way we manage risks and allocate revenues and expenses for segment reporting purposes. While the carrying values and estimated fair values of the individual line items may differ from the amounts presented in Note 18 of the condensed consolidated financial statements, the combined amounts together equal the carrying value and estimated fair value amounts of total mortgage loans in Note 18.

(5) In our GAAP condensed consolidated balance sheets, we report the guaranty assets associated with our outstanding Fannie Mae MBS and other guarantees as a separate line item and include buy-ups, master servicing assets and credit enhancements associated with our guaranty assets in "Other assets." The GAAP carrying value of our guaranty assets reflects only those guaranty arrangements entered into subsequent to our adoption of FIN No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others (an interpretation of FASB Statements No. 5, 57, and 107 and rescission of FIN No. 34) ("FIN 45"), on January 1, 2003. On a GAAP basis, our guaranty assets totaled $10.2 billion and $9.7 billion as of September 30, 2008 and December 31, 2007, respectively. The associated buy-ups totaled $1.1 billion and $944 million as of September 30, 2008 and December 31, 2007, respectively. In our non-GAAP supplemental consolidated fair value balance sheets, we also disclose the estimated guaranty assets and obligations related to mortgage loans held in our portfolio. The aggregate estimated fair value of the guaranty asset-related components totaled $16.2 billion and $18.1 billion as of September 30, 2008 and December 31, 2007, respectively. These components represent the sum of the following line items in this table: (i) Guaranty assets of mortgage loans held in portfolio; (ii) Guaranty obligations of mortgage loans held in portfolio, (iii) Guaranty assets and buy-ups; and (iv) Master servicing assets and credit enhancements. See "Critical Accounting Policies and Estimates--Fair Value of Financial Instruments--Change in Measuring the Fair Value of Guaranty Obligations."

(6) The line items "Master servicing assets and credit enhancements" and "Other assets" together consist of the assets presented on the following five line items in our GAAP condensed consolidated balance sheets: (i) Accrued interest receivable; (ii) Acquired property, net; (iii) Deferred tax assets, net of a valuation allowance; (iv) Partnership investments; and (v) Other assets. The carrying value of these items in our GAAP condensed

consolidated balance sheets together totaled $39.3 billion and $41.9 billion as of September 30, 2008 and December 31, 2007, respectively. We deduct the carrying value of the buy-ups associated with our guaranty obligation, which totaled $1.1 billion and $944 million as of September 30, 2008 and December 31, 2007, respectively, from "Other assets" reported in our GAAP condensed consolidated balance sheets because buy-ups are a financial instrument that we combine with guaranty assets in our disclosure in Note 18. We have estimated the fair value of master servicing assets and credit enhancements based on our fair value methodologies discussed in Note 18.

(7) With the exception of partnership investments and deferred tax assets, the GAAP carrying values of other assets generally approximate fair value. While we have included partnership investments at their carrying value in each of the non-GAAP supplemental consolidated fair value balance sheets, the fair values of these items are generally different from their GAAP carrying values, potentially materially. Our LIHTC partnership investments had a carrying value of $6.7 billion and $8.1 billion and an estimated fair value of $7.2 billion and $9.3 billion as of September 30, 2008 and December 31, 2007, respectively. We assume that certain other assets, consisting primarily of prepaid expenses, have no fair value. Our GAAP-basis deferred tax assets are described in "Notes to Condensed Consolidated Financial Statements--Note 11, Income Taxes." In addition to the GAAP-basis deferred income tax amounts, net of a valuation allowance, included in "Other assets," we previously included in our non-GAAP supplemental consolidated fair value balance sheets the estimated income tax effect related to the fair value adjustments made to derive the fair value of our net assets. Because our adjusted deferred income taxes are a net asset in each year, the amounts are included in our non-GAAP fair value balance sheets as a component of other assets. As discussed in Note 11, we established a deferred tax asset valuation allowance of $21.4 billion in the third quarter of 2008. Therefore, in calculating the fair value of our net assets as of September 30, 2008, we eliminated the tax effect of deferred tax benefits we would have otherwise recorded had we not concluded that it was necessary to establish a valuation allowance. Any remaining deferred tax assets relate to amounts not subject to the deferred tax asset valuation allowance.

(8) Includes certain short-term debt and long-term debt instruments reported in our GAAP condensed consolidated balance sheet at fair value as of September 30, 2008 of $4.5 billion and $21.7 billion, respectively.

(9) The line item "Other liabilities" consists of the liabilities presented on the following four line items in our GAAP condensed consolidated balance sheets: (i) Accrued interest payable; (ii) Reserve for guaranty losses; (iii) Partnership

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liabilities; and (iv) Other liabilities. The carrying value of these items in our GAAP condensed consolidated balance sheets together totaled $36.4 billion and $20.5 billion as of September 30, 2008 and December 31, 2007, respectively. The GAAP carrying values of these other liabilities generally approximate fair value. We assume that certain other liabilities, such as deferred revenues, have no fair value. Although we report the "Reserve for guaranty losses" as a separate line item on our condensed consolidated balance sheets, it is incorporated into and reported as part of the fair value of our guaranty obligations in our non-GAAP supplemental condensed consolidated fair value balance sheets.

(10) "Senior preferred stockholders' equity" is reflected in our non-GAAP supplemental condensed consolidated fair value balance sheets at its

aggregate liquidation preference, which is the estimated fair value.

(11) "Preferred stockholders' equity" is reflected in our non-GAAP supplemental condensed consolidated fair value balance sheets at the estimated fair value.

(12) "Common stockholders' equity (deficit)" consists of the stockholders' equity components presented on the following five line items in our GAAP condensed consolidated balance sheets: (i) Common stock; (ii) Additional paid-in capital; (iii) Retained earnings; (iv) Accumulated other comprehensive loss; and (v) Treasury stock, at cost. "Common stockholders' equity (deficit)" represents the residual of the excess (deficit) of the estimated fair value of total assets over the estimated fair value of total liabilities, after taking into consideration senior preferred and preferred stockholders' equity and minority interest in consolidated subsidiaries.

Changes in Non-GAAP Estimated Fair Value of Net Assets We expect periodic fluctuations in the estimated fair value of our net assets due to our business activities, as well as due to changes in market conditions, including changes in interest rates, changes in relative spreads between our mortgage assets and debt, changes in implied volatility and changes in home prices. As discussed in "Critical Accounting Policies and Estimates--Fair Value of Financial Instruments--Change in Measuring the Fair Value of Guaranty Obligations," beginning January 1, 2008, as part of the implementation of SFAS 157, we changed our approach to measuring the fair value of our guaranty obligations. We believe that this change, which increased the previously reported fair value of our net assets as of December 31, 2007 by $1.6 billion to $37.4 billion, provides a more meaningful presentation of the guaranty obligations by better aligning the revenue we recognize for providing our guaranty with the compensation we receive. The estimated fair value of our net assets decreased by $83.8 billion during the first nine months of 2008 to negative $46.4 billion as of September 30, 2008, from an adjusted $37.4 billion as of December 31, 2007. Table 31 summarizes the changes in the fair value of our net assets for the first nine months of 2008. A significant driver of the decrease in the fair value of our net assets was the non-cash charge of $21.4 billion that we recorded in the third quarter of 2008 to establish a deferred tax asset valuation allowance, which we discuss in "Critical Accounting Policies and Estimates--Deferred Tax Assets." As a result of establishing this valuation allowance, we eliminated the effect of deferred tax benefits in calculating the fair value of our net assets as of September 30, 2008. Table 31: Non-GAAP Estimated Fair Value of Net Assets (Net of Tax Effect)

	For the Nine Months Ended September 30, 2008
	(Dollars in millions)
Balance as of December 31, 2007, as reported	$ 35,799
Effect of change in measuring fair value of guaranty obligations(1)	1,558
Balance as of December 31, 2007, as adjusted to include effect of change in measuring fair value of guaranty obligations	37,357
Capital transactions:(2)	
Common dividends, common stock repurchases and issuances, net	1,957
Preferred dividends and issuances, net	3,647
Capital transactions, net	5,604
Change in estimated fair value of net assets, excluding effect of capital transactions	(89,383)
Decrease in estimated fair value of net assets, net	(83,779)
Balance as of September 30, 2008(3)	$ (46,422)

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(1) Represents the estimated after-tax impact of the change in our approach to measuring the fair value of our guaranty obligations as part of our January 1, 2008 implementation of SFAS 157. Amount reflects the difference of $2.3 billion ($1.6 billion after-tax) between the estimated fair value of our guaranty obligations based on our current valuation approach of $18.2 billion as of December 31, 2007, and the previously reported fair value of our guaranty obligations of $20.5 billion as of December 31, 2007.
(2) Represents net capital transactions, which are reflected in the condensed consolidated statements of changes in stockholders' equity. The issuance of senior preferred stock and warrant to purchase common stock to Treasury did not have an impact to stockholders' equity as displayed in our condensed consolidated statement of changes in stockholders' equity.
(3) Represents estimated fair value of net assets (net of tax effect) presented in Table 30: Supplemental Non-GAAP Consolidated Fair Value Balance Sheets.

Excluding capital transactions, which increased the fair value of our net assets by $5.6 billion, we experienced a decrease in the fair value of our net assets of $89.4 billion during the first nine months of 2008. As indicated in our condensed consolidated statements of changes in stockholders' equity, the issuance of the senior preferred stock and warrant to Treasury had no effect on our net stockholders' equity as of September 30, 2008. The primary factors driving the $89.4 billion decline in the fair value of our net assets were: (i) a decrease due to the non-cash charge of $21.4 billion recorded during the third quarter of 2008 in our condensed consolidated results of operations to establish a partial deferred tax asset valuation allowance and an additional decrease of approximately $19.5 billion related to the deferred taxes associated with the fair value adjustments on our assets and liabilities, excluding our available-for-sale mortgage securities; (ii) decrease of approximately $36.6 billion, net of related tax, in the fair value of our net guaranty assets, reflecting the significant increase in the fair value of our guaranty obligations attributable to an increase in expected credit losses as well as an increase in risk premium due to our current guaranty fee pricing and (iii) a decrease in the fair value of the net portfolio for our capital markets business, largely attributable to the significant widening of mortgage-to-debt OAS during the first nine months of 2008, which had an estimated after-tax effect of approximately $11.5 billion. The $56.3 billion pre-tax decline in the fair value of our net guaranty assets, or $36.6 billion, net of related tax, was driven by the substantial increase in the estimated fair value of our guaranty obligations (approximately $54.4 billion), which we now measure based on the compensation we currently require to provide our guaranty and assume the credit risk associated with the mortgage loans underlying the guaranteed Fannie Mae MBS, or "mortgage credit risk." This increase in the fair value of our guaranty obligations resulted from both an increase in the underlying risk in our guaranty book of business, as delinquencies increased and declining home prices continued to adversely affect mark-to-market loan-to-value ratios, and an increase in the estimated mortgage credit risk premium required to take mortgage credit risk in the current market, as indicated by the pricing of our new guaranty business. Although we continue to measure the estimated fair value of our guaranty obligations using the models and inputs we used prior to January 1, 2008, since January 1, 2008, we have calibrated these models to our current guaranty fee compensation, which includes our March 2008 guaranty fee price increase. As a result, the estimated fair value of our guaranty obligations as of September 30, 2008 takes into account the guaranty fees we currently charge, regardless of the date on which we actually issued any of our guarantees. Because we measure the fair value of our guaranty obligations based on our pricing as of the fair value measurement date, the fair value of these obligations generally will increase when our risk-adjusted guaranty fees increase, resulting in a reduction in the fair value of our net assets. Conversely, the fair value of the guaranty obligations generally will decrease when our risk-adjusted guaranty fees decrease, resulting in an increase in the fair value of our net assets. The total fair value of our guaranty obligations presented in our non-GAAP supplemental consolidated fair value balance sheets is not reflective of our expected credit losses because it consists of not only future expected credit losses but also an estimated market risk premium that is based on our current risk pricing. For more information about how we measure the fair value of our guaranty obligations, refer to "Critical Accounting Policies and Estimates--Fair Value of Financial Instruments--Change in Measuring the Fair Value of Guaranty Obligations." See "Risk Management--Interest Rate Risk Management and Other Market Risks--Interest Rate Risk Metrics" for sensitivities of our guaranty business to changes in interest rates.

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Table 32 presents selected market information that impacts changes in the fair value of our net assets. Table 32: Selected Market Information(1)

	As of September 30, 2008	As of December 31, 2007	Change
10-year U.S. Treasury note yield	3.83%	4.03%	(0.20)%
Implied volatility(2)	24.7%	20.4%	4.3%
30-year Fannie Mae MBS par coupon rate	5.65%	5.51%	0.14%
Barclays Capital U.S. MBS Index OAS (in basis points) over LIBOR yield curve(3)	53.2 bp	26.2 bp	27.0 bp
Barclays Capital U.S. Agency Debt Index OAS (in basis points) over LIBOR yield curve(3)	(5.2)	(20.2)	15.0

(1) Information obtained from Barclays Capital and Bloomberg.
(2) Implied volatility for an interest rate swaption with a 3-year option on a 10-year final maturity.
(3) Data previously obtained from Lehman Brothers indices, which were incorporated into the Barclays Capital indices effective October 31, 2008.

As indicated in Table 32 above, the Barclays Capital U.S. MBS index (formerly the Lehman U.S. MBS Index), which primarily includes 30-year and 15-year mortgages, reflected a further widening of OAS during the first nine months of 2008. The OAS on securities held by us that are not in the index, such as AAA-rated 10-year CMBS and AAA-rated private-label mortgage-related securities, widened even more dramatically. This widening of mortgage-to-debt spreads during the first nine months of 2008 resulted in an overall decrease in the fair value of our mortgage assets and accounted for approximately $17.6 billion pre-tax (or $11.5 billion after-tax) of the decline in the fair value of our net assets. Debt OAS based on the Barclays Capital U.S. Agency Debt Index to LIBOR increased by 15.0 basis points during the first nine months of 2008 to minus 5.2 basis points as of September 30, 2008, which resulted in an overall increase in the fair value of our debt from December 31, 2007. LIQUIDITY AND CAPITAL MANAGEMENT Liquidity Overview Our liquidity depends on our ability to issue unsecured debt in the capital markets, and our status as a GSE is critical to maintaining our access to the unsecured debt market. Our debt obligations are treated as U.S. agency securities in the marketplace, which historically had been treated just below U.S. Treasury securities and above AAA-rated corporate debt. Since early July 2008, we have experienced significant deterioration in our access to the unsecured debt markets, particularly for long-term debt, and a significant increase in the yields on our debt as compared to relevant market benchmarks. These conditions have had, and are continuing to have, significant adverse impacts on us. See "Funding--Debt Funding Activity" below for a discussion of the current significant limitations on our ability to issue unsecured debt. Sources and Uses of Cash Our primary source of funds is proceeds from the issuance of short-term and long-term debt. Other sources of cash include:

ù principal and interest payments received on mortgage loans, mortgage-related securities and non-mortgage securities we own;
ù borrowings under secured and unsecured intraday funding lines of credit we have established with several large financial institutions;
ù sales of mortgage loans, mortgage-related securities and non-mortgage assets;

ù borrowings against mortgage-related securities and other investment securities we hold pursuant to repurchase agreements and loan agreements;
ù guaranty fees earned on Fannie Mae MBS;
ù mortgage insurance counterparty payments; and
ù net receipts on derivative instruments.

In addition to these sources of cash, we may request loans from Treasury pursuant to the Treasury credit facility described under "Liquidity Risk Management--Liquidity Contingency Plan--Treasury Credit Facility" below. In specified limited circumstances, we may also request funds from Treasury under the senior preferred stock purchase agreement described under "Conservatorship and Treasury Agreements--Treasury Agreements--Senior Preferred Stock Purchase Agreement and Related Issuance of Senior Preferred Stock and Common Stock Warrant--Senior Preferred Stock Purchase Agreement." Our business activities require that we maintain adequate liquidity to fund our operations. Our current uses of cash include:

ù the repayment of matured, paid off and repurchased debt;
ù the purchase of mortgage loans, mortgage-related securities and other investments;
ù interest payments on outstanding debt;
ù net payments on derivative instruments;
ù the pledging of collateral under derivative instruments;
ù administrative expenses;
ù the payment of federal income taxes; and
ù losses incurred in connection with our Fannie Mae MBS guaranty obligations.

In addition to the cash needs described above, under the Regulatory Reform Act that became effective July 30, 2008, in each fiscal year we are required to set aside an amount equal to 4.2 basis points for each dollar of the unpaid principal balance of our total new business purchases for an affordable housing trust fund. The amount of our first contribution has not yet been determined. The Director of FHFA has the authority to temporarily suspend this requirement if payment would contribute to our financial instability, cause us to be classified as undercapitalized or prevent us from successfully completing a capital restoration plan. In testimony before the Senate Committee on Banking, Housing and Urban Affairs on September 23, 2008, the Director of FHFA stated that he intends to make a determination regarding whether to suspend this requirement after a careful and thorough review of existing conditions. Also, under the terms of the senior preferred stock issued to Treasury, we are required to make quarterly dividend payments to Treasury, which are described in greater detail in "Conservatorship and Treasury Agreements--Treasury Agreements--Senior Preferred Stock Purchase Agreement and Related Issuance of Senior Preferred Stock and Common Stock Warrant." Beginning in March 31, 2010, we will also become obligated to pay a quarterly commitment fee under the senior preferred stock purchase agreement with Treasury. The amount of this fee has not yet been determined. Treasury has the authority to waive this quarterly commitment fee for up to one year at a time based on adverse conditions in the U.S. mortgage market. Funding We fund our business primarily through the issuance of short-term and long-term debt securities in the domestic and international capital markets. Historically, we have regularly issued a variety of non-callable and callable debt securities in the domestic and international capital markets in a wide range of maturities to meet our large and ongoing funding needs. We are currently experiencing significant limitations on our ability to issue unsecured debt. See "Debt Funding Activity" below for a more detailed discussion of these limitations.

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Debt Funding Programs The most significant of the debt funding programs that we conduct are the following:

ù Benchmark Securities(R) . Through our Benchmark Securities program, we sell large, regularly scheduled issues of unsecured debt. The Benchmark Securities program includes:

Benchmark Bills which have maturities of up to one year. On a weekly basis, we auction three-month and six-month Benchmark Bills with a minimum issue size of $1.0 billion. On a monthly basis, we auction one-year Benchmark Bills with a minimum issue size of $1.0 billion.
Benchmark Notes which have maturities ranging between two and ten years. We typically sell one or more new, fixed-rate issues of Benchmark Notes each month through dealer syndicates. Each issue has a minimum size of $3.0 billion.

ù Discount Notes. We issue short-term debt securities called Discount Notes with maturities ranging from overnight to 360 days from the date of issuance. Investors purchase these notes at a discount to the principal amount and receive the principal amount when the notes mature.
ù Medium-Term Notes. We issue medium-term notes ("MTNs") with a wide range of maturities, interest rates and call features. The specific terms of our MTN issuances are determined through individually-negotiated transactions with broker-dealers. Our MTNs are often callable prior to maturity. We issue both fixed-rate and floating-rate securities, as well as various types of structured notes that combine features of traditional debt with features of

other capital market instruments.

ù Subordinated Debt. Pursuant to agreements with OFHEO, from time to time we have issued subordinated debt. Information relating to our subordinated debt is provided under "Capital Management--Capital Activity--Subordinated Debt." Pursuant to the senior preferred stock purchase agreement, we are prohibited from issuing additional subordinated debt without the consent of Treasury.

Debt Investor Base We have traditionally had a diversified funding base of domestic and international investors. Purchasers of our debt securities include fund managers, commercial banks, pension funds, insurance companies, foreign central banks, state and local governments and retail investors. Purchasers of our debt securities are also geographically diversified, with a significant portion of our investors historically located in the United States, Europe and Asia. In recent months, we have seen a reduction in the purchase of our debt by international investors, foreign central banks and commercial banks. Outstanding Debt Table 33 provides information on our outstanding short-term and long-term debt as of September 30, 2008 and December 31, 2007. As of September 30, 2008, short-term debt represented 33.7% of our total debt outstanding, compared to 29.4% of our total debt outstanding as of December 31, 2007. Short-term debt including the current portion of long-term debt totaled $363.2 billion, or an estimated 44% of our total debt outstanding, as of September 30, 2008. Pursuant to the terms of the senior preferred stock purchase agreement, we are prohibited from issuing debt in an amount greater than 110% of our aggregate indebtedness as of June 30, 2008. Our calculation of our aggregate indebtedness as of June 30, 2008, which has not been confirmed by Treasury, set this debt limit at $892 billion. We calculate aggregate indebtedness as the unpaid principal balance of our debt outstanding, or in the case of long-term zero coupon bonds, at maturity and exclude basis adjustments and debt from consolidations. As of October 31, 2008, we estimate that our aggregate indebtedness totaled $880 billion, significantly limiting our ability to issue additional debt.

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Table 33: Outstanding Short-Term Borrowings and Long-Term Debt(1)

	September 30, 2008			December 31, 2007		
	Maturities	Outstanding	Weighted Average Interest Rate	Maturities	Outstanding	Weighted Average Interest Rate
	(Dollars in millions)					
Federal funds purchased and securities sold under agreements to repurchase	--	$ 1,357	2.04%	--	$ 869	3.48%
Short-term debt:(2)						
Fixed rate short-term debt:						

Discount notes	--	$ 275,351	2.48%	--	$ 233,258	4.45%
Foreign exchange discount notes	--	304	4.20	--	301	4.28
Other short-term debt	--	232	2.74	--	601	4.37
Total fixed rate short-term debt		275,887	2.48		234,160	4.45
Floating-rate short-term debt(4)	--	4,495	2.08	--	--	--
Total short-term debt		$ 280,382	2.48%		$ 234,160	4.45%
Long-term debt:(3)						
Senior fixed rate long-term debt:						
Benchmark notes and bonds	2008-2030	$ 254,620	4.92%	2008-2030	$ 256,538	5.12%
Medium-term notes	2008-2018	159,334	4.34	2008-2017	202,315	5.06
Foreign exchange notes and bonds	2009-2028	1,678	4.83	2008-2028	2,259	3.30
Other long-term debt(4)	2008-2038	72,146	5.97	2008-2038	69,717	6.01
Total senior fixed rate debt		487,778	4.89		530,829	5.20
Senior floating rate long-term debt:						
Medium-term notes(4)	2008-2017	45,997	2.43	2008-2017	12,676	5.87
Other long-term debt(4)	2017-2037	1,090	6.50	2017-2037	1,024	7.76
Total senior floating rate debt		47,087	2.53		13,700	6.01
Subordinated fixed rate long-term debt:						
Medium-term notes	2011	2,500	6.24	2008-2011	3,500	5.62
Other subordinated debt	2012-2019	7,067	6.56	2012-2019	7,524	6.39
Total subordinated fixed rate long-term debt		9,567	6.48		11,024	6.14
Debt from consolidations	2008-2039	6,496	5.81	2008-2039	6,586	5.95
Total long-term debt		$ 550,928	4.72%		$ 562,139	5.25%
Outstanding		$ 198,828	4.81%		$ 215,639	5.35%

callable
debt(5)

(1) Outstanding debt amounts and weighted average interest rates reported in this table include the effect of unamortized discounts, premiums and other cost basis adjustments. Reported amounts as of September 30, 2008 include fair value gains and losses associated with debt that we elected to carry at fair value pursuant to our January 1, 2008 adoption of SFAS 159. The unpaid principal balance of outstanding debt, which excludes unamortized discounts, premiums and other cost basis adjustments and amounts related to debt from consolidation, totaled $841.7 billion and $804.3 billion as September 30, 2008 and December 31, 2007, respectively.
(2) Short-term debt consists of borrowings with an original contractual maturity of one year or less.
(3) Long-term debt consists of borrowings with an original contractual maturity of greater than one year. Included is the current portion of long-term debt (that is, the portion of our long-term debt that is due within one year), which totaled $82.8 billion as of September 30, 2008. Reported amounts include net discount and other cost basis adjustments of $14.6 billion and $11.6 billion as of September 30, 2008 and December 31, 2007, respectively. The unpaid principal balance of long-term debt, which excludes unamortized discounts, premiums and other cost basis adjustments and amounts related to debt from consolidation, totaled $559.1 billion and $567.2 billion as September 30, 2008 and December 31, 2007, respectively.
(4) Includes a portion of structured debt instruments that are reported at fair value.
(5) Consists of both short-term and long-term callable debt that can be paid off in whole or in part at our option at any time on or after a specified date.

Maturity Profile of Outstanding Debt Historically, we have issued debt in a variety of maturities to achieve cost efficient funding and an appropriate maturity profile. We are currently experiencing significant limitations on our ability to issue unsecured debt securities with maturities greater than one year. See "Debt Funding Activity" below for a more detailed discussion of these limitations. As of September 30, 2008, the weighted average maturity of our short-term debt was 78 days based on the remaining contractual term. Table 34 presents the maturity profile of our short-term debt (on a monthly basis) as of September 30, 2008 based on contractual maturity dates. The current portion of our long-term debt (that is, the total amount of our long-term debt that must be paid within the next year) is not included in Table 34, but it is included in Table 35 below. Table 34: Maturity Profile of Outstanding Short-Term Debt(1)

(1) Includes discounts, premiums and other cost basis adjustments of $1.5 billion as of September 30, 2008. Excludes Federal funds purchased and securities sold under agreements to repurchase.

As of September 30, 2008, the weighted average maturity of our long-term debt was approximately 66 months based on the remaining contractual term. Table 35 presents the maturity profile of our long-term debt as of September 30, 2008 (quarterly for two years and annually thereafter) based on contractual maturity dates. Table 35: Maturity Profile of Outstanding Long-Term Debt(1)

(1) Includes discounts, premiums and other cost basis adjustments of $14.6 billion as of September 30, 2008. Excludes $6.5 billion in debt from consolidations.

We intend to pay off our short-term and long-term debt obligations as they become due primarily through proceeds from the issuance of additional short-term and, to the extent they become available to us at economically reasonable rates, long-term debt securities. See "Debt Funding Activity" below for a discussion of the current significant limitations on our ability to issue debt. See "Sources and Uses of Cash" above for a description of the sources of cash available to us to pay off our debt and fund our operations.

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Debt Funding Activity Table 36 below provides a summary of our debt activity for the three and nine months ended September 30, 2008 and 2007. Table 36: Debt Activity

	For the Three Months Ended September 30, 2008	2007	For the Nine Months Ended September 30, 2008	2007
	(Dollars in millions)			
Issued during the period:(1)				
Short-term:(2)				
Amount:(3)	$ 382,460	$ 341,033	$ 1,223,344	$ 1,124,200
Weighted average interest rate	2.25%	4.91%	2.42%	5.07%
Long-term:(4)				
Amount:(3)	$ 49,744	$ 37,462	$ 221,611	$ 150,753
Weighted average interest rate	3.51%	5.58%	3.79%	5.57%
Total issued:				
Amount:(3)	$ 432,204	$ 378,495	$ 1,444,955	$ 1,274,953
Weighted average interest rate	2.40%	4.98%	2.63%	5.13%
Paid off during the period:(1)(5)				
Short-term:(2)				
Amount:(3)	$ 341,151	$ 351,130	$ 1,177,198	$ 1,135,352
Weighted average interest rate	2.19%	4.97%	2.81%	5.07%
Long-term:(4)				
Amount:(3)	$ 57,911	$ 45,725	$ 229,780	$ 142,973
Weighted average interest rate	4.88%	4.68%	4.97%	4.58%
Total paid off:				
Amount:(3)	$ 399,062	$ 396,855	$ 1,406,978	$ 1,278,325
Weighted average interest rate	2.58%	4.93%	3.16%	5.02%

(1) Excludes debt activity resulting from consolidations and intraday loans.
(2) Short-term debt consists of borrowings with an original contractual maturity of one year or less. Includes Federal funds purchased and securities sold under agreements to repurchase.

(3) Represents the face amount at issuance or redemption.
(4) Long-term debt consists of borrowings with an original contractual maturity of greater than one year.
(5) Represents all payments on debt, including regularly scheduled principal payments, payments at maturity, payments as the result of a call and payments for any other repurchases.

Our short-term and long-term funding needs for the first nine months of 2008 remained relatively consistent with our needs during the first nine months of 2007. We remained an active issuer of short-term and, to a lesser extent, long-term debt securities during the first nine months of 2008 to meet our consistent need for funding and rebalancing our portfolio. However, since early July 2008, we have experienced significant deterioration in our access to the unsecured debt markets, particularly for long-term debt, and a significant increase in the yields on our debt as compared to relevant market benchmarks. Although we experienced a slight stabilization in our access to the short-term debt markets immediately following the entry into conservatorship in early September, we saw renewed deterioration in our access to the short-term debt markets following the initial improvement. Beginning in October, consistent demand for our debt securities has decreased even further, particularly for our long-term and callable debt, and the interest rates we must pay on our new issuances of short-term debt securities have increased. Although we experienced a reduction in LIBOR rates in late October and early November, and as a result we have begun to see some improvement in our short-term debt yields, the recent improvement may not continue or may reverse. We have experienced reduced demand for our debt obligations from some of our historical sources of that demand, particularly in international markets.

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There are several factors contributing to the reduced demand for our debt securities, including continued severe market disruptions, market concerns about our capital position and the future of our business (including its future profitability, future structure, regulatory actions and agency status) and the extent of U.S. government support for our business. In addition, on October 14, 2008, the Secretary of the Treasury, the Chairman of the Federal Reserve Board and the Chairman of the FDIC announced that the FDIC will guarantee until June 30, 2012 new senior unsecured debt issued on or before June 30, 2009 by all FDIC-insured institutions and their domestic parent companies. The U.S. government does not guarantee, directly or indirectly, our securities or other obligations. It should be noted that, pursuant to the Housing and Economic Recovery Act of 2008, Congress authorized Treasury to purchase our debt, equity and other securities, which authority Treasury used to make its commitment under the senior preferred stock purchase agreement to provide up to $100 billion in funds as needed to help us maintain a positive net worth (which means that our total assets exceed our total liabilities, as reflected on our GAAP balance sheet) and made available to us the Treasury credit facility. In addition, the U.S. government guarantee of competing obligations means that those obligations receive a more favorable risk weighting than our securities under bank and thrift risk-based capital rules. Moreover, to the extent the market for our debt securities has improved due to the availability of the Treasury credit facility, this refinancing risk may increase in anticipation of the termination of the credit facility on December 31, 2009. As noted above, we currently have limited ability to issue debt securities with maturities greater than one year. Although we typically sell one or more fixed-rate issues of our Benchmark(R) Notes with a minimum issue size of $3.0 billion each month, we announced on October 20, 2008 that we would not issue Benchmark(R) Notes in October. In addition, the company historically has issued most of its long-term debt in the form of fixed-rate callable MTNs. The MTNs are distributed through broker-dealers who negotiate the terms of this debt with us via a process known as "reverse inquiry." Since early July 2008, there has been a substantial decrease in this "reverse inquiry" demand for these securities. Due in part to this reduced demand, we issued substantially less in fixed-rate callable MTNs during the third quarter of 2008 than we issued in either the first or second quarter of 2008. Due to the limitations on our ability to issue long-term debt, we have relied increasingly on short-term debt to pay off our maturing debt and to fund our ongoing business activities, and we issued a higher amount of short-term debt than long-term debt during the third quarter of 2008, as compared to the third quarter of 2007. In addition, during September, we significantly increased our portfolio of cash and cash equivalents, which, given our lack of access to the long-term debt markets, has been achieved exclusively through the issuance of additional short-term debt. Finally, during September and into early October, we increased our purchases of mortgage assets to provide additional liquidity to the mortgage market. This activity has also been achieved exclusively through the issuance of additional short-term debt. As a result, our outstanding short-term debt increased from 29.4% of our total debt as of December 31, 2007 to 33.7% as of September 30, 2008. Our short-term debt including the current portion of long-term debt was an estimated 44% of our outstanding debt as of September 30, 2008. The weighted-average maturity of our short-term and long-term debt decreased to 46 months for the third quarter of 2008 from 52 months for the third quarter of 2007. As a result of this increased reliance on short-term debt, we will be required to refinance our debt on a more frequent basis. However, given our significantly limited ability to issue long-term debt, we are likely to continue to need to fulfill these refinancing requirements with short-term debt, increasingly exposing us to the risk of increasing interest rates, adverse credit market conditions and insufficient demand for our debt to meet our refinancing needs. Due to current financial market conditions and current market concerns about our business, we currently expect this trend toward dependence on short-term debt and increased roll over risk to continue. This increases the likelihood that we will need to either rely on our liquidity contingency plan, obtain funds from the Treasury credit facility, or face the possibility that we may not be able to repay our debt obligations as they become due. See "Part II--Item 1A--Risk Factors" for a discussion of the risks to our business posed by our reliance on the issuance of debt to fund our operations. In addition, our increasing reliance on short-term debt and limited ability to issue callable debt, combined with limitations on the availability of a sufficient volume of reasonably priced derivative instruments to hedge our short-term debt position, may have an adverse impact on our duration and interest rate risk management activities. See "Risk Management--Interest Rate Risk Management and Other Market Risks" for more information regarding our interest rate risk management activities. Finally, in the current market environment, we have uncertainty regarding our ability to execute on our liquidity contingency plan. See "Liquidity Risk Management" below for a description of our liquidity contingency plan and the uncertainties regarding that plan.

Our recent challenges in accessing the debt markets have also adversely impacted the price we must pay for that debt. During July 2008, the spread between the yields on our short-term debt relative to market benchmarks, such as LIBOR, deteriorated significantly from previous periods. The enactment of the Regulatory Reform Act on July 30, 2008 initially improved our access to the debt markets and had a positive impact on the yield of our short-term debt relative to the relevant market benchmarks; however, in August, the yield on our short-term debt in comparison to market benchmarks worsened again. Following our entry into conservatorship on September 6, 2008 and the announcement of the Treasury credit facility and senior preferred stock purchase agreement on September 7, 2008, our access to the debt markets initially strengthened and the yield of our short-term debt relative to the market benchmarks initially decreased. However, the current financial market crisis has reduced available funding in the credit markets, which has negatively affected the cost of our short-term debt securities as compared to our market benchmarks. Moreover, the FDIC guarantee of senior unsecured debt issued by U.S. banks announced on October 14, 2008 has had an adverse effect on the spreads between the yield on our short-term debt relative to market benchmarks. Although the yield of our short-term debt relative to LIBOR improved in September and October in comparison to our historical experience, LIBOR itself has increased significantly in recent months due to the financial market crisis. Further, the yield of our short-term debt relative to comparable Treasury securities has increased significantly during this time period. A primary source of our revenue is the net interest income we earn from the difference, or spread, between the return that we receive on our mortgage assets and our borrowing costs. Despite adverse market conditions, as of November 7, 2008, we have continued to pay our obligations as they become due, and we have maintained sufficient access to the unsecured debt markets, primarily the short-term debt markets, during the third quarter of 2008 to avoid triggering our liquidity contingency plan as described in "Liquidity Risk Management" below. We continue to monitor the current volatile market conditions to determine the impact of these conditions on our funding and liquidity. Further disruptions and continued turmoil in the financial markets could result in even further adverse changes in the amount, mix and cost of funds we obtain and could have a material adverse impact on our liquidity, financial condition and results of operations. See "Part II--Item 1A--Risk Factors" below for a discussion of the risks related to our ability to obtain funds through the issuance of debt securities and the relative cost at which we are able to obtain these funds and our liquidity contingency plans. Equity Funding Activity During the first six months of 2008, we obtained funds through the issuance of common and preferred stock in the equity capital markets. As a result of the covenants under the senior preferred stock purchase agreement, which generally prohibit us from issuing equity securities or paying dividends on our common or preferred stock (other than the senior preferred stock) without Treasury's consent, we no longer have access to equity funding. For a description of the covenants under the senior preferred stock purchase agreement, see "Conservatorship and Treasury Agreements--Treasury Agreements--Covenants Under Treasury Agreements--Senior Preferred Stock Purchase Agreement Covenants." Credit Ratings Our ability to access the capital markets and other sources of funding, as well as our cost of funds, is highly dependent on our credit ratings from the major ratings organizations. In addition, our credit ratings are important when we seek to engage in certain long-term transactions, such as derivative transactions. Factors that influence our credit ratings include our status as a GSE, Treasury's funding commitment under the senior preferred stock purchase agreement, the rating agencies' assessment of the general operating and regulatory environment, our relative position in the market, our financial condition, our reputation, our liquidity position, the level and volatility of our earnings, our corporate governance and risk management policies, and our capital management practices. Management maintains an active dialogue with the major ratings organizations. Our senior unsecured debt (both long-term and short-term), benchmark subordinated debt and preferred stock are rated and continuously monitored by Standard & Poor's, Moody's and Fitch. Following the announcement of our second quarter financial results on August 8, 2008 and prior to our entry into conservatorship on September 6, 2008, all three rating agencies updated our ratings, as follows.

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ù Standard & Poor's. On August 26, 2008, Standard & Poor's affirmed our senior debt ratings with stable outlooks. On August 11, 2008, Standard & Poor's lowered our subordinated debt and preferred stock ratings from "AA-" to "A-", and subsequently lowered these ratings to "BBB+" and "BBB-", respectively, on August 26, 2008. On August 11, 2008, Standard & Poor's lowered our risk to the government rating from "A+" to "A", and subsequently lowered this rating to "A-" on August 26, 2008. All the ratings lowered on August 26 were also placed on CreditWatch Negative.
ù Moody's. On August 22, 2008, Moody's affirmed our senior debt ratings with stable outlooks; downgraded our preferred stock rating from "A1" to "Baa3"; affirmed our subordinated debt rating but changed the outlook from stable to negative; and downgraded our bank financial strength rating from "BW22; " to "D+". Both the preferred stock rating and bank financial strength rating remained on review for further downgrade.
ù Fitch. On September 2, 2008, Fitch downgraded our preferred stock rating from "A+" to "BBB-" and the rating remained on Rating Watch Negative. All other ratings were affirmed.

Following the public announcement on September 7, 2008 of our entry into conservatorship and the agreements entered into with Treasury, all three rating agencies updated our ratings, as follows.

ù Standard & Poor's. On September 7, 2008, Standard & Poor's affirmed our senior debt ratings with stable outlooks; lowered our preferred stock rating from "BBB-" to "C" and removed it from CreditWatch Negative; and revised the "BBB+" subordinated debt rating from CreditWatch Negative to CreditWatch Positive. On September 7, 2008, Standard & Poor's also lowered our risk to the government rating from "AW22; " to "R" and then withdrew the rating. On November 5, 2008, Standard & Poor's raised our subordinated debt rating from "BBB+" to "A" with a stable outlook and removed the rating from Credit Watch Positive.
ù Moody's. On September 7, 2008, Moody's affirmed our senior debt and subordinated debt ratings with stable outlooks; lowered the preferred stock rating from "Baa3" to "Ca" with stable outlook; and lowered the bank financial strength rating from "D+" to "E+" with stable outlook.
ù Fitch. On September 7, 2008, Fitch affirmed our senior debt ratings; affirmed our long term Issuer Default Rating at "AAA" with a stable outlook; and downgraded our preferred stock rating from "BBB-" to "C/RR6" while removing it from Rating Watch Negative. Fitch initially placed our subordinated debt on Rating Watch Evolving, and on September 12, 2008 they affirmed the "AA-" rating and removed it from that designation.

Table 37 below sets forth the credit ratings issued by each of these rating agencies as of November 7, 2008. Table 37: Fannie Mae Credit Ratings

	Senior Long-Term Unsecured Debt	Senior Short-Term Unsecured Debt	Benchmark Subordinated Debt	Preferred Stock	Bank Financial Strength(1)
Standard & Poor's	AAA	A-1+	A	C	--
Moody's	Aaa	P-1	Aa2	Ca	E+
Fitch	AAA	F1+	AA-	C/RR6	--

(1) Pursuant to our September 2005 agreement with OFHEO, we agreed to seek to obtain a rating that assesses the independent financial strength or "risk to the government" of Fannie Mae operating under its authorizing legislation but without assuming a cash infusion or extraordinary support

of the government in the event of a financial crisis. In September 2008, Standard & Poor's withdrew our risk to the government rating and Moody's downgraded our bank financial strength rating from "D+" to "E+".

We do not have any covenants in our existing debt agreements that would be violated by a downgrade in our credit ratings. However, in connection with certain derivatives counterparties, we could be required to provide additional collateral to or terminate transactions with certain counterparties in the event that our senior unsecured debt ratings are downgraded. The amount of additional collateral required depends on the contract and is usually a fixed incremental amount and/or the market value of the exposure.

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Liquidity Risk Management We define liquidity risk as the risk that would arise from an inability to meet our cash obligations in a timely manner. Our liquidity position could be, and in some cases has been, adversely affected by many causes, both internal and external to our business, including elimination of our GSE status, actions taken by the conservator, Treasury or other government agencies, an unexpected systemic event leading to the withdrawal of liquidity from the market, a sudden catastrophic operational failure in the financial sector due to a terrorist attack or other event, an extreme market-wide widening of credit spreads, a downgrade of our credit ratings from the major ratings organizations, a significant decline in our net worth, loss of demand for our debt from a major group of investors or a significant credit event involving one of our major institutional counterparties. See "Part II--Item 1A--Risk Factors" below for a description of factors that could adversely affect our liquidity. We have adopted a liquidity risk policy that governs our management of liquidity risk and outlines our methods for measuring and monitoring liquidity risk. In addition, our liquidity risk policy also requires us to have a liquidity contingency plan in the event our access to the debt markets becomes limited. As discussed in greater detail below, we believe that current market conditions may have had an adverse impact on our ability to execute on our liquidity contingency plan, and are currently considering what modifications to our liquidity risk policy are necessary or possible to address current market conditions, the conservatorship and Treasury arrangements and the more fundamental changes in the longer-term credit market environment. We believe that effective liquidity contingency plans may be difficult or impossible to develop under current market conditions for a company of our size. Liquidity Risk Governance Our current liquidity risk policy requires us to conduct daily liquidity governance and monitoring activities to achieve the goals of our liquidity risk policy, including:

ù daily monitoring and reporting of our liquidity position;
ù daily monitoring of market and economic factors that may impact our liquidity;
ù daily forecasting of our ability to meet our liquidity needs over a 90-day period without relying upon the issuance of long-term or short-term unsecured debt securities;
ù daily forecasting and statistical analysis of our daily cash needs over a 21 business day period;
ù routine operational testing of our ability to rely upon identified sources of liquidity, such as mortgage repurchase agreements;
ù periodic reporting to management and the conservator regarding our liquidity position; and
ù periodic review and testing of our liquidity management controls by our Internal Audit department.

During the third quarter of 2008, we continued to comply with the required monitoring and testing activities under our liquidity risk policy. We conducted an operational test of our mortgage repurchase agreement, which involves entering into a small repurchase agreement (approximately $1 billion) with a counterparty in order to confirm that we have the operational and systems capability to enter into repurchase arrangements. We do not, however, have committed repurchase arrangements with specific counterparties as we have not historically relied on this form of funding. Although we regularly test our operational ability to enter into repurchase arrangements with counterparties, our history of infrequent use of such facilities may impair our ability to enter into them in significant dollar amounts, particularly in the currently challenged credit market environment. Second, we run daily 90-day liquidity simulations, whereby we consider all sources of cash inflows (including debt sold but not settled, mortgage loan principal and interest, MBS principal and interest, net derivatives receipts, sale or maturity of assets, and repurchase arrangements), and all sources of cash outflows (including maturing debt, principal and interest due on debt, principal and interest due on MBS, net derivative payments, dividends, mortgage commitments, administrative costs and taxes) during the next 90 day period to determine

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whether there are sufficient inflows to cover the outflows. As discussed in greater detail below, our ability to execute on the daily 90-day liquidity simulations we run may be significantly challenged in the current market environment. FHFA regularly reviews our monitoring and testing requirements under our liquidity policy. Liquidity Contingency Plan Pursuant to our current liquidity policy, we maintain a liquidity contingency plan in the event that factors, whether internal or external to our business, temporarily compromise our ability to access funds in the unsecured agency debt market. Our contingency plan is designed to provide alternative sources of liquidity to allow us to meet our cash obligations for 90 days without relying upon the issuance of unsecured debt; however, as a result of current financial market conditions, we believe our contingency plan is unlikely to be sufficient to provide us with alternative sources of liquidity for 90 days. In addition, to the extent we were able to execute on our liquidity contingency plan, it is likely to require the pledge or sale of assets at uneconomic prices, resulting in a material adverse impact on our financial results. In the event of a liquidity crisis in which our access to the unsecured debt market becomes impaired, our liquidity contingency plan provides for the following alternative sources of liquidity:

ù Our cash and other investments portfolio; and
ù Our unencumbered mortgage portfolio.

Since September 2008, in the event of a liquidity crisis we could also seek funding from Treasury pursuant to the Treasury credit facility or the senior preferred stock purchase agreement, provided we were able to satisfy the terms and conditions of those agreements, as described below under "Treasury Credit Facility" and "Conservatorship and Treasury Agreements--Treasury Agreements--Senior Preferred Stock Purchase Agreement and Related Issuance of Senior Preferred Stock and Common Stock Warrant--Senior Preferred Stock Purchase Agreement." Cash and Other Investments Portfolio Under our current liquidity policy, our initial source of liquidity in the event of a liquidity crisis that restricts our access to the unsecured debt market is the sale or maturation of assets in our cash and other investments portfolio. Table 38 below provides information on the assets in our cash and other investments portfolio as of September 30, 2008. The current financial market crisis has had a significant adverse effect on the market value and the liquidity of the assets (other than cash and cash equivalents) in the portfolio. Our ability to sell assets from our cash and other investments portfolio in the event we experience a liquidity crisis or in the event of a significant market disruption, such as the one we are currently experiencing, could be limited or impossible. In the current environment and particularly in the event of further market deterioration, there can be no assurance that we could liquidate these assets at the point in time that we needed access to liquidity. Table 38: Cash and Other Investments Portfolio

	As of	
	September 30, 2008	December 31, 2007
	(Dollars in millions)	
Cash and cash equivalents	$ 36,301	$ 3,941
Federal funds sold and securities purchased under agreements to resell	33,420	49,041
Non-mortgage-related securities:		
Asset-backed securities	11,929	15,511
Corporate debt securities	7,657	13,515
Other	2,188	9,089
Total	$ 91,495	$ 91,097

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As described in "Consolidated Results of Operations--Fair Value Gains (Losses), Net," we incurred $1.5 billion in net trading losses during the third quarter of 2008 relating to non-mortgage securities in our cash and other investments portfolio due to the substantial decline in market value of these securities, particularly corporate debt securities issued by Lehman Brothers, Wachovia Corporation, Morgan Stanley and AIG. These assets may further decline in value. See "Risk Management--Credit Risk Management--Institutional Counterparty Credit Risk Management--Issuers of Securities in our Cash and Other Investments Portfolio" for additional information on the risk associated with the assets in our cash and other investments portfolio. During the third quarter of 2008, we significantly increased the amount of cash and cash equivalents in our cash and other investments portfolio to improve our liquidity position in light of current market conditions. Unencumbered Mortgage Portfolio In the event of a liquidity crisis in which our access to the unsecured debt funding market becomes impaired, our current liquidity contingency plan provides that our largest source of potential liquidity is the unencumbered mortgage assets in our mortgage portfolio, both through outright sale of our mortgage assets or by using these assets as collateral for secured borrowing. We believe that the amount of mortgage-related securities that we could successfully sell or borrow against in the event of a liquidity crisis or significant market disruption, such as the one we are currently experiencing, is substantially lower than the amount of mortgage-related securities we hold. Due to the large size of our portfolio of mortgage-related securities and current market conditions, it is unlikely that there would be sufficient market demand for all of these securities at one time. In addition, the price at which we can sell these mortgage-related securities may be significantly lower than we anticipate based on the current value of these securities. To the extent that we obtain funding by pledging mortgage-related securities as collateral, we anticipate that a "haircut" would be applied that would reduce the value assigned to those securities. Depending on market conditions at the time, this "haircut" may be significantly higher than we anticipate based on the current value of these assets, which would reduce the amount of financing we can obtain. Our unencumbered mortgage portfolio also includes whole loans that we could attempt to securitize to create Fannie Mae MBS, which can then be sold, used as collateral in repurchase or other lending arrangements, or, as described in greater detail below, potentially used as collateral for loans under our Treasury credit facility. Currently, however, we face technological and operational limitations on our ability to securitize these loans, particularly in significant amounts. We expect the necessary technology and operational capabilities to support the securitization of a portion of our whole loans will be in place by the end of the first quarter of 2009. Because of these limitations, current testing of our 90-day liquidity contingency plan assumes that we are unable to rely on these whole loans to meet our funding needs. Treasury Credit Facility On September 19, 2008, we entered into a lending agreement with Treasury under which we may request loans until December 31, 2009. The Treasury credit facility provides another source of liquidity in the event we experience a liquidity crisis in which we cannot adequately access the unsecured debt markets. As of September 30, 2008, we had approximately $190 billion in unpaid principal balance of Fannie Mae MBS and Freddie Mac mortgage-backed securities available as collateral to secure loans under the Treasury credit facility. We believe the fair market value of these Fannie Mae MBS and Freddie Mac mortgage-backed securities is less than the current unpaid principal balance of these securities. FRBNY, as collateral valuation agent for Treasury, has discretion to value these securities as it considers appropriate, and we believe would apply a "haircut" reducing the value it assigns to these securities from their current unpaid principal balance in order to reflect its determination of the current fair market value of the collateral. Accordingly, the amount that we could borrow under the credit facility using those securities as collateral would be less than $190 billion. We also hold whole loans in our mortgage portfolio, and a portion of these whole loans could potentially be securitized into Fannie Mae MBS and then pledged as collateral under the credit facility; however, as noted above, we currently face technological and operational limitations on our ability to securitize these loans. Further, unless amended or waived by Treasury, the amount we may borrow under the credit facility is limited by the restriction under the senior preferred stock purchase agreement on incurring

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debt in excess of 110% of our aggregate indebtedness as of June 30, 2008. The terms of the Treasury credit facility are described under "Conservatorship and Treasury Agreements--Treasury Agreements--Treasury Credit Facility." As of November 7, 2008, we have not requested any loans or borrowed any amounts under the Treasury credit facility. Treasury does not have authority to extend the term of this credit facility beyond December 31, 2009, which is when Treasury's temporary authority to purchase our obligations and other securities, granted by the Regulatory Reform Act, expires. After December 31, 2009, Treasury may purchase up to $2.25 billion of our obligations under its permanent authority, as set forth in the Charter Act. Senior Preferred Stock Purchase Agreement In specified limited circumstances, we may also request funds from Treasury under the senior preferred stock purchase agreement described under "Conservatorship and Treasury Agreements--Treasury Agreements--Senior Preferred Stock Purchase Agreement and Related Issuance of Senior Preferred Stock and Common Stock Warrant--Senior Preferred Stock Purchase Agreement." As of November 7, 2008, we have not requested any funds under this agreement. Cash Flows Nine Months Ended September 30, 2008. Cash and cash equivalents of $36.3 billion as of September 30, 2008 increased by $32.4 billion from December 31, 2007. This increase was due in large part to our efforts during the third quarter of 2008 to increase our cash and cash equivalent balances in light of current market conditions. Net cash generated from operating activities totaled $40.1 billion, resulting primarily from the proceeds from maturities or sales of our short-term, liquid investments, which are classified as trading securities. We also generated net cash from financing activities of $34.2 billion, reflecting the proceeds from the issuance of common and preferred stock, which was partially offset by the redemption of a significant amount of long-term debt as interest rates fell during the period. Net cash used in investing activities was $42.0 billion, attributable to our purchases of AFS securities, loans held for investment and advances to lenders. Nine Months Ended September 30, 2007. Our cash and cash equivalents of $4.5 billion as of September 30, 2007 increased by $1.2 billion from December 31, 2006. We generated cash flows from operating activities of $16.9 billion, largely attributable to net cash provided from trading securities. We also generated cash flows from investing activities of $746 million, attributable to funds provided from a reduction in federal funds sold and securities purchased under agreements to resell. These cash flows were partially offset by net cash used in financing activities of $16.5 billion, as amounts paid to extinguish debt exceeded the proceeds from the issuance of debt. Capital Management Current Capital Classification On October 9, 2008, FHFA announced that it will not issue quarterly capital classifications during the conservatorship. FHFA also announced that we were classified as "undercapitalized" as of June 30, 2008 (the most recent date for which results have been published by FHFA). FHFA determined that, as of June 30, 2008, our core capital exceeded our statutory minimum capital requirement by $14.3 billion, or 43.9%, and our total capital exceeded our statutory risk-based capital requirement by $19.3 billion, or 53.1%. Under the Regulatory Reform Act, however, FHFA has the authority to make a discretionary downgrade of our capital adequacy classification should certain safety and soundness conditions arise that could impact future capital adequacy. Accordingly, although the amount of capital we held as of June 30, 2008 was sufficient to meet our statutory and regulatory capital requirements, FHFA downgraded our capital classification to "undercapitalized" based on its discretionary authority provided in the Regulatory Reform Act and events that occurred subsequent to June 30, 2008. FHFA cited the following factors as supporting its decision:

ù Accelerating safety and soundness weaknesses, especially with regard to credit risk, earnings outlook and capitalization;

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ù Continued and substantial deterioration in equity, debt and MBS market conditions;
ù Our current and projected financial performance and condition, as reflected in our second quarter financial report and our ongoing examination by FHFA;
ù Our inability to raise capital or to issue debt according to normal practices and prices;
ù Our critical importance in supporting the country's residential mortgage market; and
ù Concerns that a growing proportion of our statutory core capital consisted of intangible assets.

Under the Regulatory Reform Act, a capital classification of "undercapitalized" requires us to submit a capital restoration plan and imposes certain restrictions on our asset growth and ability to make capital distributions. FHFA may also take various discretionary actions with respect to an enterprise that is classified as undercapitalized, including requiring the enterprise to acquire new capital. FHFA has advised us that, because we are under conservatorship, we will not be subject to these corrective action requirements. Regulatory Capital Requirements On October 9, 2008, FHFA announced that our existing statutory and FHFA-directed regulatory capital requirements will not be binding during the conservatorship. FHFA has directed us, during the time we are under conservatorship, to focus on managing to a positive stockholders' equity while returning to long-term profitability. As noted above, FHFA also announced on October 9, 2008 that it will not issue quarterly capital classifications during the conservatorship. We will continue to submit capital reports to FHFA during the conservatorship and FHFA will continue to closely monitor our capital levels. Our minimum capital requirement, core capital and GAAP net worth will continue to be reported in our periodic reports on Form 10-Q and Form 10-K, as well as on FHFA's website. FHFA has stated that it does not intend to report our critical capital, risk-based capital or subordinated debt levels during the conservatorship. Pursuant to its new authority under the Regulatory Reform Act, FHFA has announced that it will be revising our minimum capital and risk-based capital requirements. Table 39 displays our regulatory capital classification measures as of September 30, 2008 and December 31, 2007. Table 39: Regulatory Capital Measures

	As of	
	September 30, 2008(1)	December 31, 2007
	(Dollars in millions)	
Core capital(2)	$ 16,645	$ 45,373
Statutory minimum capital(3)	33,024	31,927
Surplus (deficit) of core capital over statutory minimum capital	$ (16,379)	$ 13,446
Surplus (deficit) of core capital percentage over statutory minimum capital	(49.6)%	42.1%

(1) Amounts as of September 30, 2008 represent estimates that have not been submitted to FHFA. Amounts as of December 31, 2007 represent FHFA's announced capital classification measures.
(2) The sum of (a) the stated value of our outstanding common stock (common stock less treasury stock); (b) the stated value of our outstanding non-cumulative perpetual preferred stock; (c) our paid-in capital; and (d) our retained earnings. Core capital excludes accumulated other comprehensive income (loss).
(3) Generally, the sum of (a) 2.50% of on-balance sheet assets; (b) 0.45% of the unpaid principal balance of outstanding Fannie Mae MBS held by third parties; and (c) up to 0.45% of other off-balance sheet obligations, which may be adjusted by the Director of FHFA under certain circumstances (See 12 CFR 1750.4 for existing adjustments made by the Director).

As of September 30, 2008, our core capital was $16.4 billion below our statutory minimum capital requirement; however, as described above, our capital requirements are suspended during the conservatorship. The reduction in our core capital compared to the previous quarter was primarily due to the non-cash charge of $21.4 billion during the third quarter of 2008 relating to our establishment of a valuation allowance with respect to a portion of our deferred tax assets. Capital Activity Capital Management Actions Prior to our entry into conservatorship on September 6, 2008, we took a number of management actions during 2008 to preserve and further build our capital, including:

ù issuing $7.4 billion in equity securities;
ù managing the size of our investment portfolio;
ù selling assets to reduce the amount of capital that we were required to hold and to realize investment gains;
ù reducing our common stock dividend;
ù electing not to purchase mortgage assets;
ù slowing the growth of our guaranty business;
ù increasing our guaranty fee pricing on new acquisitions;
ù evaluating our costs and expenses with the expectation to reduce administrative costs; and
ù applying other changes to our business practices to reduce our losses and expenses during the period.

As described above, following our entry into conservatorship, FHFA has advised us to focus our capital management efforts on maintaining a positive stockholders' equity while returning to long-term profitability. As a result of this change in the focus of our capital management efforts and an increased focus on serving our mission since our entry into conservatorship, we have discontinued or reversed most of the capital management strategies described above. As of September 30, 2008, we had stockholders' equity of $9.3 billion, compared to $44.0 billion as of December 31, 2007. Our stockholders' equity has decreased substantially since December 31, 2007 primarily due to our net loss of $33.5 billion for the nine months ended September 30, 2008. The primary driver of our net loss for the period was a non-cash charge of $21.4 billion in the third quarter of 2008 relating to our establishment of a valuation allowance with respect to a portion of our deferred tax assets. This charge and the other drivers of our net loss for the first nine months of 2008 are described in "Consolidated Results of Operations." Approximately 50% of our stockholders' equity as of September 30, 2008 consisted of our remaining deferred tax assets, which could be subject to a further valuation allowance in the future. In addition, the widening of spreads that occurred in October 2008 resulted in mark-to-market losses on our investment securities that have decreased our stockholders' equity since September 30, 2008. Our ability to manage our stockholders' equity is very limited. In order to help maintain a positive stockholders' equity, we have modified our hedging strategy, as described in "Consolidated Results of Operations." We are effectively unable to raise equity capital from private sources at this time. Accordingly, if we cannot maintain a positive stockholders' equity, we may need to draw on Treasury's funding commitment under the senior preferred stock purchase agreement in order to avoid a mandatory trigger of receivership under the Regulatory Reform Act. Issuance of Senior Preferred Stock and Common Stock Warrant On September 7, 2008, we, through FHFA, in its capacity as conservator, and Treasury entered into a senior preferred stock purchase agreement. Pursuant to the agreement, we issued to Treasury: (1) on September 8,

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2008, one million shares of senior preferred stock with an initial liquidation preference equal to $1,000 per share (for an aggregate liquidation preference of $1 billion); and (2) on September 7, 2008, a warrant for the purchase of up to 79.9% of the total number of shares of our common stock outstanding on a fully diluted basis on the date of exercise, which is exercisable until September 7, 2028. We did not receive any cash proceeds from our issuance of the senior preferred stock or the warrant. The senior preferred stock purchase agreement, senior preferred stock and warrant are described under "Conservatorship and Treasury Agreements--Treasury Agreements--Senior Preferred Stock Purchase Agreement and Related Issuance of Senior Preferred Stock and Common Stock Warrant." Pursuant to the Charter Act, the shares of senior preferred stock and the warrant are "exempted securities" within the meaning of the Securities Act of 1933, as amended (referred to as the "Securities Act") and other laws administered by the SEC to the same extent as securities that are obligations of, or are guaranteed as to principal and interest by, the United States, except that, under the Regulatory Reform Act, our equity securities are not treated as exempted securities for purposes of Section 12, 13, 14 or 16 of the Securities Exchange Act of 1934 (referred to as the "Exchange Act"). Covenants under Senior Preferred Stock Purchase Agreement The senior preferred stock purchase agreement contains covenants that significantly restrict our business activities. These covenants, which are summarized under "Conservatorship and Treasury Agreements--Treasury Agreements--Covenants under Treasury Agreements--Senior Preferred Stock Purchase Agreement Covenants," include a prohibition on our issuance of additional equity securities (except in limited instances), a prohibition on the payment of dividends or other distributions on our equity securities (other than the senior preferred stock or warrant), a prohibition on our issuance of subordinated debt and a limitation on the total amount of debt securities we may issue. As a result, we can no longer obtain additional equity financing (other than pursuant to the senior preferred stock purchase agreement) and we are limited in the amount and type of debt financing we may obtain. Dividends We paid common stock dividends of $0.05 per share, which totaled $54 million, for the third quarter of 2008. We paid an aggregate of $413 million in preferred stock dividends in the third quarter of 2008 on 17 series of preferred stock. The conservator announced on September 7, 2008 that we would not pay any dividends on the common stock or on any series of outstanding preferred stock. In addition, the senior preferred stock purchase agreement prohibits us from declaring or paying any dividends on Fannie Mae equity securities (other than the senior preferred stock) without the prior written consent of Treasury. We received the consent of Treasury and FHFA to pay the declared but unpaid dividends on all of our outstanding series of preferred stock on September 30, 2008 as scheduled. Dividends on our outstanding preferred stock (other than the senior preferred stock) are non-cumulative; therefore, holders of this preferred stock are not entitled to receive any forgone dividends in the future. Subordinated Debt As of September 30, 2008, we had $7.4 billion in outstanding qualifying subordinated debt. Under the senior preferred stock purchase agreement, we are prohibited from issuing additional subordinated debt without the written consent of Treasury. In September 2005, we agreed with OFHEO to issue and maintain a specified amount of qualifying subordinated debt. FHFA has advised us that this subordinated debt requirement is suspended during the conservatorship and thereafter until we are directed to return to the provisions of the September 2005 agreement. As described above, on October 9, 2008, FHFA announced that it will no longer report on our subordinated debt levels. The terms of our qualifying subordinated debt provide for the deferral of interest payments on this debt for up to five years if either: (1) our core capital is below 125% of our critical capital requirement; or (2) our core

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capital is below our statutory minimum capital requirement, and the U.S. Secretary of the Treasury, acting on our request, exercises his or her discretionary authority pursuant to Section 304(c) of the Charter Act to purchase our debt obligations. As of September 30, 2008, our core capital was below 125% of our critical capital requirement; however, we have been directed by FHFA to continue paying principal and interest on our outstanding subordinated debt during the conservatorship and thereafter until directed otherwise, regardless of our existing capital levels. OFF-BALANCE SHEET ARRANGEMENTS AND VARIABLE INTEREST ENTITIES We enter into certain business arrangements that are not recorded in our condensed consolidated balance sheets or may be recorded in amounts that are different from the full contract or notional amount of the transaction. These arrangements are commonly referred to as "off-balance sheet arrangements," and expose us to potential losses in excess of the amounts recorded in the condensed consolidated balance sheets. Our most significant off-balance sheet arrangements result from the mortgage loan securitization and resecuritization transactions that we routinely enter into as part of the normal course of our guaranty business operations. We also enter into other guaranty transactions, liquidity support transactions and hold partnership interests that may involve off-balance sheet arrangements. Currently, most trusts used in our guaranteed securitizations are not consolidated by the company for financial reporting purposes because the trusts are qualified special purpose entities ("QSPEs") under SFAS No. 140, Accounting for Transfer and Servicing of Financial Assets and Extinguishments of Liabilities (a replacement of FASB Statement No. 125) ("SFAS 140"). Fannie Mae MBS Transactions and Other Financial Guarantees While we hold some Fannie Mae MBS in our mortgage portfolio, most outstanding Fannie Mae MBS are held by third parties and therefore not reflected in our consolidated balance sheets. Table 40 summarizes the amounts of both our on- and off-balance sheet Fannie Mae MBS and other guaranty obligations as of September 30, 2008 and December 31, 2007. Table 40: On- and Off-Balance Sheet MBS and Other Guaranty Arrangements

	As of September 30, 2008	As of December 31, 2007
	(Dollars in millions)	
Fannie Mae MBS and other guarantees outstanding(1)	$ 2,533,445	$ 2,340,660
Less: Fannie Mae MBS held in portfolio(2)	(223,085)	(180,163)
Fannie Mae MBS held by third parties and other guarantees	$ 2,310,360	$ 2,160,497

(1) Includes $32.2 billion and $41.6 billion in unpaid principal balance of other guarantees as of September 30, 2008 and December 31, 2007, respectively. Excludes $58.3 billion and $80.9 billion in unpaid principal balance of consolidated Fannie Mae MBS as of September 30, 2008 and December 31, 2007, respectively.
(2) Amounts represent unpaid principal balance and are recorded in "Investments in Securities" in the consolidated balance sheets.

As described in our 2007 Form 10-K, our maximum potential exposure to credit losses relating to our outstanding and unconsolidated Fannie Mae MBS held by third parties and our other financial guarantees is significantly higher than the carrying amount of the guaranty obligations and reserve for guaranty losses that are reflected in the consolidated balance sheets. In the case of outstanding and unconsolidated Fannie Mae MBS held by third parties, our maximum potential exposure arising from these guarantees is primarily represented by the unpaid principal balance of the mortgage loans underlying these Fannie Mae MBS, which was $2.3 trillion and $2.1 trillion as of September 30, 2008 and December 31, 2007, respectively. In the case of the other financial guarantees that we provide, our maximum potential exposure arising from these guarantees is primarily represented by the unpaid principal balance of the underlying bonds and loans, which totaled $32.2 billion and $41.6 billion as of September 30, 2008 and December 31, 2007, respectively.

Potential Elimination of QSPEs and Changes in the FIN 46R Consolidation Model
On September 15, 2008, the FASB issued an exposure draft of a proposed statement of financial accounting standards, Amendments to FASB Interpretation No. 46(R), and an exposure draft of a proposed statement of financial accounting standards, Accounting for Transfer of Financial Assets-an amendment of FASB Statement No. 140. The proposed amendments to SFAS 140 would eliminate

QSPEs. Additionally, the amendments to FIN 46R would replace the current consolidation model with a qualitative evaluation that requires consolidation of an entity when the reporting enterprise both (a) has the power to direct matters which significantly impact the activities and success of the entity, and (b) has exposure to benefits and/or losses that could potentially be significant to the entity. If an enterprise is not able to reach a conclusion through the qualitative analysis, it would then proceed to a quantitative evaluation. The proposed statements would be effective for new transfers of financial assets and to all variable interest entities on or after January 1, 2010. Since the amendments to SFAS 140 and FIN 46R are not final and the FASB's proposals are subject to a public comment period, we are unable to predict the impact that the amendments may have on our consolidated financial statements. If the FASB's proposals are adopted in their current form, the amendments could have a material adverse impact on our earnings, financial condition and net worth. For example, as shown in Table 40 above, we had over $2 trillion of assets held in QSPEs as of September 30, 2008. If we are required to consolidate the incremental assets and liabilities of these QSPEs, these assets and liabilities would initially be reported at estimated fair value under the FASB's proposed rules. If the fair value of the consolidated assets is substantially less than the fair value of the consolidated liabilities, we could experience a material reduction in our stockholders' equity. On September 15, 2008, the FASB also issued Proposed FASB Staff Position No. FAS 140-e and FIN 46(R)-e, Disclosures about Transfers of Financial Assets and Interests in Variable Interest Entities, which is intended to enhance disclosures about transfers of financial assets and interests in variable interest entities. The proposed disclosures are similar to those in the exposure drafts to amend SFAS 140 and FIN 46R, but would be effective sooner. We would be required to provide the proposed additional disclosures beginning with our December 31, 2008 financial statements; however, this proposal would not impact the amounts reported in our consolidated financial statements. Partnership Investment Interests We had a recorded investment in LIHTC partnerships of $6.7 billion as of September 30, 2008, compared with $8.1 billion as of December 31, 2007. For additional information regarding our holdings in off-balance sheet limited partnerships, refer to "Notes to Condensed Consolidated Financial Statements--Note 3, Consolidations." RISK MANAGEMENT This section updates the information set forth in our 2007 Form 10-K and our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2008 and June 30, 2008 relating to our management of risk. For further discussion of the primary risks to our business and how we seek to manage those risks, refer to "Part I--Item 1A--Risk Factors" and "Part II--Item 7--MD&A--Risk Management" of our 2007 Form 10-K, "Part I--Item 2--MD&A--Risk Management" of our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2008 and June 30, 2008 and "Part II--Item 1A--Risk Factors" of this report. Credit Risk Management We are generally subject to two types of credit risk: mortgage credit risk and institutional counterparty credit risk. The deterioration in the mortgage and credit markets, including the national decline in home prices, rating agency downgrades of mortgage-related securities and counterparties, increased level of institutional insolvencies and higher levels of delinquencies and foreclosures, has increased our exposure to both mortgage credit and institutional counterparty credit risks.

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Mortgage Credit Risk Management In order to manage our mortgage credit risk in the shifting market environment, we have significantly reduced our participation in riskier loan product categories and taken steps to ensure that our pricing and our eligibility and underwriting criteria more accurately reflect the current risks in the housing market. Effective June 1, 2008, we implemented Desktop Underwriter 7.0(R) , a more comprehensive risk assessment model. In October 2008, we introduced a comprehensive risk assessment worksheet, which will be effective January 1, 2009, to assist lenders in the manual underwriting of loans. We believe these new measures will significantly improve the credit profile of our single-family acquisitions that are underwritten manually or processed through Desktop Underwriter. We have taken additional steps that we believe further our ability to manage our mortgage credit risk, including discontinuing the purchase of newly originated Alt-A loans effective January 1, 2009 and updating our standard pricing adjustments for mortgage loans with certain risk characteristics. The January 1, 2009 date was selected for discontinuing the purchase of newly originated Alt-A loans in order to provide reasonable notice to lenders and allow them time to deliver to us loans that are already in their pipeline. We may continue to selectively acquire seasoned Alt-A loans that meet acceptable eligibility and underwriting criteria; however, we expect our acquisitions of Alt-A mortgage loans to be minimal in future periods. In August 2008, we announced an increase in the adverse market delivery charge from 25 basis points to 50 basis points, which was scheduled to go into effect for loans purchased on or after November 1, 2008. In October 2008, however, we canceled this planned increase. We are evaluating all of our risk-management, underwriting guidelines, pricing and costs in light of the changing conditions in the markets. In addition, we are continuing to enhance our loss mitigation efforts to minimize the frequency of foreclosure. For a description of actions we are taking to manage problem loans and prevent foreclosures, see "Executive Summary--Managing Problem Mortgage Loans and Preventing Foreclosures." As described in "Part II--Item 1A--Risk Factors," these actions may increase our expenses and may not be effective in reducing our credit losses. Mortgage Credit Book of Business Table 41 displays the composition of our entire mortgage credit book of business, which consists of both on- and off-balance sheet arrangements, as of September 30, 2008 and December 31, 2007. Our single-family mortgage credit book of business accounted for approximately 93% of our entire mortgage credit book of business as of September 30, 2008 and 94% as of December 31, 2007. Table 41: Composition of Mortgage Credit Book of Business

	As of September 30, 2008					
	Single-Family(1)		Multifamily(2)		Total	
	Conventional(3)	Government(4)	Conventional(3)	Government(4)	Conventional(3)	Government(4)
	(Dollars in millions)					
Mortgage portfolio:(5)						
Mortgage loans(6)	$ 254,765	$ 40,082	$ 112,093	$ 731	$ 366,858	$ 40,813
Fannie Mae MBS(6)	220,725	1,909	371	80	221,096	1,989
Agency mortgage-related securities(6)(7)	33,419	1,608	--	28	33,419	1,636
Mortgage revenue bonds	2,983	2,538	7,964	2,138	10,947	4,676
Other mortgage-related securities(8)	57,872	1,984	25,851	25	83,723	2,009
Total mortgage portfolio	569,764	48,121	146,279	3,002	716,043	51,123
Fannie Mae MBS held by third parties(9)	2,225,223	13,570	38,524	853	2,263,747	14,423
Other credit guarantees(10)	15,067	--	17,077	46	32,144	46
Mortgage credit book of business	$ 2,810,054	$ 61,691	$ 201,880	$ 3,901	$ 3,011,934	$ 65,592
Guaranty book of business	$ 2,715,780	$ 55,561	$ 168,065	$ 1,710	$ 2,883,845	$ 57,271

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	As of December 31, 2007					
	Single-Family(1)		Multifamily(2)		Total	
	Conventional(3)	Government(4)	Conventional(3)	Government(4)	Conventional(3)	Government(4)
	(Dollars in millions)					
Mortgage portfolio:(5)						
Mortgage loans(6)	$ 283,629	$ 28,202	$ 90,931	$ 815	$ 374,560	$ 29,017
Fannie Mae MBS(6)	177,492	2,113	322	236	177,814	2,349
Agency mortgage-related securities(6)(7)	31,305	1,682	--	50	31,305	1,732
Mortgage revenue bonds	3,182	2,796	8,107	2,230	11,289	5,026
Other mortgage-related securities(8)	68,240	1,097	25,444	30	93,684	1,127
Total mortgage portfolio	563,848	35,890	124,804	3,361	688,652	39,251
Fannie Mae MBS held by third parties(9)	2,064,395	15,257	38,218	1,039	2,102,613	16,296
Other credit guarantees(10)	24,519	--	17,009	60	41,528	60
Mortgage credit book of business	$ 2,652,762	$ 51,147	$ 180,031	$ 4,460	$ 2,832,793	$ 55,607
Guaranty book of business	$ 2,550,035	$ 45,572	$ 146,480	$ 2,150	$ 2,696,515	$ 47,722

(1) The amounts reported above reflect our total single-family mortgage credit book of business. Of these amounts, the portion of our single-family mortgage credit book of business for which we have access to detailed loan-level information represented approximately 96% and 95% of our total conventional single-family mortgage credit book of business as of September 30, 2008 and December 31, 2007, respectively. Unless otherwise noted, the credit statistics we provide in the discussion that follows relate only to this specific portion of our conventional single-family mortgage credit book of business. The remaining portion of our conventional single-family mortgage credit book of business consists of Freddie Mac securities, Ginnie Mae securities, private-label mortgage-related securities, Fannie Mae MBS backed by private-label mortgage-related securities, housing-related municipal revenue bonds, other single-family government related loans and securities, and credit enhancements that we provide on single-family mortgage assets. See "Consolidated Balance Sheet Analysis--Trading and Available-For-Sale Investment Securities--Investments in Private-Label Mortgage-Related Securities" for additional information on our private-label mortgage securities.

(2) The amounts reported above reflect our total multifamily mortgage credit book of business. Of these amounts, the portion of our multifamily mortgage credit book of business for which we have access to detailed loan-level information represented approximately 82% and 80% of our total multifamily mortgage credit book of business as of September 30, 2008 and December 31, 2007, respectively. Unless otherwise noted, the credit

statistics we provide in the discussion that follows relate only to this specific portion of our multifamily mortgage credit book of business.
(3) Refers to mortgage loans and mortgage-related securities that are not guaranteed or insured by the U.S. government or any of its agencies.
(4) Refers to mortgage loans and mortgage-related securities guaranteed or insured by the U.S. government or one of its agencies.
(5) Mortgage portfolio data is reported based on unpaid principal balance.
(6) Includes unpaid principal balance totaling $59.0 billion and $81.8 billion as of September 30, 2008 and December 31, 2007, respectively, related to mortgage-related securities that were consolidated under FIN 46 and mortgage-related securities created from securitization transactions that did not meet the sales criteria under SFAS 140, which effectively resulted in these mortgage-related securities being accounted for as loans.
(7) Includes mortgage-related securities issued by Freddie Mac and Ginnie Mae. We held mortgage-related securities issued by Freddie Mac with both a carrying value and fair value of $32.8 billion and $31.2 billion as of September 30, 2008 and December 31, 2007, respectively.
(8) Includes mortgage-related securities issued by entities other than Fannie Mae, Freddie Mac or Ginnie Mae.
(9) Includes Fannie Mae MBS held by third-party investors. The principal balance of resecuritized Fannie Mae MBS is included only once in the reported amount.
(10) Includes single-family and multifamily credit enhancements that we have provided and that are not otherwise reflected in the table.

Single-Family Table 42 presents our conventional single-family business volumes for the nine months ended September 30, 2008 and 2007 and our conventional single-family mortgage credit book of business as of September 30, 2008 and December 31, 2007 based on certain key risk characteristics that we use to evaluate the risk profile and credit quality of our loans.

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Table 42: Risk Characteristics of Conventional Single-Family Business Volume and Mortgage Credit Book of Business(1)

	Percent of Conventional Single-Family Business Volume(2)					Percent of Conventional Single-Family Book of Business(3) As of	
	Q3	Q2	Q1	For the Nine Months Ended September 30,		September 30,	December 31,
	2008	2008	2008	2008	2007	2008	2007
Original loan-to-value ratio:(4)							
< = 60%	21%	24%	21%	22%	17%	23%	23%
60.01% to 70%	14	17	16	16	13	16	16
70.01% to 80%	43	38	37	39	47	43	43
80.01% to 90%(5)	13	11	12	12	8	8	8
90.01% to 100%(5)	9	10	14	11	15	10	10
Greater than 100%(5)	--	--	--	--	--	--	--
Total	100%	100%	100%	100%	100%	100%	100%
Weighted average	73%	71%	73%	72%	75%	72%	72%
Average loan amount	$ 205,795	$ 206,205	$ 209,086	$ 207,437	$ 194,257	$ 147,739	$ 142,747
Estimated mark-to-market loan-to-value							

ratio:(6)							
< = 60%						38%	46%
60.01% to 70%						14	15
70.01% to 80%						17	19
80.01% to 90%						13	12
90.01% to 100%						9	6
Greater than 100%						9	2
Total						100%	100%
Weighted average						68%	61%
Product type:							
Fixed-rate:(7)							
Long-term	79%	72%	79%	76%	74%	73%	71%
Intermediate-term	10	15	11	12	6	14	15
Interest-only	1	1	3	2	9	3	3
Total fixed-rate	90	88	93	90	89	90	89
Adjustable-rate:							
Interest-only	4	5	5	5	7	5	5
Negative-amortizing	--	--	--	--	1	1	1
Other ARMs	6	7	2	5	3	4	5
Total adjustable-rate	10	12	7	10	11	10	11
Total	100%	100%	100%	100%	100%	100%	100%
Number of property units:							
1 unit	97%	97%	97%	97%	96%	96%	96%
2-4 units	3	3	3	3	4	4	4
Total	100%	100%	100%	100%	100%	100%	100%
Property type:							
Single-family homes	88%	90%	90%	89%	89%	91%	91%
Condo/Co-op	12	10	10	11	11	9	9
Total	100%	100%	100%	100%	100%	100%	100%

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	Percent of Conventional Single-Family Business Volume(2)					Percent of Conventional Single-Family Book of Business(3) As of	
	Q3	Q2	Q1	For the Nine Months Ended September 30,		September 30,	December 31,
	2008	2008	2008	2008	2007	2008	2007
Occupancy type:							
Primary residence	88%	90%	90%	89%	88%	90%	90%
Second/vacation home	6	5	4	5	5	4	4
Investor	6	5	6	6	7	6	6
Total	100%	100%	100%	100%	100%	100%	100%
FICO credit score:							
< 620	2%	3%	5%	3%	6%	5%	5%
620 to < 660	5	5	8	6	12	10	10
660 to < 700	13	15	17	15	19	18	18
700 to < 740	21	22	22	22	23	23	23
> = 740	59	55	48	54	39	44	43
Not available	--	--	--	--	1	--	1
Total	100%	100%	100%	100%	100%	100%	100%
Weighted average	742	738	728	736	716	723	721
Loan purpose:							

Purchase	55%	34%	34%	39%	50%	41%	41%
Cash-out refinance	27	34	33	32	32	32	32
Other refinance	18	32	33	29	18	27	27
Total	100%	100%	100%	100%	100%	100%	100%
Geographic concentration:(8)							
Midwest	14%	16%	16%	15%	15%	16%	17%
Northeast	19	18	17	18	18	19	19
Southeast	23	23	25	24	26	25	25
Southwest	17	16	16	16	18	16	16
West	27	27	26	27	23	24	23
Total	100%	100%	100%	100%	100%	100%	100%
Origination year:							
< =1998						2%	2%
1999						1	1
2000						--	--
2001						2	2
2002						6	7
2003						19	22
2004						10	12
2005						13	16
2006						14	17
2007						20	21
2008						13	--
Total						100%	100%

(1) As noted in Table 41 above, we generally have access to detailed loan-level statistics only on conventional single-family mortgage loans held in our portfolio and backing Fannie Mae MBS (whether held in our portfolio or held by third parties).
(2) Percentages calculated based on unpaid principal balance of loans at time of acquisition. Single-family business volume refers to both single-family mortgage loans we purchase for our mortgage portfolio and single-family mortgage loans we securitize into Fannie Mae MBS.
(3) Percentages calculated based on unpaid principal balance of loans as of the end of each period.

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(4) The original loan-to-value ratio generally is based on the appraised property value reported to us at the time of acquisition of the loan and the original unpaid principal balance of the loan. Excludes loans for which this information is not readily available.
(5) We continue to purchase loans with original loan-to-value ratios above 80% to fulfill our mission to serve the primary mortgage market and provide liquidity to the housing system. In accordance with our charter requirements, any loan purchased that has a loan-to-value ratio over 80% must have mortgage insurance or other credit enhancement.
(6) The aggregate estimated mark-to-market loan-to-value ratio is based on the estimated current value of the property, calculated using an internal valuation model that estimates periodic changes in home value, and the unpaid principal balance of the loan as of the date of each reported period. Excludes loans for which this information is not readily available.
(7) Long-term fixed-rate consists of mortgage loans with maturities greater

than 15 years, while intermediate-term fixed-rate have maturities equal to or less than 15 years.

(8) Midwest consists of IL, IN, IA, MI, MN, NE, ND, OH, SD and WI. Northeast includes CT, DE, ME, MA, NH, NJ, NY, PA, PR, RI, VT and VI. Southeast consists of AL, DC, FL, GA, KY, MD, MS, NC, SC, TN, VA and WV. Southwest consists of AZ, AR, CO, KS, LA, MO, NM, OK, TX and UT. West consists of AK, CA, GU, HI, ID, MT, NV, OR, WA and WY.

Credit risk profile summary. Our conventional single-family mortgage credit book of business continues to consist mostly of traditional, longer-term fixed-rate mortgage loans. As a result of changes we made in our underwriting and eligibility criteria to manage our credit risk, we are experiencing a shift in the risk profile of our new business for the first nine months of 2008 relative to the first nine months of 2007. We believe the change in the composition of our new business, including the decline in Alt-A loan volumes, the increase in the weighted average FICO credit score as well as a decrease in the percent of loans with higher loan-to-value ratios and a reduction in the proportion of higher risk, interest-only loans to more traditional, fully amortizing fixed-rate mortgage loans, reflects an improvement in the overall credit quality of our new business. The increase in the estimated weighted average mark-to-market loan-to-value ratio of our conventional single-family mortgage credit book of business to 68% as of September 30, 2008, from 61% as of December 31, 2007 was largely the result of the decline in national home prices. Despite improvements in the credit risk quality of our new business, we expect that we will continue to experience credit losses that are significantly higher than historical levels due to the extreme pressures on the overall housing market and the worsening economic conditions.

ù Alt-A and Subprime Loans. We provide information below on our exposure to Alt-A and subprime mortgage loans. We have classified mortgage loans as Alt-A if the lender that delivers the mortgage loan to us has classified the loan as Alt-A based on documentation or other features. We have classified mortgage loans as subprime if the mortgage loan is originated by a lender specializing in subprime business or by subprime divisions of large lenders. We apply these classification criteria in order to determine our Alt-A and subprime loan exposures; however, we have other loans with some features that are similar to Alt-A and subprime loans that we have not classified as Alt-A or subprime because they do not meet our classification criteria.

Alt-A Loans: Alt-A mortgage loans, whether held in our portfolio or backing Fannie Mae MBS, represented approximately 4% of our single-family business volume for the first nine months of 2008, compared with approximately 20% for the first nine months of 2007. The significant decline in Alt-A mortgage loan volume is due in part to our continued tightening of eligibility standards and price increases, as well as the overall decline in the Alt-A market. As a result of these changes and the decision to discontinue the purchase of newly originated Alt-A loans effective January 1, 2009, we expect our acquisitions of Alt-A mortgage loans to be minimal in future periods. Alt-A mortgage loans held in our portfolio or Alt-A mortgage loans backing Fannie Mae MBS, excluding resecuritized private-label mortgage-related securities backed by Alt-A mortgage loans, represented approximately 10% of our total single-family mortgage credit book of business as of September 30, 2008, compared with approximately 12% as of December 31, 2007. Our Alt-A loans have recently accounted for a disproportionate amount of our credit losses, representing 48% and 47% of our single-family credit losses for the third quarter and first nine months of 2008, respectively.

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Subprime Loans: Subprime mortgage loans held in our portfolio or backing Fannie Mae MBS represented less than 1% of our single-family business volume for the first nine months of 2008 and 2007. We estimate that subprime mortgage loans held in our portfolio or subprime mortgage loans backing Fannie Mae MBS, excluding resecuritized private-label mortgage-related securities backed by subprime mortgage loans, represented approximately 0.3% of our total single-family mortgage credit book of business as of both September 30, 2008 and December 31, 2007. We currently are not purchasing mortgages that are classified as subprime. See "Consolidated Results of Operations--Credit-Related Expenses--Credit Loss Performance Metrics" for information on the portion of our credit losses attributable to Alt-A and subprime loans. See "Consolidated Balance Sheet Analysis--Trading and Available-for-Sale Investment Securities--Investments in Private-Label Mortgage-Related Securities" for information on our investments in Alt-A and subprime private-label mortgage-related securities, including other-than-temporary impairment losses recognized on these investments.

ù Jumbo-Conforming Loans. The Economic Stimulus Act of 2008 temporarily increased our conforming loan limit in high-cost areas for loans originated between July 1, 2007 and December 31, 2008 ("jumbo-conforming loans"). In response to the Act, we launched our jumbo-conforming mortgage product and began acquiring these jumbo-conforming loans in April 2008. We believe we have priced these loans to compensate us for the related risk. As of September 30, 2008, we had 14,487 outstanding jumbo-conforming loans with an unpaid principal balance of $8.4 billion.

In July 2008, the Housing and Economic Recovery Act of 2008, or HERA, was signed into law. This legislation provides a permanent authority for the GSEs to use higher loan limits in high-cost areas effective January 1, 2009. These limits will be set annually by FHFA. We will continue to support the existing jumbo-conforming product until further notice. We also have announced our approach to implement the permanent ability to purchase high-balance loans, as authorized in HERA, effective January 1, 2009. These high-balance loans generally will meet our eligibility requirements with several restrictions related to loan-to-value ratios, refinances and FICO credit scores. On November 7, 2008, FHFA announced that the conforming loan limit for a one-unit property will remain $417,000 for 2009 for most areas in the United States, but specified higher limits in certain cities and counties. Loan limits for two-, three-, and four-unit properties in 2009 will also remain at 2008 levels. Following the provisions of HERA, FHFA has set loan limits for high-cost areas in 2009. These limits are set equal to 115% of local median house prices and cannot exceed 150% of the standard limit, which is $625,500 for one-unit homes in the continental United States. The 2009 maximum conforming limits remain higher in Alaska, Hawaii, Guam, and the U.S. Virgin Islands than in the contiguous United States. The Securities Industry and Financial Markets Association, or SIFMA, recently announced that high-balance mortgage loans will qualify for incorporation into To-Be-Announced, or TBA, eligible mortgage-backed securities. SIFMA has indicated that high-balance mortgage loans will be limited to no more than 10% of the issue date principal balance of a mortgage pool eligible for TBA delivery in order to preserve the homogeneity and minimize liquidity disruption in the TBA market. As of November 7, 2008, SIFMA has not yet updated its standard requirements for delivery on settlements of Fannie Mae, Freddie Mac and Ginnie Mae securities to reflect this decision. Multifamily The weighted average original loan-to-value ratio for our multifamily mortgage credit book of business was 67% as of both September 30, 2008 and December 31, 2007. The percentage of our multifamily mortgage credit book of business with an original loan-to-value ratio greater than 80% was 5% as of September 30, 2008, compared with 6% as of December 31, 2007.

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Mortgage Credit Book of Business Performance Key statistical metrics that we use to measure credit risk in our mortgage credit book of business and evaluate credit performance include: (1) the serious delinquency rate; (2) nonperforming loans; and (3) foreclosure activity. We provide information below on these metrics. We provide information on our credit loss performance, another key metric we use to evaluate credit performance, in "Consolidated Results of Operations--Credit-Related Expenses--Credit Loss Performance Metrics." Serious Delinquency Table 43 below compares the serious delinquency rates, by geographic region, for all conventional single-family loans and multifamily loans with credit enhancement and without credit enhancement as of September 30, 2008, December 31, 2007 and September 30, 2007. Table 43: Serious Delinquency Rates

	September 30, 2008		December 31, 2007		September 30, 2007	
	Book Outstanding(1)	Serious Delinquency Rate(2)	Book Outstanding(1)	Serious Delinquency Rate(2)	Book Outstanding(1)	Serious Delinquency Rate(2)
Conventional single-family delinquency rates by geographic region:(3)						
Midwest	16%	1.86%	17%	1.35%	17%	1.14%
Northeast	19	1.47	19	0.94	19	0.79
Southeast	25	2.34	25	1.18	25	0.88
Southwest	16	1.35	16	0.86	16	0.69
West	24	1.33	23	0.50	23	0.33
Total conventional single-family loans	100%	1.72%	100%	0.98%	100%	0.78%
Conventional single-family loans:						
Credit enhanced	21%	4.68%	21%	2.75%	20%	2.18%
Non-credit enhanced	79	0.96	79	0.53	80	0.43
Total conventional single-family loans	100%	1.72%	100%	0.98%	100%	0.78%
Multifamily loans:						
Credit enhanced	87%	0.11%	88%	0.06%	89%	0.08%
Non-credit enhanced	13	0.50	12	0.22	11	0.11
Total multifamily loans	100%	0.16%	100%	0.08%	100%	0.08%

(1) Reported based on unpaid principal balance of loans, where we have detailed loan-level information.

(2) Calculated based on number of loans for single-family and unpaid principal balance for multifamily. We include all of the conventional single-family loans that we own and that back Fannie Mae MBS in the calculation of the single-family delinquency rate. We include the unpaid principal balance of all multifamily loans that we own or that back Fannie Mae MBS and any housing bonds for which we provide credit enhancement in the calculation of the multifamily serious delinquency rate.
(3) See footnote 8 to Table 42 for states included in each geographic region.

In the first nine months of 2008, our serious delinquency rates, which are a leading indicator of potential foreclosures, increased across our entire conventional single-family mortgage credit book of business to 1.72% as of September 30, 2008, from 0.98% as of December 31, 2007 and 0.78% as of September 30, 2007. We experienced the most notable increases in serious delinquency rates in California, Florida, Arizona and Nevada, which previously experienced rapid increases in home prices and are now experiencing sharp declines in home prices. In addition, from September 30, 2007 to September 30, 2008, we continued to experience significant increases in the serious delinquency rates for some higher risk loan categories: Alt-A loans, adjustable-rate loans, interest-only loans, negative amortization loans, loans made for the purchase of

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condominiums and loans with subordinate financing. Many of these higher risk loans were originated in 2006 and 2007. As a result of tightening our eligibility standards and underwriting criteria, we expect that the loans we are now acquiring will have a lower credit risk relative to the loans we acquired in 2006, 2007 and early 2008. The conventional single-family serious delinquency rates for California and Florida, which represent the two largest states in our conventional single-family mortgage credit book of business in terms of unpaid principal balance, climbed to 1.44% and 4.37%, respectively, as of September 30, 2008, from 0.50% and 1.59%, respectively, as of December 31, 2007, and 0.30% and 0.99% as of September 30, 2007. There has been a lengthening of the foreclosure process in many states over the past year; however, Florida's foreclosure process has lengthened considerably more than any of the other states noted above, which has contributed to its much higher serious delinquency rate. The serious delinquency rates for Alt-A and subprime loans were 4.92% and 10.46%, respectively, as of September 30, 2008, compared with 2.15% and 5.76%, respectively, as of December 31, 2007 and 1.41% and 4.78% as of September 30, 2007. The multifamily serious delinquency rate was 0.16% as of September 30, 2008, compared with 0.08% as of December 31, 2007 and 0.08% as of September 30, 2007. The increase in our multifamily serious delinquency rates during the first nine months was primarily attributable to the continued economic weakness in the Midwest. Nonperforming Loans Table 44 presents the balance of our nonperforming single-family and multifamily loans as of September 30, 2008 and December 31, 2007 and other information related to our nonperforming loans. Our total nonperforming assets consist of nonperforming loans and foreclosed properties, which together were $71.0 billion as of September 30, 2008, compared to $39.3 billion as of December 31, 2007. The increase in the amount of our nonperforming loans during the first nine months of 2008 reflects the increase in our serious delinquency rates. Table 44: Nonperforming Single-Family and Multifamily Loans

	As of September 30, 2008	December 31, 2007
	(Dollars in millions)	

On-balance sheet nonperforming loans:		
Nonaccrual loans	$ 10,393	$ 8,343
Troubled debt restructurings(1)	2,530	1,765
HomeSaver Advance first-lien loans(2)	1,338	--
Total on-balance sheet nonperforming loans	14,261	10,108
Off-balance sheet nonperforming loans:(3)		
Off-balance sheet nonperforming loans, excluding HomeSaver Advance first-lien loans(4)	43,865	25,700
HomeSaver Advance first-lien loans(2)	5,522	--
Total off-balance sheet nonperforming loans	49,387	25,700
Total nonperforming loans	$ 63,648	$ 35,808
Accruing on-balance sheet loans past due 90 days or more(5)	$ 224	$ 204
Interest related to on-balance sheet nonperforming loans:(6)		
Interest income forgone(7)	$ 264	$ 215
Interest income recognized for the period(8)	418	328

(1) Troubled debt restructurings include loans whereby the contractual terms have been modified that result in concessions to borrowers experiencing financial difficulties.
(2) Represents total unpaid principal balance of first-lien loans associated with unsecured HomeSaver Advance loans, including first-lien loans that are not seriously delinquent.
(3) Represents unpaid principal balance of nonperforming loans in our outstanding and unconsolidated Fannie Mae MBS held by third parties.

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(4) Represents total unpaid principal balance of loans that are seriously delinquent as of September 30, 2008.
(5) Recorded investment of loans as of the end of each period that are 90 days or more past due and continuing to accrue interest, including loans insured or guaranteed by the U.S. government and loans where we have recourse against the seller of the loan in the event of a default.
(6) Amounts reported for September 30, 2008 relate to the nine months ending September 30, 2008. Amounts reported for December 31, 2007 relate to the twelve months ended December 31, 2007.
(7) Forgone interest income represents the amount of interest income that would have been recorded during the period for on-balance sheet nonperforming loans as of the end of each period had the loans performed according to their contractual terms.
(8) Represents interest income recognized during the period for on-balance sheet loans classified as nonperforming as of the end of each period.

Foreclosure and REO Activity Table 45 below provides information, by region, on our foreclosure activity for the nine months ended September 30, 2008 and 2007. Table 45: Single-Family and Multifamily Foreclosed Properties

	For the Nine Months Ended September 30,	
	2008	2007

Single-family foreclosed properties (number of properties):		
Beginning of period inventory of single-family foreclosed properties (REO)(1)	33,729	25,125
Acquisitions by geographic area:(2)		
Midwest	23,831	14,754
Northeast	4,673	2,826
Southeast	18,922	8,559
Southwest	14,064	7,230
West	12,164	1,586
Total properties acquired through foreclosure	73,654	34,955
Dispositions of REO	(39,864)	(30,456)
End of period inventory of single-family foreclosed properties (REO)(1)	67,519	29,624
Carrying value of single-family foreclosed properties (dollars in millions)(3)	$ 7,237	$ 2,913
Single-family foreclosure rate(4)	0.40%	0.20%
Multifamily foreclosed properties (number of properties):		
Ending inventory of multifamily foreclosed properties (REO)	25	12
Carrying value of multifamily foreclosed properties (dollars in millions)(3)	$ 90	$ 63

(1) Includes deeds in lieu of foreclosure.
(2) See footnote 8 to Table 42 for states included in each geographic region.
(3) Excludes foreclosed property claims receivables, which are reported in our condensed consolidated balance sheets as a component of "Acquired property, net."
(4) Estimated based on the total number of properties acquired through foreclosure as a percentage of the total number of loans in our conventional single-family mortgage credit book of business as of the end of each respective period.

Our single-family foreclosure rate increased to 0.40% for the first nine months of 2008, from 0.20% for the first nine months of 2007, reflecting the more than doubling of the number of single-family properties we acquired through foreclosure during the first nine months of 2008 relative to the first nine months of 2007. This increase was attributable to the impact of the housing market downturn and continued decline in home prices throughout much of the country, particularly in California, Florida, Arizona and Nevada, and continued weak economic conditions in the Midwest, particularly in Michigan and Ohio. We also experienced an increase in the number of multifamily properties acquired during the first nine months of 2008 due primarily to the economic weakness in the Midwest. As discussed in "Consolidated Results of Operations--Credit-Related Expenses--Credit Loss Performance Metrics," we have experienced a significant increase in our

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single-family default rates, particularly within certain states that have had significant home price depreciation, for certain higher risk loan categories, such as Alt-A, and for loans originated in 2006, 2007 and early 2008. The states of California, Florida, Arizona and Nevada, which represented approximately 23% of the loans in our conventional single-family mortgage credit book of business as of September 30, 2008, accounted for 26% of single-family properties acquired through foreclosure for the first nine months of 2008, reflecting the sharp declines in home prices that these states are experiencing. The Midwest, which represented approximately 19% of the loans in our conventional single-family mortgage credit book of business as of September 30, 2008, accounted for approximately 32% of the single-family properties acquired through foreclosure for the first nine months of 2008, reflecting the continued impact of weak economic conditions in this region. Alt-A mortgage loans backing Fannie Mae MBS, excluding resecuritized private-label mortgage-related securities backed by Alt-A mortgage loans, represented approximately 10% of our total single-family mortgage credit book of business as of September 30, 2008, but accounted for 32% of single-family properties acquired through foreclosure for the first nine months of 2008. The severe housing market downturn and decline in home prices on a national basis have resulted in a higher percentage of our mortgage loans that transition from delinquent to foreclosure status and a significant reduction in the sales prices of our foreclosed single-family properties. Based on these factors as well as the sharp rise in our serious delinquency rates during the first nine months of 2008, we expect the level of foreclosures to increase further in the remainder of 2008. Institutional Counterparty Credit Risk Management We rely on our institutional counterparties to provide services and credit enhancements that are critical to our business. Institutional counterparty risk is the risk that these institutional counterparties may fail to fulfill their contractual obligations to us. We have exposure primarily to the following types of institutional counterparties:

ù mortgage servicers that service the loans we hold in our investment portfolio or that back our Fannie Mae MBS;
ù third-party providers of credit enhancement on the mortgage assets that we hold in our investment portfolio or that back our Fannie Mae MBS, including mortgage insurers, lenders with risk sharing arrangements, and financial guarantors;
ù issuers of securities held in our cash and other investments portfolio; and
ù derivatives counterparties.

We also have exposure to custodial depository institutions that hold principal and interest payments for Fannie Mae MBS certificateholders, document custodians, mortgage originators and investors, and dealers that distribute our debt securities or that commit to sell mortgage pools or loans. We routinely enter into a high volume of transactions with counterparties in the financial services industry, including brokers and dealers, mortgage lenders, commercial banks and investment banks, resulting in a significant credit concentration with respect to this industry. We also have significant concentrations of credit risk with particular counterparties. Many of our institutional counterparties provide several types of services for us. For example, many of our lender customers or their affiliates act as mortgage servicers, custodial depository institutions and document custodians on our behalf. The current financial market crisis has significantly increased the risk to our business of defaults by institutional counterparties. The market crisis has adversely affected, and is expected to continue to adversely affect, the liquidity and financial condition of many of our institutional counterparties. Although we believe that recent government actions to provide liquidity and other support to specified financial market participants will help to improve the financial condition and liquidity position of a number of our institutional counterparties, there can be no assurance that these actions will be effective. As described in "Part II--Item 1A--Risk Factors," the financial difficulties that our institutional counterparties are currently experiencing may negatively affect their ability to meet their obligations to us and the amount or quality of the products or services they provide to us.

We incurred total losses of approximately $811 million during the third quarter of 2008 relating to our exposure to Lehman Brothers, which filed for bankruptcy in September 2008. We had several types of counterparty exposures to Lehman Brothers and its subsidiaries, including as a derivatives counterparty, an issuer of securities in our cash and other investments portfolio, an issuer of

private-label securities we own and an obligor of mortgage loan reimbursement obligations. The losses we experienced in the third quarter of 2008 from our exposure to Lehman Brothers primarily related to losses incurred in connection with the termination of our outstanding derivatives contracts with a subsidiary of Lehman Brothers, trading losses on Lehman Brothers corporate securities held in our cash and other investments portfolio and an increase to our allowance for loan losses relating to Lehman Brothers' outstanding mortgage loan reimbursement obligations to us that we do not expect to recover. We also have incurred trading losses of approximately $123 million during the third quarter of 2008 relating to corporate debt securities we hold issued by AIG. We also have previously obtained insurance from and entered into a derivatives contract with AIG or its subsidiaries, which exposes us to additional counterparty risk.
Further defaults by a counterparty with significant obligations to us due to bankruptcy or receivership, lack of liquidity, operational failure or other reasons could result in significant financial losses to us, which would adversely affect our business, results of operations, financial condition, liquidity position and net worth. In the event of a bankruptcy or receivership of one of our mortgage servicers, custodial depository institutions or document custodians, we may be required to establish our ownership rights to the assets these counterparties hold on our behalf to the satisfaction of the bankruptcy court or receiver, which could result in a delay in accessing these assets or a decline in value of these assets. Due to the current environment, we may be unable to recover on outstanding loan repurchase and reimbursement obligations from breaches of seller representations and warranties. We could experience further losses relating to the securities in our cash and other investments portfolio. In addition, if we are unable to replace a defaulting counterparty that performs services that are critical to our business with another counterparty, it could materially adversely affect our ability to conduct our operations, which could also adversely affect our business, results of operations, financial condition, liquidity position and net worth. The financial market crisis has also resulted in several mergers or announced mergers of a number of our most significant institutional counterparties. We believe these mergers, if completed, will improve the financial condition of these institutional counterparties and help to reduce our counterparty risk. However, we cannot predict at this time the outcome of these mergers or planned mergers on our relationships with these counterparties. Moreover, the increasing consolidation of the financial services industry will increase our concentration risk to counterparties in this industry, and we will become more reliant on a smaller number of institutional counterparties, which both increases our risk exposure to any individual counterparty and decreases our negotiating leverage with these counterparties. We have taken a number of steps in recent months to mitigate our potential loss exposure to our institutional counterparties, including curtailing or suspending our business with certain counterparties, strengthening our contractual protections, requiring the posting of additional collateral to secure the obligations of some counterparties, implementing new limits on the amount of business we will enter into with some of our higher risk counterparties, and increasing the frequency and depth of our counterparty monitoring. In addition, as described below under "Mortgage Servicers," we recently announced several changes to the standards that lenders must meet to become or remain an eligible Fannie Mae lender, including an increase in the minimum net worth requirement that is effective December 31, 2008. Mortgage Servicers Mortgage servicers collect mortgage and escrow payments from borrowers, pay taxes and insurance costs from escrow accounts, monitor and report delinquencies, and perform other required activities on our behalf. Our business with our mortgage servicers is concentrated. Our ten largest single-family mortgage servicers serviced 73% and 74% of our single-family mortgage credit book of business as of September 30, 2008 and December 31, 2007, respectively. Our largest mortgage servicer is Bank of America Corporation, which

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acquired Countrywide Financial Corporation on July 1, 2008. Bank of America Corporation and its affiliates serviced approximately 28% of our single-family mortgage credit book of business as of September 30, 2008. In addition, two other mortgage servicers serviced 10% or more of our single-family mortgage credit book of business as of September 30, 2008: JPMorgan Chase and its affiliates and Citigroup Inc. and its affiliates. Due to the current challenging market conditions, the financial condition and performance of many of our mortgage servicers has deteriorated, with several experiencing ratings downgrades and liquidity constraints. In July 2008, IndyMac Bank, FSB, one of our single-family mortgage servicers, was closed by the Office of Thrift Supervision, with the FDIC named as receiver. The FDIC then chartered IndyMac Federal Bank FSB and transferred most of the assets and liabilities of IndyMac Bank FSB to the new entity. The FDIC is currently operating IndyMac Federal Bank FSB as a conservatorship. In that capacity, IndyMac is continuing to perform most of its servicing duties. As of September 30, 2008, IndyMac Federal Bank FSB serviced approximately 2% of our single-family mortgage credit book of business. In September 2008, another significant mortgage servicer counterparty, Washington Mutual Bank, was seized by the FDIC and all of its deposits, assets and certain liabilities of its banking operations were acquired by JPMorgan Chase Bank, National Association. As of November 7, 2008, JPMorgan Chase was temporarily servicing the mortgage loans previously serviced by Washington Mutual Bank, which constituted approximately 6% of our single-family mortgage credit book of business as of September 30, 2008, under the terms of Washington Mutual Bank's selling and servicing contract with us. In addition, JPMorgan Chase serviced another 12% of our single-family mortgage credit book of business pursuant to its selling and servicing contract with us. To the best of our knowledge, JPMorgan Chase has not yet indicated to the FDIC whether or not it will permanently assume Washington Mutual Bank's selling and servicing contract with us. Our mortgage servicer counterparties provide many services that are critical to our business, including collecting payments from borrowers under the mortgage loans that we own or that are part of the collateral pools supporting our Fannie Mae MBS, paying taxes and insurance on the properties secured by the mortgage loans, monitoring and reporting loan delinquencies, processing foreclosures and workout arrangements, and repurchasing any loans that are subsequently found to have not met our underwriting criteria. If the mortgage servicing obligations of IndyMac Federal Bank FSB, Washington Mutual Bank, or any other significant mortgage servicer counterparty that is placed into conservatorship or taken over by the FDIC in the future are not transferred to a company with the ability and intent to fulfill all of these obligations, we could incur credit losses associated with loan delinquencies or penalties for late payment of taxes and insurance on the properties that secure the mortgage loans serviced by that mortgage servicer. We could also be required to absorb the losses on the defaulted loans that the failed servicers are obligated to repurchase from us if we determine there was an underwriting or eligibility breach. In addition, we likely would be forced to incur the costs, expenses and potential increases in servicing fees necessary to replace the defaulting mortgage servicer. These events would adversely affect our results of operations, financial condition and net worth. In addition, because we delegate the servicing of our mortgage loans to mortgage servicers and do not have our own servicing function, the loss of business from a significant mortgage servicer counterparty could pose significant risks to our ability to conduct our business effectively. To date, our primary mortgage servicer counterparties generally have continued to meet their obligations to us; however, the financial difficulties that several of our mortgage servicers are currently experiencing, coupled with growth in the number of delinquent loans on their books of business, may negatively affect the ability of these counterparties to continue to meet their obligations to us, including their ability to service mortgage loans adequately and their ability to meet their obligations to repurchase delinquent mortgages due to a breach of the representations and warranties they provided upon delivery of the mortgages to us. Our mortgage servicers are generally obligated to repurchase delinquent mortgage loans from us or reimburse us for losses we incurred, at our request, if there was a breach of the representations and warranties provided upon delivery of the mortgage loans to us. In recent months, there has been an increase in the amount of loan repurchase and reimbursement requests that we have made to our mortgage servicers that remain outstanding and have not yet been fulfilled by the servicer. Our backlog of unfulfilled loan repurchase and reimbursement requests is increasing because we have significantly increased the number of repurchase and reimbursement

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requests we have made due to the higher default rate on our mortgage loans, which increases the number of reviews we conduct for compliance with our delivery representations and warranties. In addition, we believe that many servicers have been slower to comply with our requests due to financial difficulties and liquidity constraints they are experiencing. We have also taken other actions in recent months to mitigate our counterparty exposure to mortgage servicers. In September 2008, we announced several important changes to the standards single-family lenders must meet to become or remain an eligible Fannie Mae lender. These changes include:

ù an increase in the minimum net worth requirement for approved lenders, effective December 31, 2008;
ù the establishment of several new requirements, including:

ù a broader provision regarding a material adverse change in the lender's financial or business condition or its operations;
ù provisions relating to a significant decline in the lender's net worth;
ù minimum profitability standards, minimum capital requirements and a cap on the maximum amount of outstanding mortgage loan repurchase obligations;
ù cross-default provisions with other obligations;
ù a minimum servicer rating; and
ù tighter restrictions on lenders that are eligible to deliver recourse loans;

ù a greater emphasis on the unified and interrelated nature of the lender's selling and servicing obligations, specifically providing that when servicing is sold to another lender, both the transferee lender and the transferor servicer are obligated for all representations and warranties and recourse obligations, including loan repurchases; and
ù additional and more flexible remedies for lenders that cannot comply with some of our standards.

Other risk management steps we have taken to mitigate our risk to servicers with whom we have material counterparty exposure include guaranty of obligations by a higher-rated entity, reduction or elimination of exposures, reduction or elimination of certain business activities, transfer of exposures to third parties and suspension or termination of the servicing relationship. Mortgage Insurers We use several types of credit enhancement to manage our mortgage credit risk, including primary and pool mortgage insurance coverage, risk sharing agreements with lenders and financial guaranty contracts. Primary mortgage insurance is insurance that covers losses on an individual loan up to a specified loan-to-value ratio and is typically obtained by borrowers on mortgages with down payments of less than 20%. Pool mortgage insurance is insurance that covers up to a certain amount of losses from a pool of mortgage loans and is generally another layer of mortgage insurance in addition to primary mortgage insurance on the individual loans in the pool. We had total mortgage insurance coverage (i.e., "risk in force") of $117.9 billion on the single-family mortgage loans in our guaranty book of business as of September 30, 2008, of which $108.2 billion represented primary mortgage insurance and $9.7 billion was pool mortgage insurance. We had total mortgage insurance coverage of $104.1 billion on the single-family mortgage loans in our guaranty book of business as of December 31, 2007, of which $93.7 billion represented primary mortgage insurance and $10.4 billion was pool mortgage insurance. Mortgage insurance risk in force represents our maximum potential loss recovery under the applicable mortgage insurance policies. Over 99% of our mortgage insurance was provided by eight mortgage insurance companies as of both September 30, 2008 and December 31, 2007. We received proceeds of $1.3 billion and $859 million for the nine months ended September 30, 2008 and 2007, respectively, from our primary and pool mortgage insurance policies on our single-family loans for those

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respective periods. We had outstanding receivables from mortgage insurers of $945 million and $293 million as of September 30, 2008 and December 31, 2007, respectively, related to amounts claimed on foreclosed properties that we have not yet received. Table 46 presents our maximum potential loss recovery for the primary and pool mortgage insurance coverage on single-family loans in our guaranty book of business by mortgage insurer for our top eight mortgage insurer counterparties as of September 30, 2008, as well as the insurer financial strength ratings of each of these counterparties as of October 31, 2008. Table 46: Mortgage Insurance Coverage

	As of October 31, 2008 Insurer Financial Strength Ratings			As of September 30, 2008 Maximum Coverage(2)		
Counterparty:(1)	Moody's	S&P	Fitch	Primary	Pool	Total
				(Dollars in millions)		
Mortgage Guaranty Insurance Corporation	A1	A	A-	$ 25,707	$ 2,545	$ 28,252
Genworth Mortgage Insurance Corporation	Aa3	AA-	A+	17,769	435	18,204
PMI Mortgage Insurance Co.	A3	A-	BBB+	14,616	2,506	17,122
Radian Guaranty, Inc.	A2	BBB+	NR	15,744	893	16,637
United Guaranty Residential Insurance Company	Aa3	A-	AA-	16,109	287	16,396
Republic Mortgage Insurance Company	A1	A+	A+	11,893	1,649	13,542
Triad Guaranty Insurance Corporation(3)	NR	NR	NR	4,291	1,386	5,677
CMG Mortgage Insurance Company(4)	NR	AA-	AA	1,975	--	1,975

(1) Insurance coverage amounts provided for each counterparty may include coverage provided by consolidated subsidiaries of the counterparty.
(2) Maximum coverage refers to the aggregate dollar amount of insurance coverage (i.e., "risk in force") on single-family loans in our guaranty book of business and represents our maximum potential loss recovery under the applicable mortgage insurance policies.
(3) In June 2008, we suspended Triad Guaranty Insurance Corporation as a qualified Fannie Mae mortgage insurer for loans not closed prior to July 15, 2008.
(4) CMG Mortgage Insurance Company is a joint venture owned by PMI Mortgage Insurance Co. and CUNA Mutual Investment Corporation.

Recent increases in mortgage insurance claims due to higher credit losses in recent periods have adversely affected the financial results and condition of many mortgage insurers. In various actions since December 31, 2007, Standard & Poor's, Fitch and Moody's downgraded the insurer financial strength ratings of seven of our top eight primary mortgage insurer counterparties. As of September 30, 2008, these seven mortgage insurers provided $115.8 billion, or 98%, of our total mortgage insurance coverage on single-family loans in our guaranty book of business. In addition, as a result of the downgrades, six of our primary mortgage insurer counterparties' current insurer financial strength ratings are below the "AA-" level that we require under our qualified mortgage insurer approval requirements to be considered qualified as a "Type 1" mortgage insurer. Except for Triad Guaranty Insurance Corporation, as of November 7, 2008, these counterparties remain qualified to conduct business with us. In June 2008, Triad announced that it would cease issuing commitments for mortgage insurance, effective July 15, 2008 and would run-off its existing business. We immediately suspended Triad as one of our qualified mortgage insurers for loans not closed prior to July 15, 2008. As a result, we have experienced an increase in our concentration risk with our remaining mortgage insurer counterparties. As of November 7, 2008, Triad has continued to pay claims owed to us; however, given their current financial condition there can be no assurance that they will continue to do so. The current weakened financial condition of our mortgage insurer counterparties creates an increased risk that these counterparties will fail to fulfill their obligations to reimburse us for claims under insurance policies. To date, our mortgage insurer counterparties have continued to pay claims owed to us. Based on our analysis of their financial condition in accordance with GAAP requirements, we have not included a reserve for potential

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losses from our mortgage insurer counterparties in our loss reserves. We factor our internal credit ratings of our mortgage insurer counterparties into the models that determine the amount of our guaranty obligations. We reduce the amount of our expected benefits from primary mortgage insurance by an amount that is based on the mortgage insurer counterparties' credit ratings. As the credit ratings of these counterparties decrease, we further reduce the amount of expected benefits from the primary mortgage insurance they provide, which increases the amount of our guaranty obligations. If our assessment of one or more of our mortgage insurer counterparty's ability to fulfill its obligations to us worsens or its credit rating is significantly downgraded, it could result in an increase in our loss reserves and a substantial increase in the fair value of our guaranty obligations, which could adversely affect our business, results of operations, liquidity, financial condition and net worth. In addition, if a mortgage insurer implements a run-off plan in which the insurer no longer enters into new business or is placed into receivership by its regulator, the quality and speed of its claims processing could deteriorate. We continue to manage and monitor our risk exposure to mortgage insurers, which includes frequent discussions with the insurers' management, the rating agencies and insurance regulators, and in-depth financial reviews and stress analyses of the insurers' portfolios and capital adequacy. We continue to evaluate these counterparties on a case-by-case basis to determine whether or under what conditions they will remain eligible to insure new mortgages sold to us. Factors that we are considering in our evaluations include the risk profile of the insurers' existing portfolios, the insurers' liquidity and capital adequacy to pay expected claims, the insurers' plans to maintain capital levels we require within the insured entity, the insurers' success in controlling capital outflows to their holding companies and affiliates as well as the current market environment and our alternative sources of credit enhancement. Based on the outcome of our evaluations, we may take a variety of actions, including imposing additional terms and conditions of approval, restricting the insurer from conducting certain types of business, suspension or termination of the insurer's qualification status under our requirements, or cancelling a certificate of insurance or policy with that insurer and seeking to replace the insurance coverage with another provider. We are required pursuant to our charter to obtain credit enhancement on conventional single-family mortgage loans that we purchase or securitize with loan-to-value ratios over 80% at the time of purchase. If we are no longer willing or able to obtain mortgage insurance from our primary mortgage insurer counterparties, or these counterparties restrict their eligibility requirements for high loan-to-value ratio loans, and we are not able to find suitable alternative methods of obtaining credit enhancement for these loans, we may be restricted in our ability to purchase loans with loan-to-value ratios over 80% at the time of purchase. Approximately 23% of our conventional single-family business volume for the first nine months of 2008 consisted of loans with a loan-to-value ratio higher than 80% at the time of purchase. Moreover, if we are no longer willing or able to conduct business with one or more of our primary mortgage insurer counterparties, it is likely we would further increase our concentration risk with the remaining mortgage insurers in the industry. Lenders with Risk Sharing We enter into risk sharing agreements with lenders pursuant to which the lenders agree to bear all or some portion of the credit losses on the covered loans. We had full or partial recourse to lenders on single-family loans with an estimated unpaid principal balance of $38.3 billion and $43.7 billion as of September 30, 2008 and December 31, 2007, respectively. We also had full or partial recourse to lenders on multifamily loans with an estimated unpaid principal balance of $144.5 billion and $128.3 billion as of September 30, 2008 and December 31, 2007, respectively. The current financial market crisis has adversely affected, and is expected to continue to adversely affect, the liquidity and financial condition of our lender counterparties. As a result, the percentage of lenders with single-family lender recourse obligations to us with investment grade credit ratings (based on the lower of Standard & Poor's, Moody's and Fitch ratings) decreased to 35% as of October 31, 2008 from 45% as of December 31, 2007, respectively. The percentage of these lender counterparties rated below investment grade increased to 11% as of October 31, 2008, from 2% as of December 31, 2007. The remaining 54% and 53% of these lender counterparties were not rated by rating agencies as of October 31, 2008 and December 31, 2007, respectively.

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Depending on the financial strength of the counterparty, we may require a lender to pledge collateral to secure its recourse obligations. In addition, effective September 2008, we are requiring that single-family lenders taking on recourse obligations to us have a minimum credit rating of AA- (based on the lower of Standard & Poor's, Moody's and Fitch ratings) or provide us with equivalent credit enhancement. Financial Guarantors As of September 30, 2008 and December 31, 2007, we were the beneficiary of financial guarantees of approximately $10.4 billion and $11.8 billion, respectively, on the securities held in our investment portfolio or on securities that have been resecuritized to include a Fannie Mae guaranty and sold to third parties. The securities covered by these guarantees consist primarily of private-label mortgage-related securities and mortgage revenue bonds. We obtained these guarantees from nine financial guaranty insurance companies. These financial guaranty contracts assure the collectability of timely interest and ultimate principal payments on the guaranteed securities if the cash flows generated by the underlying collateral are not sufficient to fully support these payments. As of October 31, 2008, six of our nine financial guarantor counterparties have had their insurer financial strength ratings downgraded by one or more of the nationally recognized statistical rating organizations since December 31, 2007. These rating downgrades have resulted in reduced liquidity and prices for our securities for which we have obtained financial guarantees. These rating downgrades also imply an increased risk that these financial guarantors will fail to fulfill their obligations to reimburse us for claims under their guaranty contracts. To date, none of our financial guarantor counterparties has failed to repay us for claims under guaranty contracts; however, based on the current stressed financial condition of some of our financial guarantor counterparties, we do not believe that we can rely on all of our counterparties to repay us in full in the future. In assessing other-than-temporary impairment of our guaranteed securities, we follow the same procedures that we follow for our non-guaranteed securities, as described above under "Critical Accounting Policies and Estimates--Other-than-temporary Impairment of Investment Securities." Specifically, we evaluate the probability that we will not collect all of the contractual amounts due and our ability and intent to hold the security until recovery in determining whether the security has suffered an other-than-temporary decline in value. In addition, as part of assessing a security for other-than-temporary impairment, we only consider the credit support provided by a financial guarantor that we believe will repay us in full for any projected losses on a guaranteed security. For the quarter ended September 30, 2008, we have taken $164 million of impairments related to our securities for which we have obtained financial guarantees. Further downgrades in the ratings of our financial guarantor counterparties could result in a reduction in the fair value of the securities they guarantee, which could adversely affect our earnings, liquidity, financial condition and net worth. We continue to monitor the effect that these rating actions and the financial condition of our financial guarantor counterparties may have on the value of the securities in our investment portfolio. Refer to "Consolidated Balance Sheet Analysis--Trading and Available-for-Sale Investment Securities--Investments in Private-Label Mortgage-Related Securities" for more information on our investments in private-label mortgage-related securities and municipal bonds. Custodial Depository Institutions A total of $31.7 billion and $32.5 billion in deposits for scheduled single-family payments were received and held by 305 and 324 institutions in the months of September 2008 and December 2007, respectively. Of the total deposits, 97% and 95% were held by institutions rated as investment grade by Standard & Poor's, Moody's and Fitch as of September 30, 2008 and December 31, 2007, respectively. Our ten largest custodial depository institutions held 93% and 89% of these deposits as of September 30, 2008 and December 31, 2007, respectively. In October 2008, the FDIC published an interim final rule announcing changes to its deposit insurance rules that govern how funds in accounts maintained by a custodial depository, consisting of principal and interest payments made by a borrower, are insured. The FDIC increased the amount of deposit insurance available to

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$250,000 per borrower making payments into the custodial depository's account, whereas previously this insurance was provided on a per account basis. The FDIC also clarified that, for purposes of determining deposit insurance on a borrower's accounts at the servicing bank, the principal and interest payments would not be aggregated with any other accounts owned by the borrower. Accordingly, this FDIC rule change has substantially increased the amount of deposit insurance protection available to us for recovery of principal and interest payments held on our behalf in custodial depository accounts in the event of the bankruptcy or insolvency of a custodial depository. The interim rule provides that the FDIC's increase in standard deposit insurance to $250,000 is temporary and will expire after December 31, 2009; however, the change in the method by which the deposit insurance is calculated will not expire. The interim rule, which became effective in October 2008, remains subject to a 60 day comment period and therefore may be revised. On October 22, 2008, the National Credit Union Administration, or NCUA, also published an interim final rule adopting changes to its deposit insurance rules. While the NCUA already calculated deposit insurance on principal and interest accounts based on the interest of the borrower, the NCUA aggregated the amount in the principal and interest account with the borrower's other accounts to determine the full amount of deposit insurance coverage. The NCUA's new rule follows the FDIC's rule and no longer aggregates the principal and interest account with the borrower's other accounts. The NCUA also temporarily increased the standard deposit insurance amount from $100,000 to $250,000. This increase will expire after December 31, 2009. The FDIC and NCUA rule changes have substantially lowered our counterparty exposure relating to principal and interest payments held on our behalf in custodial depository accounts. Although we cannot predict the exact application of these rules and we believe that some amounts (such as those in excess of the $250,000 minimum) may not be covered, we are now taking into account this favorable change in insurance coverage when determining whether institutions will be allowed to hold deposits of principal and interest payments on our behalf. In addition, we have reviewed and curtailed or reversed certain actions we had taken in recent months to reduce our exposure to funds held on our behalf in custodial accounts, such as reducing the amount of our funds permitted to be held with mortgage servicers, requiring more frequent remittances of funds and moving funds held with our largest counterparties from custodial accounts to trust accounts. Issuers of Securities in our Cash and Other Investments Portfolio Our cash and other investments portfolio consists of cash and cash equivalents, federal funds sold and securities purchased under agreements to resell, asset-backed securities, corporate debt securities, commercial paper and other non-mortgage related securities. See "Liquidity and Capital Management--Liquidity--Liquidity Risk Management--Liquidity Contingency Plan" for more detailed information on our cash and other investments portfolio. Our counterparty risk is primarily with the issuers of corporate debt and commercial paper, and financial institutions with short-term deposits. Our cash and other investments portfolio, which totaled $91.5 billion and $91.1 billion as of September 30, 2008 and December 31, 2007, respectively, included $64.1 billion and $68.0 billion, respectively, of unsecured positions with issuers of corporate debt securities or commercial paper, or short-term deposits with financial institutions. Of these unsecured amounts, approximately 93% and 89% as of September 30, 2008 and December 31, 2007, respectively, were with issuers who had a credit rating of AA (or its equivalent) or higher, based on the lowest of Standard & Poor's, Moody's or Fitch ratings. We seek to mitigate the counterparty risk associated with our cash and other investments portfolio by purchasing only what we believe are high credit quality short- and medium-term investments that are broadly traded in the financial markets. Due to the current financial market crisis, however, substantially all of the issuers of non-mortgage related securities in our cash and other investments portfolio have experienced financial difficulties, ratings downgrades and/or liquidity constraints, which have significantly reduced the market value and liquidity of these investments. As noted above, one significant counterparty, Lehman Brothers, has entered into bankruptcy proceedings. We recorded a loss on trading securities of $559 million during the third quarter of 2008 related to our investment in corporate debt securities issued by Lehman Brothers, which substantially declined in value as a result of its bankruptcy. We also recorded a loss on trading securities of approximately $123 million during the third

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quarter of 2008 relating to corporate debt securities issued by AIG, which substantially declined in value as a result of its distressed liquidity position and financial condition. We have also experienced declines in the market value of the other non-mortgage-related securities in our cash and other investments portfolio, and could experience further declines in market value in the event of a default by other issuers of securities in this portfolio. We monitor the credit risk position of our cash and other investments portfolio by duration and rating level. In addition, we monitor the financial position and any downgrades of these counterparties. The outcome of our monitoring could result in a range of events, including selling some of these investments. In recent months we have reduced the number of counterparties in our cash and other investments portfolio. If one of our primary cash and other investments portfolio counterparties fails to meet its obligations to us under the terms of the securities, it could result in financial losses to us and have a material adverse effect on our earnings, liquidity, financial condition and net worth.
Derivatives Counterparties Our derivative credit exposure relates principally to interest rate and foreign currency derivatives contracts. We estimate our exposure to credit loss on derivative instruments by calculating the replacement cost, on a present value basis, to settle at current market prices all outstanding derivative contracts in a net gain position by counterparty where the right of legal offset exists, such as master netting agreements. Derivatives in a gain position are reported in the consolidated balance sheets as "Derivative assets at fair value." Table 47 presents our assessment of our credit loss exposure by counterparty credit rating on outstanding risk management derivative contracts as of September 30, 2008 and December 31, 2007. We present the outstanding notional amount of our derivative contracts as of September 30, 2008 and December 31, 2007 in "Notes to Condensed Consolidated Financial Statements--Note 10, Derivative Instruments and Hedging Activities."
Table 47: Credit Loss Exposure of Risk Management Derivative Instruments

	As of September 30, 2008					
	Credit Rating(1)					
	AAA	AA+/AA/AA-	A+/A/A-	Subtotal	Other(2)	Total
	(Dollars in millions)					
Credit loss exposure(3)	--	$ 1,536	$ 45	$ 1,581	$ 109	$ 1,690
Less: Collateral held(4)	--	1,085	45	1,130	--	1,130
Exposure net of collateral	--	$ 451	--	$ 451	$ 109	$ 560
Additional information:						
Notional amount	$ 275	$ 828,599	$ 258,821	$ 1,087,695	$ 826	$ 1,088,521
Number of counterparties	1	15	3	19		

	As of December 31, 2007					
	Credit Rating(1)					
	AAA	AA+/AA/AA-	A+/A/A-	Subtotal	Other(2)	Total
	(Dollars in millions)					
Credit loss exposure(3)	$ 4	$ 1,578	$ 1,004	$ 2,586	$ 74	$ 2,660
Less: Collateral held(5)	--	1,130	988	2,118	--	2,118
Exposure net of collateral	$ 4	$ 448	$ 16	$ 468	$ 74	$ 542
Additional information:						
Notional amount	$ 1,050	$ 637,847	$ 246,860	$ 885,757	$ 707	$ 886,464
Number of counterparties	1	17	3	21		

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(1) We manage collateral requirements based on the lower credit rating, as issued by Standard & Poor's and Moody's, of the legal entity. The credit rating reflects the equivalent Standard & Poor's rating for any ratings based on Moody's scale.
(2) Includes MBS options, defined benefit mortgage insurance contracts, guaranteed guarantor trust swaps and swap credit enhancements accounted for as derivatives.
(3) Represents the exposure to credit loss on derivative instruments, which is estimated by calculating the cost, on a present value basis, to replace all outstanding contracts in a gain position. Derivative gains and losses with the same counterparty are netted where a legal right of offset exists under an enforceable master netting agreement. This table excludes mortgage commitments accounted for as derivatives.
(4) Represents both cash and non-cash collateral posted by our counterparties to us. The value of the non-cash collateral is reduced in accordance with the counterparty agreements to help ensure recovery of any loss through the disposition of the collateral. We posted cash collateral of $5.7 billion related to our counterparties' credit exposure to us as of September 30, 2008.
(5) Represents both cash and non-cash collateral posted by our counterparties to us. This amount is adjusted for the collateral transferred subsequent to month-end based on credit loss exposure limits on derivative instruments as of December 31, 2007. Settlement dates vary by counterparty and range from one to three business days following the credit loss exposure valuation date of December 31, 2007. The value of the non-cash collateral is reduced in accordance with counterparty agreements to help ensure recovery of any loss through the disposition of the collateral. We posted cash collateral of $1.2 billion related to our counterparties' credit exposure to us as of December 31, 2007.

We expect our credit exposure on derivative contracts to fluctuate with changes in interest rates, implied volatility and the collateral thresholds of the counterparties. Typically, we seek to manage this exposure by contracting with experienced counterparties that are rated A- (or its equivalent) or better. These counterparties consist of large banks, broker-dealers and other financial institutions that have a significant presence in the derivatives market, most of which are based in the United States. We also manage our exposure to derivatives counterparties by requiring collateral in specified instances. We have a collateral management policy with provisions for requiring collateral on interest rate and foreign currency derivative contracts in net gain positions based upon the counterparty's credit rating. The collateral includes cash, U.S. Treasury securities, agency debt and agency mortgage-related securities. Collateral posted to us is held and monitored daily by a third-party custodian. We analyze credit exposure on our derivative instruments daily and make collateral calls as appropriate based on the results of internal pricing models and dealer quotes. Our net credit exposure on derivatives contracts increased to $560 million as of September 30, 2008, from $542 million as of December 31, 2007. To reduce our credit risk concentration, we seek to diversify our derivative contracts among different counterparties. Approximately 80% of our net derivatives exposure as of September 30, 2008 was with four interest rate and foreign currency derivative counterparties rated AA- or better by Standard & Poor's and Aa3 or better by Moody's. The percentage of our net exposure with these counterparties ranged from approximately 12% to 30% of our total net exposure, or approximately $67 million to $170 million, as of September 30, 2008. Of the $109 million in other derivatives as of September 30, 2008, approximately 96% of the net exposure consisted of mortgage insurance contracts, all of which were with counterparties rated A- or better by Standards & Poor's, A3 or better by Moody's or A+ or better by Fitch. Each of the remaining counterparties accounted for less than 1% of our net derivatives exposure as of September 30, 2008. As of November 7, 2008, all of our interest rate and foreign currency derivative counterparties were rated A- or better by Standard & Poor's and A3 or better by Moody's. During the third quarter of 2008, one of our primary derivatives counterparties, Lehman Brothers Special

Financing Inc., or LBSF, and its parent-guarantor, Lehman Brothers, entered into bankruptcy proceedings, which resulted in LBSF's default under, and the termination of, all of our outstanding derivatives contracts with LBSF. We experienced a loss of approximately $104 million during the third quarter of 2008 relating to LBSF's default on its derivatives contracts with us. As a result of the termination of our derivatives contracts with LBSF in September 2008 and the assumption by JPMorgan Chase Bank, N.A. of the derivatives contracts we had with Bear Stearns Capital Markets Inc. in September 2008, the number of our interest rate and foreign currency derivatives counterparties with which we had outstanding transactions has been reduced to 19 as of September 30, 2008 from 21 as of December 31,

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2007. Due to planned mergers among several of our primary derivatives counterparties, we expect the concentration of our derivatives counterparties to increase further. The current financial market crisis also may result in further ratings downgrades of our derivatives counterparties that may cause us to cease entering into new arrangements with those counterparties or may result in more limited interest from derivatives counterparties in entering into new transactions with us, either of which would further increase the concentration of our business with our remaining derivatives counterparties. See "Part II--Item 1A--Risk Factors" for a discussion of the risks to our business as a result of the increasing concentration of our derivatives counterparties. As a result of the current financial market crisis, we may experience further losses relating to our derivative contracts that could adversely affect our earnings, liquidity, financial condition and net worth. In addition, if a derivative counterparty were to default on payments due under a derivative contract, we may be required to acquire a replacement derivative from a different counterparty at a higher cost or we may be unable to find a suitable replacement, which could adversely affect our ability to manage our interest rate risk. The financial market crisis may also reduce the number of derivatives counterparties willing to enter into transactions with us, which also could adversely affect our ability to manage our interest rate risk. See "Interest Rate Risk Management and Other Market Risks" for a discussion of how we use derivatives to manage our interest rate risk and "Part II--Item 1A--Risk Factors" for a discussion of the risks to our business posed by interest rate risk. Document Custodians We use third-party document custodians to provide loan document certification and custody services for some of the loans that we purchase and securitize. In many cases, our lender customers or their affiliates also serve as document custodians for us. Our ownership rights to the mortgage loans that we own or that back our Fannie Mae MBS could be challenged if a lender intentionally or negligently pledges or sells the loans that we purchased or fails to obtain a release of prior liens on the loans that we purchased, which could result in financial losses to us. When a lender or one of its affiliates acts as a document custodian for us, the risk that our ownership interest in the loans may be adversely impacted is increased, particularly in the event the lender were to become insolvent. We mitigate these risks through legal and contractual arrangements with these custodians that identify our ownership interest, as well as by establishing qualifying standards for document custodians and requiring removal of the documents to our possession or to an independent third-party document custodian if we have concerns about the solvency or competency of the document custodian. Interest Rate Risk Management and Other Market Risks Market risk is the risk of loss or fluctuations in the value of our financial instruments due to changes in market prices. Our most significant market risks are interest rate risk and spread risk. Interest rate risk is attributable to movements in interest rates and arises principally from our mortgage asset investments. Spread risk is the risk that interest rates in different market sectors will not move in tandem. Our Capital Markets group, which has primary responsibility for managing our interest rate risk, employs an integrated risk management strategy that allows for informed risk taking within corporate risk limits. We historically have actively managed the interest rate risk of our "net portfolio," which is defined below, through asset selection and structuring (that is, by identifying or structuring mortgage assets with attractive prepayment and other risk characteristics), by issuing a broad range of both callable and non-callable debt instruments and by using swap-based interest-rate derivatives. After we purchase mortgage assets, we historically have not actively managed or hedged spread risk, or the impact of changes in the spread between our mortgage assets and debt, referred to as mortgage-to-debt spreads, other than through asset monitoring and disposition. Because we intend to hold the majority of our mortgage assets to maturity to realize the contractual cash flows, we accept period-to-period volatility in our financial performance resulting from changes in mortgage-to-debt spreads that occur after our purchase of mortgage assets. For more information on the impact that changes in spreads have on the value of the fair value of our net assets, see "Supplemental Non-GAAP Information--Fair Value Balance Sheets--Changes in Non-GAAP Estimated Fair Value of Net Assets."

Decisions regarding our strategy in managing interest rate risk are based upon our corporate interest rate risk policies and limits, which are subject to periodic review. We monitor current market conditions, including the interest rate environment, to assess the impact of these conditions on individual positions and our overall interest rate risk profile. In addition to qualitative factors, we use various quantitative risk metrics in determining the appropriate composition of our consolidated balance sheet and relative mix of debt and derivatives positions in order to remain within pre-defined risk tolerance levels that we consider acceptable. FHFA is currently reviewing our interest rate risk policies and limits, and, therefore these policies and limits, are subject to change. The volatility and disruption in the credit markets during the past 12 months, which reached unprecedented levels during the third quarter of 2008 and in October 2008, have created a number of challenges for us in managing our market related risks. Our ability to issue callable debt or long-term debt has been severely limited since July 2008. As a result, we have relied primarily on a combination of short-term debt, interest rate swaps and swaptions to fund mortgage purchases and to manage our interest rate risk. The extreme levels of market volatility have resulted in a higher level of volatility in the interest rate risk profile of our net portfolio and led us to take more frequent rebalancing actions. At the same time, we have experienced an increase in the cost to enter into new derivative transactions due to a reduction in the liquidity of derivatives, an increase during the third quarter of 2008 in the bid-ask spreads on derivatives and a much higher cost of option-based derivative contracts. In addition, to maintain our interest rate risk profile within acceptable limits, we had to replace the derivatives contracts with Lehman Brothers that we terminated during the third quarter of 2008. Although we have been able to replace substantially all of these contracts, our interest rate exposure as of September 30, 2008 was somewhat higher than it otherwise would have been because we had not replaced all of the option-based derivative contracts that we had with Lehman Brothers as of that date. Our overall interest rate exposure, as reflected in the two interest rate risk metrics that we regularly disclose, (i) fair value sensitivity to changes in interest rate levels and the slope of the yield curve and (ii) duration gap, was within acceptable, pre-defined corporate limits as of September 30, 2008. However, we have seen significant changes in the spreads between our mortgage assets and the instruments we use to manage the interest rate risk associated with those assets, including longer-term debt and swap-based interest-rate derivatives throughout 2008, and particularly since August 2008. Because of the large dislocation in historical pricing relationships between various financial instruments, we cannot be certain that some the hedging instruments that we historically have used in managing our interest rate risk will perform in the same manner as the past and be as effective in the future. Accordingly, there is an increased risk that we many not be able to manage our interest rate risk within acceptable corporate limits on an ongoing basis. We provide additional detail on our interest risk and our strategies for managing this risk in this section, including: (1) the primary sources of our interest rate risk; (2) our current interest rate risk management strategies; and (3) interest rate risk metrics. Sources of Interest Rate Risk Our net portfolio consists of our existing investments in mortgage assets, investments in non-mortgage securities, our outstanding debt used to fund those assets and the derivatives used to supplement our debt instruments and manage interest rate risk, and any fixed-price asset, liability or derivative commitments. It also includes our LIHTC partnership investment assets and preferred stock, but excludes our existing guaranty business. Our mortgage assets consist mainly of fixed-rate mortgage loans that give borrowers the option to prepay at any time before the scheduled maturity date or continue paying until the stated maturity. Given this prepayment option held by the borrower, we are exposed to uncertainty as to when or at what rate prepayments will occur, which affects the length of time our mortgage assets will remain outstanding and the timing of the cash flows related to these assets. This prepayment uncertainty results in a potential mismatch between the timing of receipt of cash flows related to our assets and the timing of payment of cash flows related to our liabilities. Duration is a measure of a financial instrument's price sensitivity to changes in interest rates. Convexity is a measure of the degree to which the duration and price of a bond changes as interest rates change and is

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depicted by the curvature in the relationship between bond prices and bond yields. Changes in interest rates, as well as other factors, influence mortgage prepayment rates and duration and also affect the value of our mortgage assets. When interest rates decrease, prepayment rates on fixed-rate mortgages generally accelerate because borrowers usually can pay off their existing mortgages and refinance at lower rates. Accelerated prepayment rates have the effect of shortening the duration and average life of the fixed-rate mortgage assets we hold in our portfolio. In a declining interest rate environment, existing mortgage assets held in our portfolio tend to increase in value or price because these mortgages are likely to have higher interest rates than new mortgages, which are being originated at the then-current lower interest rates. Conversely, when interest rates increase, prepayment rates generally slow, which extends the duration and average life of our mortgage assets and results in a decrease in value. Mortgage assets typically exhibit negative convexity, which refers to the fact that the price or value of mortgages tends to fall steeply when interest rates rise, but to increase more gradually when interest rates decline because borrowers have the option to refinance and prepay their mortgages without penalty. Negative convexity also indicates that the duration of our mortgage assets shortens as interest rates decline and lengthen as interest rates increase. Interest Rate Risk Management Strategies Our ability to measure and manage the impact of prepayment risk is critical in managing interest rate risk. We use prepayment models to determine the estimated duration and convexity of our mortgage assets and various metrics to measure our interest rate exposure. The primary tool we use to manage the interest rate risk inherent in our mortgage assets is the variety of debt instruments we issue. Derivative instruments also are an integral part of our interest rate risk management strategy. We supplement our issuance of debt with derivative instruments to further reduce duration and prepayment risks. Although the fair value of our guaranty assets and our guaranty obligations is highly sensitive to changes in interest rates and the market's perception of future credit performance, we do not actively manage the change in the fair value of our guaranty business that is attributable to changes in interest rates. We do not believe that periodic changes in fair value due to movements in interest rates

are the best indication of the long-term value of our guaranty business because these changes do not take into account future guaranty business activity. Based on our experience, we expect that the guaranty fee income generated from future business activity will largely replace any guaranty fee income lost as a result of mortgage prepayments. To assess the value of our underlying guaranty business, we focus primarily on changes in the fair value of our net guaranty assets resulting from business growth, changes in the credit quality of existing guaranty arrangements and changes in anticipated future credit performance. See "Critical Accounting Policies and Estimates--Fair Value of Financial Instruments" and "Critical Accounting Policies and Estimates--Fair Value of Financial Instruments--Change in Measuring the Fair Value of Guaranty Obligations" for information on how we determine the fair value of our guaranty assets and guaranty obligations. Also see "Notes to Condensed Consolidated Financial Statements--Note 18, Fair Value of Financial Instruments."
Derivatives Activity Derivative instruments may be privately negotiated contracts, which are often referred to as over-the-counter derivatives, or they may be listed and traded on an exchange. When deciding whether to use derivatives, we consider a number of factors, such as cost, efficiency, the effect on our liquidity and net worth, and our overall interest rate risk management strategy. Since July 2008, we have relied increasingly on the use of derivatives to hedge our incremental mortgage asset purchases, as there has been limited demand for our callable debt or long-term debt securities. See "Liquidity and Capital Management--Liquidity--Funding" for additional discussion. The derivatives we use for interest rate risk management purposes consist primarily of over-the-counter contracts that fall into three broad categories:

ù Interest rate swap contracts. An interest rate swap is a transaction between two parties in which each agrees to exchange, or swap, interest payments. The interest payment amounts are tied to different interest

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rates or indices for a specified period of time and are generally based on a notional amount of principal. The types of interest rate swaps we use include pay-fixed swaps; receive-fixed swaps; and basis swaps.

ù Interest rate option contracts. These contracts primarily include pay-fixed swaptions, receive-fixed swaptions, cancelable swaps and interest rate caps. A swaption is an option contract that allows us to enter into a pay-fixed or receive-fixed swap at some point in the future.
ù Foreign currency swaps. These swaps have the effect of converting debt that we issue in foreign-denominated currencies into U.S. dollars. We enter into foreign currency swaps only to the extent that we issue foreign currency debt.

We use interest rate swaps and interest rate options, in combination with our issuance of debt securities, to better match the prepayment risk and duration of our assets with the duration of our liabilities. We are generally an end user of derivatives and our principal purpose in using derivatives is to manage our aggregate interest rate risk profile within prescribed risk parameters. We generally only use derivatives that are highly liquid and relatively straightforward to value. We use derivatives for four primary purposes: (1) As a substitute for notes and bonds that we issue in the debt markets. We can use a mix of debt issuances and derivatives to achieve the same duration matching that would be achieved by issuing only debt securities. The primary types of derivatives used for this purpose include pay-fixed and receive-fixed interest rate swaps (used as substitutes for non-callable debt) and pay-fixed and receive-fixed swaptions (used as substitutes for callable debt). (2) To achieve risk management objectives not obtainable with debt market securities. As an example, we can use the derivative markets to purchase swaptions to add characteristics not obtainable in the debt markets. Some of the characteristics of the option embedded in a callable bond are dependent on the market environment at issuance and the par issuance price of the bond. Thus, in a callable bond we may choose not to specify certain characteristics, such as specifying an "out-of-the-money" option, which could allow us to more closely match the interest rate risk being hedged. We use option-based derivatives, such as swaptions, because they provide the added flexibility to fully specify the terms of the option, thereby allowing us to more closely match the interest rate risk being hedged. (3) To quickly and efficiently rebalance our portfolio. While we have a number of rebalancing tools available to us, it is often most efficient for us to rebalance our portfolio by adding new derivatives or by terminating existing derivative positions. For example, when interest rates fall and mortgage durations shorten, we can shorten the duration of our debt by entering into receive-fixed interest rate swaps that convert longer-duration, fixed-term debt into shorter-duration, floating-rate debt or by terminating existing pay-fixed interest rate swaps. This use of derivatives helps increase our funding flexibility while helping us maintain our interest rate risk within policy limits. The types of derivative instruments we use most often to rebalance our portfolio include pay-fixed and receive-fixed interest rate swaps. (4) To hedge foreign currency exposure. We occasionally issue debt in a foreign currency. Our foreign-denominated debt represents less than 0.3% of our total debt outstanding. Because all of our assets are denominated in U.S. dollars, we enter into currency swaps to effectively convert the foreign-denominated debt into U.S. dollar-denominated debt. We are able to minimize our exposure to currency risk by swapping out of foreign currencies completely at the time of the debt issue. Table 48 presents, by derivative instrument type, the notional amount of our risk management derivative activity for the nine months ended September 30, 2008, along with the stated maturities of derivatives outstanding as of September 30, 2008. The outstanding notional balance of our risk management derivatives increased by $202.1 billion during the first nine months of 2008, to $1.1 trillion as of September 30, 2008. This increase reflected both rebalancing activities we undertook, which included increasing our pay-fixed and receive-fixed interest rate swaps in response to the interest rate volatility during the period and the hedging of incremental fixed-rate mortgage asset purchases, the impact of which was partially offset by the termination of our derivatives contracts with Lehman Brothers. See "Risk Management--Credit Risk Management--

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Institutional Counterparty Credit Risk Management--Derivatives Counterparties" for a discussion of our derivatives credit loss exposure. Table 48: Activity and Maturity Data for Risk Management Derivatives(1)

	Interest Rate Swaps				Interest Rate Swaptions				
	Pay-Fixed(2)	Receive-Fixed(3)	Basis(4)	Foreign Currency	Pay-Fixed	Receive-Fixed	Interest Rate Caps	Other(5)	Total

(Dollars in millions)

Notional balance as of December 31, 2007	$ 377,738	$ 285,885	$ 7,001	$ 2,559	$ 85,730	$ 124,651	$ 2,250	$ 650	$ 886,464
Additions	242,321	229,511	24,335	1,064	12,622	75,531	200	219	585,803
Terminations(6)	(104,206)	(142,841)	(6,575)	(1,643)	(26,742)	(99,697)	(1,950)	(92)	(383,746)
Notional balance as of September 30, 2008	$ 515,853	$ 372,555	$ 24,761	$ 1,980	$ 71,610	$ 100,485	$ 500	$ 777	$ 1,088,521
Future maturities of notional amounts:(7)									
Less than 1 year	$ 43,226	$ 29,920	$ 15,500	$ 741	$ 7,110	$ 22,080	--	$ 92	$ 118,669
1 year to 5 years	245,215	216,985	7,750	88	39,100	40,260	500	466	550,364
5 years to 10 years	190,594	115,826	135	396	21,150	25,595	--	219	353,915
Over 10 years	36,818	9,824	1,376	755	4,250	12,550	--	--	65,573
Total	$ 515,853	$ 372,555	$ 24,761	$ 1,980	$ 71,610	$ 100,485	$ 500	$ 777	$ 1,088,521
Weighted-average interest rate as of September 30, 2008:									
Pay rate	4.71%	2.83%	2.81%	--	6.18%	--	--	--	--
Receive rate	2.94%	4.46%	1.77%	--	--	4.55%	--	--	--
Other	--	--	--	--	--	--	5.84%	--	--
Weighted-average interest rate as of December 31, 2007:									
Pay rate	5.10%	5.04%	4.92%	--	6.25%	--	--	--	--
Receive rate	5.03%	5.08%	6.84%	--	--	4.84%	--	--	--
Other	--	--	--	--	--	--	4.35%	--	--

(1) Excludes mortgage commitments accounted for as derivatives. Dollars represent notional amounts that indicate only the amount on which payments are being calculated and do not represent the amount at risk of loss.
(2) Notional amounts include swaps callable by Fannie Mae of $2.8 billion and $8.2 billion as of September 30, 2008 and December 31, 2007, respectively.
(3) Notional amounts include swaps callable by derivatives counterparties of $16.9 billion and $7.8 billion as of September 30, 2008 and December 31, 2007, respectively.
(4) Notional amounts include swaps callable by derivatives counterparties of $675 million and $6.6 billion as of September 30, 2008 and December 31, 2007, respectively.
(5) Includes MBS options, swap credit enhancements and mortgage insurance contracts.
(6) Includes matured, called, exercised, assigned and terminated amounts. Also includes changes due to foreign exchange rate movements.
(7) Based on contractual maturities.

Interest Rate Risk Metrics Because no single measure can reflect all aspects of the interest rate risk inherent in our mortgage portfolio, we utilize various risk metrics that together provide a more complete assessment of our aggregate interest rate risk profile. We present below two metrics that we use to measure our interest rate exposure: (i) fair value

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sensitivity of net portfolio to changes in interest rate levels and slope of yield curve and (ii) duration gap. We also provide additional information that may be useful in evaluating our interest rate risk and discuss the limitations of these various measures. There was significant volatility in interest rates during the first nine months of 2008, with the 10-year swap rate falling to a low during the period of 3.94% in mid-March and then rising to a high of 4.98% in mid-June. However, as discussed below, the changes in our interest rate risk measures during the third quarter and first nine months of 2008 were primarily attributable to changes in spreads rather than to changes in interest rates. Fair Value Sensitivity of Net Portfolio to Changes in Level and Slope of Yield Curve As part of our disclosure commitments with FHFA, we disclose on a monthly basis the estimated adverse impact on the fair value of our net portfolio that would result from a hypothetical 50 basis point shift in interest rates and from a hypothetical 25 basis point change in the slope of the yield curve. We calculate on a daily basis the estimated adverse impact on our net portfolio that would result from an instantaneous 50 basis point parallel shift in the level of interest rates and from an instantaneous 25 basis point change in the slope of the yield curve, calculated as described below. In measuring the estimated impact of changes in the level of interest rates, we assume a parallel shift in all maturities of the U.S. LIBOR interest rate swap curve. In measuring the estimated impact of changes in the slope of the yield curve, we assume a constant 7-year rate and a shift in the 1-year and 30-year rates of 16.7 basis points and 8.3 basis points, respectively. We believe the selected interest rate shocks for our monthly disclosures represent moderate movements in interest rates over a one-month period. Prior to April 2008, we expressed the net portfolio sensitivity measures as a percentage of the latest available after-tax fair value of our net assets, adjusted for capital transactions. The fair value of our net assets, which fluctuates based on changes in market conditions as well as changes in our business activities, has declined significantly over the past year, partially due to wider spreads. We believe that expressing these sensitivity measures based on dollars-at-risk, rather than as a percentage of the fair value of our net assets, provides more relevant information and better represents our overall level and low-exposure to adverse interest-rate movements given the substantial reduction in the fair value of our net assets that has occurred over the last year. The daily average adverse impact from a 50 basis point change in interest rates and a 25 basis point change in the slope of the yield curve was $(0.8) billion and $(0.1) billion, respectively, for September 2008, compared with $(0.9) billion and $(0.2) billion, respectively, for December 2007. The daily average adverse impact of these sensitivities for the first nine months of 2008 was $(0.8) billion for a 50 basis point change in interest rates and $(0.1) billion for a 25 basis point change in the slope of the yield curve. The sensitivity measures presented in Table 49 below, which we disclose on a quarterly basis as part of our disclosure commitments with FHFA, are an extension of our monthly sensitivity measures. There are three primary differences between our monthly sensitivity disclosure and the quarterly sensitivity disclosure presented below: (1) the quarterly disclosure is expanded to include the sensitivity results for larger rate level shocks of plus or minus 100 basis points; (2) the monthly disclosure reflects the estimated pre-tax impact on the fair value of our net portfolio calculated based on a daily average, while the quarterly disclosure reflects the estimated pre-tax impact calculated based on the estimated financial position of our net portfolio and the market environment as of the last business day of the quarter based on values used for financial reporting; and (3) the monthly disclosure shows the most adverse pre-tax impact on the fair value of our net portfolio from the hypothetical interest rate shocks, while the quarterly disclosure includes the estimated pre-tax impact of both up and down interest rate shocks.

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Table 49: Fair Value Sensitivity of Net Portfolio to Changes in Level and Slope of Yield Curve(1)

	September 30, 2008	December 31, 2007(2)
	(Dollars in billions)	
Rate level shock:		
W22; 100 basis points	$ (0.3)	$ (2.5)
W22; 50 basis points	0.6	(0.7)
+50 basis points	(0.9)	0.0
+100 basis points	(2.3)	(0.3)
Rate slope shock:		
W22; 25 basis points	(0.2)	(0.3)
+25 basis points	0.1	0.3

(1) Computed based on changes in 10-year swap interest rates.
(2) Amounts have been revised from the previously reported sensitivities as of December 31, 2007 to include the sensitivities of our LIHTC partnership investment assets and preferred stock (excluding senior preferred stock).

The 10-year swap rate, which is a key reference interest rate affecting the fair value of our net portfolio, decreased to 4.49% as of September 30, 2008, from 4.67% as of December 31, 2007. However, the yield on the 30-year par coupon mortgage actually increased by 6 basis points to 5.57% as of September 30, 2008, from 5.51% as of the end of 2007. This increase in mortgage interest rates reduced expected prepayments, which resulted in an increase in the duration of our mortgage assets. Changes in our sensitivity measures were also driven by wider spreads, and in particular by sharply wider spreads on some of the least liquid assets, such as Alt-A securities, which extended the calculated durations of these assets. Because of these two factors, we have experienced an increase in exposure to higher interest rates since the end of 2007, as reflected in the sensitivity measures presented in Table 51. Duration Gap Duration measures the price sensitivity of our assets and liabilities to changes in interest rates by quantifying the difference between the estimated durations of our assets and liabilities. Our duration gap summarizes the extent to which the estimated cash flows for our assets and liabilities are matched, on average, over time and across interest rate scenarios. A positive duration gap signals a greater exposure to rising interest rates because it indicates that the duration of our assets exceeds the duration of our liabilities. Table 50 below presents our monthly effective duration gap for December 2007 and for each of the first nine months of 2008. We also disclose our duration gap for October 2008. For comparative purposes, we also present the historical average daily duration for the 30-year Fannie Mae MBS component of the Barclays Capital Mortgage Index, formerly the Lehman Brothers Mortgage Index, for the same months. As indicated in Table 50 below, the duration of the mortgage index as calculated by Barclays Capital is both higher and more volatile than our duration gap, which is attributable to several factors, including the following:

(1) We use duration hedges, including longer term debt and interest rate swaps, to reduce the duration of our net portfolio.
(2) We use option-based hedges, including callable debt and interest rate swaptions, to reduce the convexity or the duration changes of our net portfolio as interest rates move.

(3) We take rebalancing actions to adjust our net portfolio position in response to movements in interest rates.
(4) Our mortgage portfolio includes not only 30-year fixed rate mortgage assets, but also other mortgage assets that typically have a shorter duration, such as adjustable-rate mortgage loans, and mortgage assets that generally have a somewhat longer duration, such as multifamily loans and CMBS.
(5) The models used by Barclays Capital and Fannie Mae to estimate durations are different.

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Table 50: Duration Gap

Month	Fannie Mae Effective Duration Gap	Barclays Capital 30-Year Fannie Mae Mortgage Index Option Adjusted Duration(1)
	(In months)	
December 2007	2	43
January 2008	1	31
February 2008	2	41
March 2008	3	42
April 2008	2	41
May 2008	1	42
June 2008	2	51
July 2008	1	54
August 2008	2	55
September 2008	1	40
October 2008	2	48

(1) Reflects option adjusted duration based on Barclays Capital (formerly Lehman Brothers) 30-Year Fannie Mae Mortgage Index obtained from LehmanLive and Lehman POINT.

In the current environment, there is increased uncertainty about borrower prepayment patterns in different interest rate environments. For example, we are observing duration differences for 30-year fixed-rate MBS or mortgage-backed securities that are greater than one year based on survey data we regularly obtain from third parties, primarily large, experienced dealers. When interest rates are volatile, as has been the case over the last nine months, we often need to take more frequent rebalancing actions to lengthen or shorten the average duration of our liabilities to keep them closely matched with our mortgage durations, which change as expected mortgage prepayment rates change. A large movement in interest rates or a continuation of the extreme interest rate volatility that we have recently experienced increases the risk that our duration gap could extend outside of the range we have experienced recently. Wider spreads on mortgage assets, which typically indicate reduced liquidity, increase the discount rate and generally increase the duration of mortgage assets. However, fluctuations in spreads generally do not affect the timing of expected cash flows from our mortgage assets or their average lives. Other Interest Rate Risk Information The above interest rate risk measures exclude the impact of changes in the fair value of our net guaranty assets resulting from changes in interest rates. We exclude our guaranty business from these sensitivity measures because we expect that the guaranty fee income generated from future business activity will largely replace guaranty fee income lost due to mortgage prepayments that result from changes in interest rates. In Table 51 below, we present additional interest rate sensitivities to illustrate the fair value sensitivity of all of our financial instruments and of separate components of our financial instruments. Table 51 also discloses the potential impact on the fair value of our trading assets, our net guaranty assets and obligations, and our other financial instruments as of September 30, 2008 and December 31, 2007, from the same hypothetical changes in the level of interest rates as presented above in Table 49. This table excludes some instruments that we believe have interest rate risk such as LIHTC partnership assets and preferred stock; however, the interest rate risk represented by these instruments is included in both the duration and fair value sensitivities presented above. We also assume a parallel shift in all maturities along the interest rate swap curve in calculating these sensitivities. We believe these interest rate changes represent reasonably possible near-term changes in interest rates over the next twelve months.

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Table 51: Interest Rate Sensitivity of Financial Instruments

	As of September 30, 2008				
		Pre-tax Effect on Estimated Fair Value			
	Estimated	Change in Rates			
	Fair Value	W22; 100	W22; 50	+50	+100
	(Dollars in millions)				
Trading financial instruments	$ 98,671	$ 2,252	$ 1,247	$ (1,372)	$ (2,853)
Guaranty assets and guaranty obligations, net(1)	(66,266)	1,301	361	505	807
Other financial instruments, net(2)	(101,565)	(2,712)	(750)	590	855

	As of December 31, 2007				
		Pre-tax Effect on Estimated Fair Value			
	Estimated	Change in Rates			
	Fair Value	W22; 100	W22; 50	+50	+100
	(Dollars in millions)				
Trading financial instruments	$ 63,956	$ 1,595	$ 829	(877)	$ (1,796)
Guaranty assets and guaranty obligations, net(1)	(7,055)	(1,514)	(1,290)	(2,111)	(1,135)
Other financial instruments, net(2)	(54,084)	(3,313)	(1,216)	676	1,065

(1) Consists of the net of "Guaranty assets" and Guaranty obligations" reported in our condensed consolidated balance sheets. In addition, includes certain amounts that have been reclassified from "Mortgage loans" reported in our condensed consolidated balance sheets to reflect how the risk of the

interest rate and credit risk components of these loans is managed by our business segments.

(2) Consists of the net of all other financial instruments reported in "Notes to Condensed Consolidated Financial Statements--Note 18, Fair Value of Financial Instruments."

The interest rate sensitivity of our trading financial instruments increased, due in part to the reclassification of $18.1 billion of mortgage assets as trading in conjunction with our adoption of SFAS 159 as of January 1, 2008. Both our guaranty assets and our guaranty obligations generally increase in fair value when interest rates increase and decrease in fair value when interest rates decline. Changes in the sensitivity of the guaranty asset and obligation over this period were largely driven by the significant reduction in the fair value of our net guaranty assets and guaranty obligations.
Limitations of Market Risk Measures We rely heavily on models to estimate our interest rate risk exposure. There are inherent limitations in any methodology used to estimate the exposure to changes in market interest rates. Our sensitivity analyses contemplate only certain movements in interest rates and are performed at a particular point in time based on the estimated fair value of our existing portfolio. These sensitivity analyses do not incorporate other factors that may have a significant effect, most notably the value from expected future business activities and strategic actions that management may take to manage interest rate risk. The capital and credit markets have been experiencing volatility and disruption for more than 12 months. In recent weeks, the volatility and disruption has reached unprecedented levels. This market turmoil and tightening of credit have led to an increased level of concern about the stability of the financial markets generally. When market conditions change rapidly and dramatically, as they have since July 2007, the assumptions that we use in our models for our sensitivity analyses may not keep pace with changing conditions. A worsening of these conditions would likely exacerbate the adverse effects of these difficult market conditions on us and others in the financial institutions industry. Accordingly, these analyses are not intended and should not be used as a precise forecast of the effect that a given change in market interest rates would have on the estimated fair value of our net assets. See "Part II--Item 1A--Risk Factors" for a discussion of the risks associated with the use of models.

Operational Risk Management Operational risk can manifest itself in many ways, including accounting or operational errors, business disruptions, fraud, human errors, technological failures and other operational challenges resulting from failed or inadequate internal controls. These events may potentially result in financial losses and other damage to our business, including reputational harm. Our operational risk management framework includes policies and operational standards designed to identify, measure, monitor and manage operational risks across the company. We rely on our employees and our internal financial, accounting, cash management, data processing and other operating systems, as well as technological systems operated by third parties, to manage our business. In the face of the current challenging market environment and changes that the company is experiencing, we have increased support for our training programs and employee communications in the furtherance of operational risk management. In addition to the corporate operational risk oversight function, we also maintain programs for the management of our exposure to other key operational risks, such as mortgage fraud, breaches in information security and external disruptions to business continuity. These risks are not unique to us and are inherent in the financial services industry. We are currently in the second year of a three-year program to implement a new operational risk management framework, which is expected to be completed in November 2009. This new operational risk management framework is based on the Basel Committee guidance on sound practices for the management of operational risk broadly adopted by U.S. commercial banks comparable in size to Fannie Mae. We have completed the requirements for tracking operational incidents and having an assessment process. We are currently in the process of developing key risk metrics and scenario analysis for economic capital. IMPACT OF FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS New accounting pronouncements or changes in existing accounting pronouncements may have a significant effect on our results of operations, our financial condition, our net worth or our business operations. We identify and discuss the expected impact on our consolidated financial statements of recently issued or proposed accounting pronouncements in "Notes to Condensed Consolidated Financial Statements--Note 2, Summary of Significant Accounting Policies." FORWARD-LOOKING STATEMENTS This report includes statements that constitute forward-looking statements within the meaning of Section 21E of the Exchange Act. In addition, our senior management may from time to time make forward-looking statements orally to analysts, investors, the news media and others. Forward-looking statements often include words such as "expect," "anticipate," "intend," "plan," "believe," "seek," "estimate," "forecast," "project," "would," "should," "could," "may," or similar words. Among the forward-looking statements in this report are statements relating to:

ù Our expectation that the current crisis in the U.S. and global financial markets will continue to adversely affect our financial results through the remainder of 2008 and 2009;
ù Our expectation that we will continue to experience home price declines and rising default and severity rates, all of which may worsen if unemployment rates continue to increase or the U.S. experiences a broad-based recession;
ù Our expectation that the level of foreclosures and single-family delinquency rates will continue to increase further through the end of 2008, and still further in 2009;
ù Our expectation that home prices will decline at the top end of our estimated range of 7% to 9% on a national basis in 2008, and that there will be a peak-to-trough decline in home prices at the top end of our estimated range of 15% to 19% on a national basis;

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ù Our expectation that there will be significant regional variation in these national home price decline percentages, with steeper declines in certain areas such as Florida, California, Nevada and Arizona;
ù Our expectation that our credit loss ratio will be between 23 and 26 basis points in 2008 and increase further in 2009 compared to 2008;
ù Our expectation for significant continued increase in our combined loss reserves through the remainder of 2008 and additional increases in 2009;
ù Our expectation that growth in mortgage debt outstanding will decline to a growth rate of 0% in 2009;
ù Our expectation that the unemployment rate will continue to increase as the economic slowdown continues;
ù Our expectation that we will continue to experience increased delinquencies, defaults, credit-related expenses and credit losses for the remainder of 2008 and 2009;
ù Our expectation that our nonperforming assets will increase in 2008 and 2009;
ù Our expectation that we will continue to face pressure, and experience adverse economic effects, from the strategic and day-to-day conflicts among our competing objectives under conservatorship, and from the activities we may take to help the mortgage market;

ù Our expectation for continued significant pressure on our access to the short-term debt markets and an extremely limited ability to access the long-term debt markets at economically reasonable rates, in the absence of action by Treasury to increase the level of support Treasury provides for our debt;
ù Our expectation that the trend toward dependence on short-term debt and increased roll over risk will continue;
ù Our belief that our liquidity contingency plan is unlikely to be sufficient to provide us with alternative sources of liquidity for 90 days;
ù Our expectation that we will have the necessary technology and operational capabilities in place to support the securitization of a portion of our whole loans by the end of the first quarter of 2009;
ù Our expectation that Treasury's funding commitment under the senior preferred stock purchase agreement will enable us to maintain a positive net worth as long as Treasury has not yet invested the full $100 billion provided for in that agreement;
ù Our expectation that HomeSaver Advance will continue to reduce the number of delinquent loans that we otherwise would have purchased from our MBS trusts for the remainder of 2008;
ù Our expectation that our SOP 03-3 fair value losses for 2008 will be higher than the losses recorded for 2007;
ù Our expectation that our acquisitions of Alt-A mortgage loans will be minimal in future periods;
ù Our expectation that the loans we are now acquiring will have a lower credit risk relative to the loans we acquired in 2006, 2007 and early 2008;
ù Our belief that the market crisis will continue to adversely affect the liquidity and financial condition of our institutional counterparties and our lender counterparties;
ù Our belief that recent government actions to provide liquidity and other support to specified financial market participants and recently announced mergers will help to improve the financial condition and liquidity position of a number of our institutional counterparties;
ù Our expectation that the guaranty fee income generated from future business activity will largely replace any guaranty fee income lost as a result of mortgage prepayments;
ù Our expectation that we will contribute additional amounts to our nonqualified pension plans and other postretirement benefit plans in the fourth quarter of 2008 to fund these plans;

ù Our belief that we will recover some of the other-than-temporary impairment amounts on our Alt-A and subprime securities;
ù Our belief that we are likely to incur losses on some Alt-A and subprime private-label mortgage-related securities that are currently rated AAA;
ù Our belief that measures we have taken will significantly improve the credit profile of our single-family acquisitions that are underwritten manually or processed through Desktop Underwriter;
ù Our belief that we have priced jumbo-conforming loans to compensate us for the related risk;
ù Our belief that the selected interest rate shocks presented in our monthly disclosures represent moderate movements in interest rates over a one-month period and that the interest rate sensitivities presented represent reasonably possible near-term changes in interest rates over the next twelve months;
ù Our belief that we will complete the remediation of our disclosure controls and procedures by the end of the first quarter of 2009;
ù Our expectation that we will continue to face substantial uncertainty as to

our future business strategy, business purpose and fundamental business structure;

ù Our belief that our deferred tax assets related to unrealized losses recorded in AOCI on our available-for-sale securities are recoverable; and

ù Our expectation that we will complete the implementation of our new operational risk management framework in November 2009.

Forward-looking statements reflect our management's expectations or predictions of future conditions, events or results based on various assumptions and management's estimates of trends and economic factors in the markets in which we are active, as well as our business plans. They are not guarantees of future performance. By their nature, forward-looking statements are subject to risks and uncertainties. Our actual results and financial condition may differ, possibly materially, from the anticipated results and financial condition indicated in these forward-looking statements. There are a number of factors that could cause actual conditions, events or results to differ materially from those described in the forward-looking statements contained in this report, including, but not limited to, the conservatorship and its effect on our business (including our business strategies and practices), the investment by Treasury and its effect on our business, adverse economic effects from activities we undertake to support the mortgage market and help borrowers, changes in the structure and regulation of the financial services industry, our ability to access the debt capital markets, changes in management, further disruptions in the housing, credit and stock markets, our ability to maintain a positive net worth, the level and volatility of interest rates and credit spreads, the adequacy of credit reserves, future amendments and guidance by the FASB, pending government investigations and litigation, the accuracy of subjective estimates used in critical accounting policies and those factors described in this report and in "Part I--Item 1A--Risk Factors" of our 2007 Form 10-K. Readers are cautioned to place forward-looking statements in this report or that we make from time to time into proper context by carefully considering the factors discussed in this report and in "Part I--Item 1A--Risk Factors" of our 2007 Form 10-K. These forward-looking statements are representative only as of the date they are made, and we undertake no obligation to update any forward-looking statement as a result of new information, future events or otherwise, except as required under the federal securities laws.

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Item 1. Financial Statements

FANNIE MAE
(In conservatorship)

Condensed Consolidated Balance Sheets
(Dollars in millions, except share amounts)
(Unaudited)

	As of September 30, 2008	As of December 31, 2007
ASSETS		
Cash and cash equivalents	$ 36,301	$ 3,941
Restricted cash	188	561

Federal funds sold and securities purchased under agreements to resell	33,420	49,041
Investments in securities:		
Trading, at fair value (includes Fannie Mae MBS of $59,047 and $40,458 as of September 30, 2008 and December 31, 2007, respectively)	98,671	63,956
Available-for-sale, at fair value (includes Fannie Mae MBS of $162,856 and $138,943 as of September 30, 2008 and December 31, 2007, respectively)	262,054	293,557
Total investments in securities	360,725	357,513
Mortgage loans:		
Loans held for sale, at lower of cost or market	7,908	7,008
Loans held for investment, at amortized cost	399,637	397,214
Allowance for loan losses	(1,803)	(698)
Total loans held for investment, net of allowance	397,834	396,516
Total mortgage loans	405,742	403,524
Advances to lenders	9,605	12,377
Accrued interest receivable	3,711	3,812
Acquired property, net	7,493	3,602
Derivative assets at fair value	1,099	885
Guaranty assets	10,240	9,666
Deferred tax assets	4,600	12,967
Partnership investments	9,825	11,000
Other assets	13,666	10,500
Total assets	$ 896,615	$ 879,389
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Accrued interest payable	$ 6,264	$ 7,512
Federal funds purchased and securities sold under agreements to repurchase	1,357	869
Short-term debt (includes debt at fair value of $4,495 as of September 30, 2008)	280,382	234,160
Long-term debt (includes debt at fair value of $21,711 as of September 30, 2008)	550,928	562,139
Derivative liabilities at fair value	1,305	2,217
Reserve for guaranty losses (includes $1,275 and $211 as of September 30, 2008 and December 31, 2007, respectively, related to Fannie Mae MBS included in Investments in securities)	13,802	2,693
Guaranty obligations (includes $1,006 and $661 as of September 30, 2008 and December 31, 2007, respectively, related to Fannie Mae MBS included in Investments in securities)	16,816	15,393
Partnership liabilities	3,442	3,824
Other liabilities	12,884	6,464
Total liabilities	887,180	835,271
Minority interests in consolidated subsidiaries	159	107
Commitments and contingencies (Note 19)	--	--
Stockholders' Equity:		
Senior preferred stock, 1,000,000 shares issued and outstanding as of September 30, 2008	1,000	--
Preferred stock, 700,000,000 shares are authorized--607,125,000 and 466,375,000 shares issued and outstanding as of September 30, 2008 and December 31, 2007, respectively	21,725	16,913
Common stock, no par value, no maximum authorization--1,223,390,420 and 1,129,090,420 shares issued as of September 30, 2008 and December 31, 2007, respectively; 1,069,859,674 shares and 974,104,578 shares outstanding as of September 30, 2008 and December 31, 2007, respectively	642	593
Additional paid-in capital	3,153	1,831
Retained earnings (accumulated deficit)	(1,563)	33,548
Accumulated other comprehensive loss	(8,369)	(1,362)
Treasury stock, at cost, 153,530,746 shares and 154,985,842 shares as of September 30, 2008 and	(7,312)	(7,512)

December 31, 2007, respectively		
Total stockholders' equity	9,276	44,011
Total liabilities and stockholders' equity	$ 896,615	$ 879,389

See Notes to Condensed Consolidated Financial Statements.

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FANNIE MAE
(In conservatorship)

Condensed Consolidated Statements of Operations
(Dollars and shares in millions, except per share amounts)
(Unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2008	2007	2008	2007
Interest income:				
Trading securities	$ 1,416	$ 649	$ 4,529	$ 1,227
Available-for-sale securities	3,295	4,929	9,467	15,142
Mortgage loans	5,742	5,572	17,173	16,582
Other	310	322	1,000	793
Total interest income	10,763	11,472	32,169	33,744
Interest expense:				
Short-term debt	1,680	2,401	5,928	6,811
Long-term debt	6,728	8,013	20,139	23,488
Total interest expense	8,408	10,414	26,067	30,299
Net interest income	2,355	1,058	6,102	3,445
Guaranty fee income (includes imputed interest of $481 and $380 for the three months ended September 30, 2008 and 2007, respectively and $1,035 and $963 for the nine months ended September 30, 2008 and 2007, respectively)	1,475	1,232	4,835	3,450
Losses on certain guaranty contracts	--	(294)	--	(1,038)
Trust management income	65	146	247	460
Investment gains (losses), net	(1,624)	(159)	(2,618)	43
Fair value losses, net	(3,947)	(2,082)	(7,807)	(1,224)
Debt extinguishment gains (losses), net	23	31	(158)	72
Losses from partnership investments	(587)	(147)	(923)	(527)
Fee and other income	164	217	616	751
Non-interest income (loss)	(4,431)	(1,056)	(5,808)	1,987
Administrative expenses:				
Salaries and employee benefits	167	362	757	1,067
Professional services	139	192	389	654
Occupancy expenses	52	64	161	180
Other administrative expenses	43	42	118	117
Total administrative expenses	401	660	1,425	2,018
Minority interest in losses of consolidated subsidiaries	(25)	(4)	(22)	(3)
Provision for credit losses	8,763	1,087	16,921	1,770
Foreclosed property expense	478	113	912	269
Other expenses	195	130	802	334
Total expenses	9,812	1,986	20,038	4,388
Income (loss) before federal income taxes and extraordinary losses	(11,888)	(1,984)	(19,744)	1,044
Provision (benefit) for federal income	17,011	(582)	13,607	(468)

taxes				
Income (loss) before extraordinary losses	(28,899)	(1,402)	(33,351)	1,512
Extraordinary gains (losses), net of tax effect	(95)	3	(129)	(3)
Net income (loss)	$ (28,994)	$ (1,399)	$ (33,480)	$ 1,509
Preferred stock dividends and issuance costs at redemption	(419)	(119)	(1,044)	(372)
Net income (loss) available to common stockholders	$ (29,413)	$ (1,518)	$ (34,524)	$ 1,137
Basic earnings (loss) per share:				
Earnings (loss) before extraordinary losses	$ (12.96)	$ (1.56)	$ (24.15)	$ 1.17
Extraordinary losses, net of tax effect	(0.04)	--	(0.09)	--
Basic earnings (loss) per share	$ (13.00)	$ (1.56)	$ (24.24)	$ 1.17
Diluted earnings (loss) per share:				
Earnings (loss) before extraordinary losses	$ (12.96)	$ (1.56)	$ (24.15)	$ 1.17
Extraordinary losses, net of tax effect	(0.04)	--	(0.09)	--
Diluted earnings (loss) per share	$ (13.00)	$ (1.56)	$ (24.24)	$ 1.17
Cash dividends per common share	$ 0.05	$ 0.50	$ 0.75	$ 1.40
Weighted-average common shares outstanding:				
Basic	2,262	974	1,424	973
Diluted	2,262	974	1,424	975

See Notes to Condensed Consolidated Financial Statements.

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FANNIE MAE
(In conservatorship)

Condensed Consolidated Statements of Cash Flows
(Dollars in millions)

(Unaudited)

	For the Nine Months Ended September 30, 2008	2007
Cash flows provided by operating activities:		
Net income (loss)	$ (33,480)	$ 1,509
Amortization of debt cost basis adjustments	6,497	7,372
Provision for credit losses	16,921	1,770
Valuation losses	7,303	96
Derivatives fair value adjustments	(1,952)	1,884
Current and deferred federal income taxes	12,762	(1,407)
Purchases of loans held for sale	(38,351)	(23,326)
Proceeds from repayments of loans held for sale	443	455
Net change in trading securities	71,193	27,206
Other, net	(1,206)	1,387
Net cash provided by operating activities	40,130	16,946
Cash flows (used in) provided by investing activities:		
Purchases of trading securities held for investment	(7,625)	--
Proceeds from maturities of trading securities held for investment	7,318	--

Proceeds from sales of trading securities held for investment	2,824	--
Purchases of available-for-sale securities	(102,761)	(110,472)
Proceeds from maturities of available-for-sale securities	25,799	112,299
Proceeds from sales of available-for-sale securities	102,044	49,108
Purchases of loans held for investment	(48,874)	(48,448)
Proceeds from repayments of loans held for investment	37,169	45,202
Advances to lenders	(69,541)	(50,067)
Net proceeds from disposition of acquired property	(3,376)	1,049
Net change in federal funds sold and securities purchased under agreements to resell	15,135	2,767
Other, net	(107)	(692)
Net cash (used in) provided by investing activities	(41,995)	746
Cash flows provided by (used in) financing activities:		
Proceeds from issuance of short-term debt	1,439,170	1,284,191
Payments to redeem short-term debt	(1,398,756)	(1,306,772)
Proceeds from issuance of long-term debt	218,052	149,577
Payments to redeem long-term debt	(230,081)	(143,149)
Proceeds from issuance of common and preferred stock	7,211	1,019
Net change in federal funds purchased and securities sold under agreements to repurchase	403	1,525
Other, net	(1,774)	(2,842)
Net cash provided by (used in) financing activities	34,225	(16,451)
Net increase in cash and cash equivalents	32,360	1,241
Cash and cash equivalents at beginning of period	3,941	3,239
Cash and cash equivalents at end of period	$ 36,301	$ 4,480
Cash paid during the period for:		
Interest	$ 27,464	$ 29,269
Income taxes	845	1,888
Non-cash activities:		
Securitization-related transfers from mortgage loans held for sale to investments in securities	$ 32,609	$ 20,479
Net transfers of loans held for sale to loans held for investment	5,819	2,180
Net deconsolidation transfers from mortgage loans held for sale to investments in securities	(850)	(82)
Net transfers from available-for-sale securities to mortgage loans held for sale	1,073	12
Transfers from advances to lenders to investments in securities (including transfers to trading securities of $40,660 and $42,331 for the nine months ended September 30, 2008 and 2007, respectively)	68,909	43,520
Net consolidation-related transfers from investments in securities to mortgage loans held for investment	(16,210)	7,471
Transfers to trading securities from the effect of adopting SFAS 159	56,217	--

See Notes to Condensed Consolidated Financial Statements.

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FANNIE MAE
(In conservatorship)

Condensed Consolidated Statements of Changes in Stockholders' Equity
(Dollars and shares in millions, except per share amounts)
(Unaudited)

	Shares Outstanding: Senior Preferred	Shares Outstanding: Preferred	Shares Outstanding: Common	Senior Preferred	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity
Balance as of December 31, 2006	--	132	972	--	$ 9,108	$ 593	$ 1,942	$ 37,955	$ (445)	$ (7,647)	$ 41,506
Cumulative effect from the adoption of FIN 48, net of tax	--	--	--	--	--	--	--	4	--	--	4
Balance as of January 1, 2007, adjusted	--	132	972	--	9,108	593	1,942	37,959	(445)	(7,647)	41,510
Comprehensive income:											
Net income	--	--	--	--	--	--	--	1,509	--	--	1,509
Other comprehensive income, net of tax effect:											
Unrealized losses on available-for-sale securities (net of tax of $634)	--	--	--	--	--	--	--	--	(1,177)	--	(1,177)
Reclassification adjustment for gains included in net income (net of tax of $154)	--	--	--	--	--	--	--	--	(286)	--	(286)
Unrealized gains on guaranty assets and guaranty fee buy-ups (net of tax of $40)	--	--	--	--	--	--	--	--	74	--	74
Net cash flow hedging losses (net of tax of $2)	--	--	--	--	--	--	--	--	(3)	--	(3)
Prior service cost and actuarial gains, net of amortization for defined benefit plans (net of tax of $25)	--	--	--	--	--	--	--	--	46	--	46
Total comprehensive income											163
Common stock dividends ($1.40 per share)	--	--	--	--	--	--	--	(1,369)	--	--	(1,369)
Preferred stock dividends	--	--	--	--	--	--	--	(362)	--	--	(362)
Preferred stock issued	--	40	--	--	1,000	--	(10)	--	--	--	990
Preferred stock redeemed	--	(22)	--	--	(1,100)	--	--	--	--	--	(1,100)
Treasury stock issued for stock options and benefit plans	--	--	2	--	--	--	(44)	--	--	134	90
Balance as of September 30, 2007	--	150	974	--	$ 9,008	$ 593	$ 1,888	$ 37,737	$ (1,791)	$ (7,513)	$ 39,922
Balance as of December 31, 2007	--	466	974	--	$ 16,913	$ 593	$ 1,831	$ 33,548	$ (1,362)	$ (7,512)	$ 44,011

Cumulative effect from the adoption of SFAS 157 and SFAS 159, net of tax	--	--	--	--	--	--	--	148	(93)	--	55
Balance as of January 1, 2008, adjusted Comprehensive loss:	--	466	974	--	16,913	593	1,831	33,696	(1,455)	(7,512)	44,066
Net loss Other comprehensive loss, net of tax effect:	--	--	--	--	--	--	--	(33,480)	--	--	(33,480)
Unrealized losses on available-for-sale securities (net of tax of $3,629)	--	--	--	--	--	--	--	--	(6,740)	--	(6,740)
Reclassification adjustment for gains included in net loss (net of tax of $35)	--	--	--	--	--	--	--	--	(65)	--	(65)
Unrealized losses on guaranty assets and guaranty fee buy-ups	--	--	--	--	--	--	--	--	(113)	--	(113)
Net cash flow hedging losses	--	--	--	--	--	--	--	--	(5)	--	(5)
Prior service cost and actuarial gains, net of amortization for defined benefit plans	--	--	--	--	--	--	--	--	9	--	9
Total comprehensive loss											(40,394)
Common stock dividends ($0.75 per share)	--	--	--	--	--	--	--	(741)	--	--	(741)
Preferred stock dividends declared	--	--	--	--	--	--	--	(1,038)	--	--	(1,038)
Senior preferred stock issued	1	--	--	1,000	--	--	--	--	--	--	1,000
Preferred stock issued	--	141	--	--	4,812	--	(127)	--	--	--	4,685
Common stock issued	--	--	94	--	--	49	2,477	--	--	--	2,526
Common stock warrant issued	--	--	--	--	--	--	3,518	--	--	--	3,518
Treasury commitment	--	--	--	--	--	--	(4,518)	--	--	--	(4,518)
Treasury stock issued for stock options and benefit plans	--	--	2	--	--	--	(28)	--	--	200	172
Balance as of September 30, 2008	1	607	1,070	$ 1,000	$ 21,725	$ 642	$ 3,153	$ (1,563)	$ (8,369)	$ (7,312)	$ 9,276

See Notes to Condensed Consolidated Financial Statements.

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FANNIE MAE
(In conservatorship)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. Organization and Conservatorship

We are a stockholder-owned corporation organized and existing under the Federal National Mortgage Association Charter Act, ("The Charter Act" or our "charter"). We are a government-sponsored enterprise ("GSE"), and we are subject to government oversight and regulation. Our regulators include the Federal Housing Finance Agency ("FHFA"), the U.S. Department of Housing and Urban Development ("HUD"), the U.S. Securities and Exchange Commission ("SEC"), and the U.S. Department of Treasury ("Treasury"). Through July 29, 2008, we were regulated by the Office of Federal Housing Enterprise Oversight ("OFHEO"), which was replaced on July 30, 2008 with FHFA upon the enactment of the Federal Housing Finance Regulatory Reform Act of 2008 ("Regulatory Reform Act"). On September 6, 2008, we were placed into conservatorship by the Director of FHFA. See "Conservatorship" below in this note. The U.S. government does not guarantee, directly or indirectly, our securities or other obligations. We operate in the secondary mortgage market by purchasing mortgage loans and mortgage-related securities, including mortgage-related securities guaranteed by us, from primary mortgage market institutions, such as commercial banks, savings and loan associations, mortgage banking companies, securities dealers and other investors. We do not lend money directly to consumers in the primary mortgage market. We provide additional liquidity in the secondary mortgage market by issuing guaranteed mortgage-related securities. We operate under three business segments: Single-Family Credit Guaranty ("Single-Family"), Housing and Community Development ("HCD") and Capital Markets. Our Single-Family segment generates revenue primarily from the guaranty fees on the mortgage loans underlying guaranteed single-family Fannie Mae mortgage-backed securities ("Fannie Mae MBS"). Our HCD segment generates revenue from a variety of sources, including guaranty fees on the mortgage loans underlying multifamily Fannie Mae MBS and on the multifamily mortgage loans held in our portfolio, transaction fees associated with the multifamily business and bond credit enhancement fees. In addition, HCD investments in rental housing projects eligible for the federal low-income housing tax credit ("LIHTC") and other investments generate both tax credits and net operating losses. As described in "Note 11, Income Taxes," we determined that it is more likely than not that we will not realize a portion of our deferred tax assets in the future. As a result, we are not currently recognizing tax benefits associated with these tax credits and net operating losses in our condensed consolidated financial statements. Other investments in affordable rental and for-sale housing generate revenue and losses from operations and the eventual sale of the assets. Our Capital Markets segment invests in mortgage loans, mortgage-related securities and other investments, and generates income primarily from the difference, or spread, between the yield on the mortgage assets we own and the interest we pay on the debt we issue in the global capital markets to fund the purchases of these mortgage assets.
Conservatorship On September 7, 2008, the Secretary of the Treasury and the Director of FHFA announced several actions taken by Treasury and FHFA regarding Fannie Mae, which included: (1) placing us in conservatorship; (2) the execution of a senior preferred stock purchase agreement by our conservator, on our behalf, and Treasury, pursuant to which we issued to Treasury both senior preferred stock and a warrant to purchase common stock; and (3) Treasury's agreement to establish a temporary secured lending credit facility that is available to us and the other GSEs regulated by FHFA under identical terms. We entered into a lending agreement with Treasury pursuant to which Treasury

established this secured lending credit facility on September 19, 2008. On September 6, 2008, at the request of the Secretary of the Treasury, the Chairman of the Board of Governors of the Federal Reserve and the Director of FHFA, our Board of Directors adopted a resolution consenting to putting the company into conservatorship. After obtaining this consent, the Director of FHFA

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appointed FHFA as our conservator on September 6, 2008, in accordance with the Regulatory Reform Act and the Federal Housing Enterprises Financial Safety and Soundness Act of 1992. Upon its appointment, the conservator immediately succeeded to all rights, titles, powers and privileges of Fannie Mae, and of any stockholder, officer or director of Fannie Mae with respect to Fannie Mae and its assets, and succeeded to the title to all books, records and assets of Fannie Mae held by any other legal custodian or third party. The conservator has the power to take over our assets and operate our business with all the powers of our stockholders, directors and officers, and to conduct all business of the company. FHFA, in its role as conservator, has overall management authority over our business. During the conservatorship, the conservator has delegated authority to management to conduct day-to-day operations so that the company can continue to operate in the ordinary course of business. We can, and have continued to, enter into and enforce contracts with third parties. The conservator retains the authority to withdraw its delegations to management at any time. The conservator is working actively with management to address and determine the strategic direction for the enterprise, and in general has retained final decision-making authority in areas regarding: significant impacts on operational, market, reputational or credit risk; major accounting determinations, including policy changes; the creation of subsidiaries or affiliates and transacting with them; significant litigation; setting executive compensation; retention of external auditors; significant mergers and acquisitions; and any other matters the conservator believes are strategic or critical to the enterprise in order for the conservator to fulfill its obligations during conservatorship. The conservator has indicated that it intends to appoint a full Board of Directors to which it will delegate specified roles and responsibilities. Under the Regulatory Reform Act, the conservator has the power (subject to certain limitations for qualified financial contracts) to disaffirm or repudiate contracts entered into by us prior to the appointment of FHFA as conservator if FHFA determines, in its sole discretion, that performance of the contract is burdensome and that disaffirmance or repudiation of the contract promotes the orderly administration of Fannie Mae's affairs. As of November 9, 2008, the conservator has advised us that it has not disaffirmed or repudiated any contracts we entered into prior to its appointment as conservator. The Regulatory Reform Act requires FHFA to exercise its right to disaffirm or repudiate most contracts within a reasonable period of time after its appointment as conservator. As of November 9, 2008, the conservator had not determined whether or not a reasonable period of time had passed for purposes of the applicable provisions of the Regulatory Reform Act and, therefore, the conservator may still possess this right. The conservator also has the power to transfer or sell any asset or liability of Fannie Mae (subject to limitations and post-transfer notice provisions for transfers of qualified financial contracts) without any approval, assignment of rights or consent. The Regulatory Reform Act, however, provides that mortgage loans and mortgage-related assets that have been transferred to a Fannie Mae MBS trust must be held by the conservator for the beneficial owners of the Fannie Mae MBS and cannot be used to satisfy the general creditors of the company. As of November 9, 2008, FHFA has not exercised this power. Neither the conservatorship nor the terms of our agreements with Treasury changes our obligation to make required payments on our debt securities or perform under our mortgage guaranty obligations. As described in "Note 15, Stockholders' Equity," the senior preferred stock purchase agreement includes a number of significant restrictions which prohibit us from engaging in a number of activities without prior written approval from Treasury. The senior preferred stock purchase agreement also caps the size of our mortgage portfolio at $850.0 billion through December 31, 2009, and then requires that we reduce the size of our mortgage portfolio by 10% per year (based on the size of the portfolio on December 31 of the prior year) until it reaches $250.0 billion.

The conservatorship has no specified termination date. FHFA has indicated that upon the Director of FHFA's determination that the conservator's plan to restore us to a safe and solvent condition has been completed successfully, the Director of FHFA will issue an order terminating the conservatorship. There can be no assurance as to when or how the conservatorship will be terminated, whether we will continue to exist following the conservatorship or what our business structure will be following the conservatorship. Financial Terms and Financial Statement Impact of Senior Preferred Stock Purchase Agreement Pursuant to the senior preferred stock purchase agreement, Treasury made a commitment to provide up to $100.0 billion in funding as needed to help us maintain a positive net worth. As consideration for Treasury's funding commitment, we issued one million shares of senior preferred stock and a warrant to Treasury. Treasury's funding commitment is intended to avoid a mandatory trigger of receivership under the Regulatory Reform Act. As of September 30, 2008, our net worth (defined as the amount by which our total assets exceeded our total liabilities, as reflected on our condensed consolidated balance sheet) was $9.4 billion. Accordingly, we did not have the right, as of that date, to obtain funds from Treasury pursuant to the senior preferred stock purchase agreement. The senior preferred stock is senior in liquidation preference to our common stock and all other series of preferred stock. Beginning on March 31, 2010, we are obligated to pay Treasury a quarterly commitment fee, which will begin accruing on January 1, 2010, even if we do not request funds from Treasury under the senior preferred stock purchase agreement. The initial amount of the fee will be determined by December 31, 2009, with resets at five-year intervals thereafter. In lieu of paying Treasury this fee, we may elect to add the amount of the fee to the liquidation preference of the senior preferred stock. On September 7, 2008, we issued a warrant to Treasury giving it the right to purchase, at a nominal price, shares of our common stock equal to 79.9% of the total common stock outstanding on a fully diluted basis on the date Treasury exercises the warrant. Treasury has the right to exercise the warrant, in whole or in part, at any time on or before September 7, 2028. We recorded the aggregate fair value of the warrant of $3.5 billion as a component of additional paid-in-capital. If the warrant is exercised, the stated value of the common stock issued will be reclassified as "Common Stock" in our condensed consolidated balance sheet. Because the warrant's exercise price of $0.00001 per share is considered non-substantive (compared to the market price of our common stock), the warrant was evaluated based on its substance over form. The warrant was determined to have characteristics of non-voting common stock, and thus included in the computation of basic and diluted earnings (loss) per share. The weighted average shares of common stock outstanding for the three and nine months ended September 30, 2008 included shares of common stock that would be issuable upon full exercise of the warrant issued to Treasury from the date of the issuance of the warrant through September 30, 2008. On September 8, 2008, we issued one million shares of senior preferred stock to Treasury. We did not receive any cash proceeds in consideration of issuing the senior preferred stock. Under the terms of the senior preferred stock, we are required to pay Treasury a quarterly dividend of 10% per year on the aggregate liquidation preference of the senior preferred stock, but if we fail to pay timely dividends in cash on the senior preferred stock, the dividend rate will increase to 12% per year until all accrued dividends are paid in cash. Dividends will be accrued and recorded as a reduction in retained earnings when declared. Currently, the aggregate liquidation preference of the senior preferred stock is $1.0 billion. The consideration exchanged for Treasury's commitment has been recorded as a reduction to additional paid-in-capital on the date of issuance.

2. Summary of Significant Accounting Policies

Basis of Presentation We are operating as a going concern and in accordance with our delegation of authority. The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with

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accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and with the SEC's instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete consolidated financial statements. In the opinion of management, all adjustments of a normal recurring nature considered necessary for a fair presentation have been included. Results for the three and nine months ended September 30, 2008 may not necessarily be indicative of the results for the year ending December 31, 2008. The unaudited interim condensed consolidated financial statements as of September 30, 2008 and our condensed consolidated financial statements as of December 31, 2007 should be read in conjunction with our audited consolidated financial statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2007, filed with the SEC on February 27, 2008. The accompanying unaudited interim condensed consolidated financial statements include our accounts as well as the accounts of other entities in which we have a controlling financial interest. All significant intercompany balances and transactions have been eliminated. As a result of our issuance to Treasury of a warrant to purchase shares of Fannie Mae common stock equal to 79.9% of the total number of shares of Fannie Mae common stock, on a fully diluted basis, that is exercisable at any time through September 7, 2028, we and the U.S. government are deemed related parties. Except for the transactions with Treasury discussed in "Note 1, Organization and Conservatorship," "Note 9, Short-term Borrowings and Long-term Debt" and "Note 15, Stockholders' Equity," no transactions outside of normal business activities have occurred between us and the U.S. government during the three and nine months ended September 30, 2008. The typical condition for a controlling financial interest is ownership of a majority of the voting interests of an entity. A controlling financial interest may also exist in entities through arrangements that do not involve voting interests. We evaluate entities deemed to be variable interest entities ("VIEs") under Financial Accounting Standards Board ("FASB") Interpretation ("FIN") No. 46R (revised December 2003), Consolidation of Variable Interest Entities (an interpretation of ARB No. 51) ("FIN 46R"), to determine when we must consolidate the assets, liabilities and non-controlling interests of a

VIE. Use of Estimates The preparation of consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements and the amounts of revenues and expenses during the reporting period. Management has made significant estimates in a variety of areas, including but not limited to, valuation of certain financial instruments and other assets and liabilities, the allowance for loan losses and reserve for guaranty losses, other-than-temporary impairment of investment securities and our assessment of realizing our deferred tax assets. Actual results could be different from these estimates. Cash and Cash Equivalents and Statements of Cash Flows Short-term instruments with a maturity, at the date of acquisition, of three months or less and are readily convertible to known amounts of cash are considered cash and cash equivalents. Cash and cash equivalents are carried at cost, which approximates fair value. Additionally, we may pledge cash equivalent securities as collateral as discussed below. We have elected to classify some of these investments as "Investments in securities" in accordance with Statement of Financial Accounting Standards ("SFAS") No. 95, Statement of Cash Flows ("SFAS 95"). SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities ("SFAS 159"), amended SFAS 95 to classify cash flows of trading securities based on their nature and purpose. Prior to the adoption of SFAS 159, we classified cash flows of all trading securities as operating activities. Subsequent to the adoption

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FANNIE MAE
(In conservatorship)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS--(Continued)(UNAUDITED) of SFAS 159, we classify cash flows from trading securities that we intend to hold for investment as investing activities and cash flows from trading securities that we do not intend to hold for investment as operating activities. The creation of Fannie Mae MBS through either securitization of loans held-for-sale or advances to lenders is reflected as a non-cash activity in our condensed consolidated statements of cash flows in the line items, "Securitization-related transfers from mortgage loans held for sale to investments in securities" or "Transfers from advances to lenders to investments in securities," respectively. Cash inflows associated with a sale contemporaneous with a created Fannie Mae MBS are reflected in the operating activities section of our condensed consolidated statement of cash flows in the line item "Net change in trading securities." The condensed consolidated statements of cash flows are prepared in accordance with SFAS 95. In the presentation of the condensed consolidated statements of cash flows, cash flows from derivatives that do not contain financing elements, mortgage loans held for sale, and guaranty fees, including buy-up and buy-down payments, are included as operating activities. Cash flows from federal funds sold and securities purchased under agreements to resell are presented as investing activities, while cash flows from federal funds purchased and securities sold under agreements to repurchase are presented as financing activities. Cash flows related to dollar roll repurchase transactions that do not meet the requirements of SFAS No. 140, Accounting for Transfer and Servicing of Financial Assets and Extinguishments of Liabilities (a replacement of FASB Statement No. 125) ("SFAS 140"), to be classified as secured borrowings are recorded as purchases and sales of securities in investing activities, whereas cash flows related to dollar roll repurchase transactions qualifying as secured borrowings pursuant to SFAS 140 are considered proceeds and repayments of short-term debt in financing activities. Guaranty Accounting As guarantor of our Fannie Mae MBS issuances, we recognize at inception a non-contingent liability for the fair value of our obligation to stand ready to perform over the term of the guaranty as a component of "Guaranty obligations" in our condensed consolidated balance sheets. Prior to January 1, 2008, we measured the fair value of the guaranty obligations that we recorded when we issued Fannie Mae MBS based on market information obtained from spot transaction prices. In the absence of spot transaction prices, which was the case for the substantial majority of our guarantees, we used internal models to estimate the fair value of our guaranty obligations. We reviewed the reasonableness of the results of our models by comparing those results with available market information. Key inputs and assumptions used in our models included the amount of compensation required to cover estimated default costs, including estimated unrecoverable principal and interest that we expected to incur over the life of the underlying mortgage loans backing our Fannie Mae MBS, estimated foreclosure-related costs, estimated administrative and other costs related to our guaranty, and an estimated market risk premium, or profit, that a market participant of similar credit standing would require to assume the obligation. If our modeled estimate of the fair value of the guaranty obligation was more or less than the fair value of the total compensation received, we recognized a loss or recorded deferred profit, respectively, at inception of the guaranty contract. SFAS No. 157, Fair Value Measurements ("SFAS 157") amended FASB Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others ("FIN 45"), to permit the use of a transaction price, as a practical expedient, to measure the fair value of a guaranty obligation upon initial recognition. Beginning January 1, 2008, as part of the implementation of SFAS 157, we changed our approach to measuring the fair value of our guaranty obligation. Specifically, we adopted a measurement approach that is based upon an estimate of the compensation that we would require to issue the same guaranty in a standalone arm's-length transaction with an unrelated party. When we initially recognize a guaranty issued in a lender swap transaction after December 31, 2007, we measure the fair value of the guaranty obligation based on the fair value of the total compensation we receive, which primarily consists of the guaranty fee, credit enhancements, buy-downs, risk-based price adjustments and our right to

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receive interest income during the float period in excess of the amount required to compensate us for master servicing. Because the fair value of those guaranty obligations now equals the fair value of the total compensation we receive, we do not recognize losses or record deferred profit in our condensed consolidated financial statements at inception of those guaranty contracts issued after December 31, 2007. We also changed the way we measure the fair value of our existing guaranty obligations to be consistent with our new approach for measuring guaranty obligations at initial recognition. The fair value of all guaranty obligations measured subsequent to their initial recognition, is our estimate of a hypothetical transaction price we would receive if we were to issue our guaranty to an unrelated party in a standalone arm's-length transaction at the measurement date. To measure this fair value, we will continue to use the models and inputs that we used prior to our adoption of SFAS 157 and calibrate those models to our current market pricing. Other than the measurement of fair value of our guaranty obligations as described above, the accounting for our guarantees in our condensed consolidated financial statements is unchanged with our adoption of SFAS 157. Accordingly, the guaranty obligation amounts recorded in our condensed consolidated balance sheets attributable to guarantees issued prior to January 1, 2008 as well as those issued on or after January 1, 2008 are amortized in accordance with our established accounting policy. Pledged Non-Cash Collateral As of September 30, 2008, we pledged a total of $1.1 billion, comprised of $686 million of available-for-sale ("AFS") securities and $439 million of trading securities, which the counterparties had the right to sell or repledge. As of December 31, 2007, we pledged a total of $538 million, comprised of $531 million of AFS securities, $5 million of trading securities, and $2 million of loans held for investment, which the counterparties had the right to sell or repledge. Hedge Accounting In April 2008, we implemented fair value hedge accounting with respect to a portion of our derivatives to hedge, for accounting purposes, changes in the fair value of some of our mortgage assets attributable to changes in interest rates. Specifically, we designate certain of our interest rate swaps as hedges of the change in fair value attributable to the change in the London Interbank Offered Rate ("LIBOR") for certain multifamily loans classified as held-for-investment and commercial mortgage-backed securities classified as available-for-sale. We formally document at the inception of each hedging relationship the hedging instrument, the hedged item, the risk management objective and strategy for undertaking each hedging relationship, and the method used to assess hedge effectiveness. We use regression analysis to assess whether the derivative instrument has been and is expected to be highly effective in offsetting changes in fair value of the hedged item attributable to the change in the LIBOR. When hedging relationships are highly effective, we record changes in the fair value of the hedged item attributable to changes in the benchmark interest rate as an adjustment to the carrying amount of the hedged item and include a corresponding amount in current period earnings. For commercial mortgage-backed securities classified as available-for-sale, we record all other changes in fair value as part of accumulated other comprehensive income (loss) ("AOCI") and not in earnings. If a hedging relationship is not highly effective, we do not record an adjustment to earnings. We amortize adjustments to the carrying amount of hedged items that result from hedge accounting in the same manner as other components of the carrying amount of that asset through net interest income. We discontinue hedge accounting prospectively when (1) the hedging derivative is no longer effective in offsetting changes in fair value of the hedged item attributable to the hedged risk, (2) the derivative or the hedged item is terminated or sold, or (3) we voluntarily elect to remove the hedge accounting designation.

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FANNIE MAE
(In conservatorship)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS--(Continued)(UNAUDITED)
When hedge accounting is discontinued, the derivative instrument continues to be carried on the balance sheet at its fair value with changes in fair value recognized in current period earnings. However, the carrying value of the hedged item is no longer adjusted for changes in fair value attributable to the hedged risk. Fair Value Losses, Net Fair value losses, net, consists of fair value gains and losses on derivatives, trading securities, debt carried at fair value, and foreign currency debt and adjustments to the carrying amount of hedged mortgage assets. Prior to January 1, 2008, these amounts were included within different captions of our condensed consolidated statements of operations and, as such, prior period amounts were reclassified to conform to the current period presentation. The table below displays the composition, including the reclassification of prior period amounts, of "Fair value losses, net" for the three and nine months ended September 30, 2008 and 2007.

	For the Three Months Ended September 30,	For the Nine Months Ended September 30,

	2008	2007	2008	2007
		(Dollars in millions)		
Derivatives fair value losses, net	$ (3,302)	$ (2,244)	$ (4,012)	$ (891)
Trading securities gains (losses), net	(2,934)	295	(5,126)	(145)
Hedged mortgage assets gains, net(1)	2,028	--	1,225	--
Debt foreign exchange gains (losses) net	227	(133)	58	(188)
Debt fair value gains, net	34	--	48	--
Fair value losses, net	$ (3,947)	$ (2,082)	$ (7,807)	$ (1,224)

(1) Represents fair value gains, net on mortgage assets designated for hedge accounting that are attributable to changes in interest rates and will be accreted through interest income over the remaining life of the hedged assets.

Fair value losses, net in the three and nine months ended September 30, 2008 primarily related to wider credit spreads on our trading securities as well as a loss on non-mortgage securities resulting from the bankruptcy of one issuer. Reclassifications In addition to the reclassification of prior period amounts to "Fair value losses, net," prior period amounts previously recorded as a component of "Fee and other income" in our condensed consolidated statements of operations related to our master servicing assets and liabilities have been reclassified as "Other expenses" to conform to the current period presentation. Pursuant to our adoption of FASB Staff Position ("FSP") No. FIN 39-1, Amendment of FASB Interpretation No. 39 ("FSP FIN 39"), to offset derivative positions with the same counterparty under a master netting arrangement, we reclassified amounts in our condensed consolidated balance sheet as of December 31, 2007 related to cash collateral receivables and payables. We reclassified $1.2 billion from "Other assets" to "Derivative liabilities at fair value" and $1.9 billion from "Other liabilities" to "Derivative assets at fair value" related to cash collateral receivables and cash collateral payables, respectively. New Accounting Pronouncements SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51 In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB 51 ("SFAS 160"). SFAS 160 requires noncontrolling interests initially to be

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measured at fair value and classified as a separate component of equity. Under SFAS 160, gains or losses are not recognized from transactions with noncontrolling interests that do not result in a change in control, instead purchases or sales of noncontrolling interests are accounted for as equity transactions. Upon deconsolidation of consolidated entities, a gain or loss is recognized for the difference between the proceeds of that sale and the carrying amount of the interest sold. Additionally, a new fair value is established for any remaining ownership interest in the entity. SFAS 160 is effective for the first annual reporting period beginning on or after December 15, 2008; earlier application is prohibited. SFAS 160 is required to be adopted prospectively, with the exception of presentation and disclosure requirements (e.g., reclassifying noncontrolling interests to appear in equity), which are required to be adopted retrospectively. Our adoption of SFAS 160 is not expected to have a material impact on our consolidated financial statements on

the date of adoption. SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities--an amendment of FASB Statement 133 In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities--an amendment of FASB Statement 133 ("SFAS 161"). SFAS 161 amends and expands the disclosure provisions in SFAS 133 for derivative instruments and hedging activities. SFAS 161 requires qualitative disclosures about how and why derivative instruments are used and the related impact on the financial statements. Quantitative disclosures including the fair value of derivative instruments and their gains and losses are required in a tabular format. SFAS 161's provisions apply to all derivative instruments including bifurcated derivative instruments and any related hedged items. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. As SFAS 161 only requires additional footnote disclosures, it will impact the notes to our condensed consolidated financial statements, but have no impact to the condensed consolidated financial statements themselves. SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities and FIN No. 46R, Consolidation of Variable Interest Entities On September 15, 2008, the FASB issued an exposure draft of a proposed statement of financial accounting standards, Amendments to FASB Interpretation No. 46(R) and an exposure draft of a proposed statement of financial accounting standards, Accounting for Transfer of Financial Assets-an amendment of SFAS Statement No. 140. The proposed amendments to SFAS 140 eliminate qualifying special purpose entities ("QSPEs"). Additionally, the amendments to FIN 46R would replace the current consolidation model with a qualitative evaluation that requires consolidation of an entity when the reporting enterprise both (a) has the power to direct matters which significantly impact the activities and success of the entity, and (b) has exposure to benefits and/or losses that could potentially be significant to the entity. If an enterprise is not able to reach a conclusion through the qualitative analysis, it would then proceed to a quantitative evaluation. The proposed statements would be effective for new transfers of financial assets and to all variable interest entities on or after January 1, 2010. If we are required to consolidate incremental assets and liabilities and the fair value of those assets is less than the fair value of the corresponding liabilities, the amount of our stockholders' equity would decrease. In addition, the amount of capital we would be required to maintain could increase if we consolidate incremental assets and liabilities. Under certain circumstances, these changes could have a material adverse impact on our earnings, financial condition and net worth. Since the amendments to SFAS 140 and FIN 46R are not final and the FASB's proposals are subject to a public comment period, we are unable to predict the impact that the amendments may have on our consolidated financial statements. On September 15, 2008, the FASB also issued proposed FSP No. FAS 140-e and FIN 46(R)-e, Disclosures about Transfers of Financial Assets and Interests in Variable Interest Entities. The proposed FSP is intended to

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enhance disclosures about transfers of financial assets and interests in variable interest entities. The disclosures are similar to those in the exposure drafts to amend SFAS 140 and FIN 46R, but would be effective sooner. As proposed, we would be required to provide the disclosures included in this FSP beginning with our December 31, 2008 financial statements. The proposed FSP only requires additional disclosures and, therefore, will not have an impact on our consolidated financial statements. SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities In June 2008, the FASB issued an exposure draft of a proposed statement of financial accounting standards, Accounting for

Hedging Activities--an amendment of FASB Statement No. 133. This proposed statement is intended to simplify accounting for hedging activities by changing the requirements for hedge accounting. The proposed statement affects the hedge accounting requirements of SFAS 133 for assessing effectiveness, voluntarily de-designating hedging relationships, and designating the hedged risk. The proposed statement would be effective for all hedging relationships after December 31, 2009. Under the proposed guidance, we would no longer be permitted to hedge the change in fair value of mortgage assets solely attributable to changes in a designated benchmark interest rate. We are monitoring the development of the proposed statement and further evaluating the impact on our hedging activities and consolidated financial statements. FASB Staff Position No. FAS 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active In September 2008, the SEC and FASB issued joint guidance providing clarification of issues surrounding the application of fair value measurements under the provisions of SFAS 157 in the current market environment. In October 2008, the FASB issued FASB Staff Position No. FAS 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active, which amended SFAS 157 to provide an illustrative example of how to determine the fair value of a financial asset when the market for that financial asset is not active. The SEC and FASB's guidance had no impact on our application of SFAS 157.

3. Consolidations

We have various investments in entities considered to be variable interest entities including limited partnership interests in LIHTC partnerships, which are established to finance the construction and development of low-income affordable multifamily housing. As of September 30, 2008 and December 31, 2007, we had LIHTC partnership investments of $6.7 billion and $8.1 billion, respectively. During the nine months ended September 30, 2008, we sold for cash a portfolio of investments in LIHTC partnerships reflecting approximately $858 million in future LIHTC tax credits and the release of future capital obligations relating to these investments. During the three and nine months ended September 30, 2007, we sold for cash a portfolio of investments in LIHTC partnerships reflecting approximately $254 million and $930 million, respectively, in future LIHTC tax credits and the release of future capital obligations relating to the investments.

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4. Mortgage Loans

The following table displays the loans in our mortgage portfolio as of September 30, 2008 and December 31, 2007, and does not include loans underlying securities that are not consolidated, since in those instances the mortgage loans are not included in our condensed consolidated balance sheets.

As of

	September 30, 2008	December 31, 2007
	(Dollars in millions)	
Single-family	$ 294,847	$ 311,831
Multifamily	112,824	91,746
Total unpaid principal balance of mortgage loans(1)(2)	407,671	403,577
Unamortized premiums, discounts and other cost basis adjustments, net(3)	82	726
Lower of cost or market adjustments on loans held for sale	(208)	(81)
Allowance for loan losses for loans held for investment	(1,803)	(698)
Total mortgage loans	$ 405,742	$ 403,524

(1) Includes construction to permanent loans with an unpaid principal balance of $122 million and $149 million as of September 30, 2008 and December 31, 2007, respectively.
(2) Includes unpaid principal balance totaling $59.0 billion and $81.8 billion as of September 30, 2008 and December 31, 2007, respectively, related to mortgage-related securities that were consolidated under FIN 46R and mortgage-related securities created from securitization transactions that did not meet the sales criteria under SFAS 140, which effectively resulted in mortgage-related securities being accounted for as loans.
(3) Includes a net premium of $950 million as of September 30, 2008 for hedged mortgage assets that will be amortized through interest income over the life of the loans.

Loans Acquired in a Transfer If a loan underlying a Fannie Mae MBS is in default, we have the option to purchase the loan from the MBS trust, at the unpaid principal balance of that mortgage loan plus accrued interest, after four or more consecutive monthly payments due under the loan are delinquent in whole or in part. We purchased delinquent loans from MBS trusts with an unpaid principal balance plus accrued interest of $744 million and $2.3 billion for the three months ended September 30, 2008 and 2007, respectively, and $3.3 billion and $4.3 billion for the nine months ended September 30, 2008 and 2007, respectively. Under long-term standby commitments, we purchase loans from lenders when the loans subject to these commitments meet certain delinquency criteria. We also acquire loans upon consolidating MBS trusts when the underlying collateral of these trusts includes loans. We account for such loans acquired in accordance with American Institute of Certified Public Accountants Statement of Position 03-3, Accounting for Certain Loans or Debt Securities Acquired in a Transfer ("SOP 03-3"), if, at acquisition, (i) there has been evidence of deterioration in the loan's credit quality subsequent to origination; and (ii) it is probable that we will be unable to collect all cash flows, in accordance with the terms of the contractual agreement, from the borrower, ignoring insignificant delays.

The following table displays the outstanding balance and carrying amount of acquired loans accounted for in accordance with SOP 03-3 as of September 30, 2008 and December 31, 2007.

	As of September 30, 2008	As of December 31, 2007
	(Dollars in millions)	
Outstanding contractual balance	$ 7,531	$ 8,223
Carrying amount:		
Loans on accrual status	4,074	4,287
Loans on nonaccrual status	2,029	2,779
Total carrying amount of loans	$ 6,103	$ 7,066

The following table displays details on acquired loans accounted for in accordance with SOP 03-3 at their respective acquisition dates for the three and nine months ended September 30, 2008 and 2007.

	For the Three Months Ended September 30, 2008	2007	For the Nine Months Ended September 30, 2008	2007
	(Dollars in millions)			
Contractually required principal and interest payments at acquisition(1)	$ 871	$ 2,719	$ 3,657	$ 5,024
Nonaccretable difference	219	173	495	326
Cash flows expected to be collected at acquisition(1)	652	2,546	3,162	4,698
Accretable yield	256	895	1,363	1,245
Initial investment in acquired loans at acquisition	$ 396	$ 1,651	$ 1,799	$ 3,453

(1) Contractually required principal and interest payments at acquisition and cash flows expected to be collected at acquisition are adjusted for the estimated timing and amount of prepayments.

We estimate the cash flows expected to be collected at acquisition using internal prepayment, interest rate and credit risk models that incorporate management's best estimate of certain key assumptions, such as default rates, loss severity and prepayment speeds. The following table displays activity for the accretable yield of all outstanding loans accounted for under SOP 03-3 as of and for the three and nine months ended September 30, 2008 and 2007.

	For the Three Months Ended September 30, 2008	2007	For the Nine Months Ended September 30, 2008	2007
	(Dollars in millions)			
Beginning balance	$ 2,325	$ 1,761	$ 2,252	$ 1,511
Additions	256	895	1,363	1,245
Accretion	(73)	(69)	(218)	(202)
Reductions(1)	(505)	(393)	(1,664)	(852)
Change in estimated cash flows(2)	213	120	724	901
Reclassifications to nonaccretable difference(3)	(44)	37	(285)	(252)
Ending balance	$ 2,172	$ 2,351	$ 2,172	$ 2,351

(1) Reductions are the result of liquidations and loan modifications due to troubled debt restructurings ("TDRs").

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(2) Represents changes in expected cash flows due to changes in prepayment assumptions.
(3) Represents changes in expected cash flows due to changes in credit quality or credit assumptions.

The table above only includes accreted effective interest for those loans that are still being accounted for under SOP 03-3 and does not include SOP 03-3 loans that were modified subsequent to their acquisition from MBS trusts. The following table displays interest income recognized and the increase in the "Provision for credit losses" related to SOP 03-3 loans for the three and nine months ended September 30, 2008 and 2007.

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2008	2007	2008	2007
	(Dollars in millions)			
Accretion of SOP 03-3 fair value losses(1)	$ 37	$ 20	$ 125	$ 42
Interest income on SOP 03-3 loans returned to accrual status or subsequently modified as TDRs	129	107	354	304
Total SOP 03-3 interest income recognized	$ 166	$ 127	$ 479	$ 346
Increase in "Provision for credit losses" subsequent to the acquisition of SOP 03-3 loans	$ 12	$ 20	$ 133	$ 52

(1) Represents accretion of the fair value discount that was recorded upon acquisition of SOP 03-3 loans.

Other Loans In the first quarter of 2008, we implemented a program, HomeSaver Advance ("HSA"), to provide qualified borrowers with a 15-year unsecured personal loan in an amount equal to all past due payments on their first mortgage loan. Each loan is limited to a maximum amount up to the lesser of $15,000, or 15% of the unpaid principal balance of the delinquent first mortgage loan. This program allows borrowers to cure their payment defaults without requiring modification of their first mortgage loans. As of September 30, 2008, the aggregate unpaid principal balance of these loans was $301 million with a carrying value of $7 million. The difference between the unpaid principal balance and fair value at acquisition is recorded as a charge-off to either the "Reserve for guaranty losses" or the "Allowance for loan losses," based on the original loan. The fair value of these loans is included in our condensed consolidated balance sheet as a component of "Other assets." We recorded a fair value loss of $171 million and $294 million for the three and nine months ended September 30, 2008, respectively, for these loans. The fair value discount on these loans will accrete into income based on the contractual term of the loan.

5. Allowance for Loan Losses and Reserve for Guaranty Losses

We maintain an allowance for loan losses for loans held for investment in our mortgage portfolio and a reserve for guaranty losses related to loans backing Fannie Mae MBS. The allowance and reserve are calculated based on our estimate of incurred losses. Determining the adequacy of our allowance for loan losses and reserve for guaranty losses is complex and requires judgment about the effect of matters that are inherently uncertain. Although our loss models include extensive historical loan performance data, our loss reserve process is subject to risks and uncertainties particularly in the rapidly changing credit environment. We have experienced higher defaults and severity in the three and nine months ended September 30, 2008, which has increased our estimates of incurred loss resulting in a significant increase to our allowance for loan losses and reserve for guaranty losses as of September 30, 2008.

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The following table displays changes in the allowance for loan losses and reserve for guaranty losses for the three and nine months ended September 30, 2008 and 2007.

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2008	2007	2008	2007
	(Dollars in millions)			
Allowance for loan losses:				
Beginning balance	$ 1,476	$ 337	$ 698	$ 340
Provision	1,120	148	2,544	238
Charge-offs(1)(4)	(829)	(115)	(1,603)	(241)
Recoveries	36	25	164	58
Ending balance(2)	$ 1,803	$ 395	$ 1,803	$ 395
Reserve for guaranty losses:				
Beginning balance	$ 7,450	$ 821	$ 2,693	$ 519
Provision	7,643	939	14,377	1,532
Charge-offs(3)(4)	(1,369)	(757)	(3,395)	(1,078)
Recoveries	78	9	127	39
Ending balance	$ 13,802	$ 1,012	$ 13,802	$ 1,012

(1) Includes accrued interest of $229 million and $32 million for the three months ended September 30, 2008 and 2007, respectively, and $468 million and $84 million for the nine months ended September 30, 2008 and 2007, respectively.
(2) Includes $108 million and $35 million as of September 30, 2008 and 2007, respectively, associated with acquired loans subject to SOP 03-3.
(3) Includes charges recorded at the date of acquisition of $348 million and

$670 million for the three months ended September 30, 2008 and 2007, respectively, and $1.5 billion and $805 million for the nine months ended September 30, 2008 and 2007, respectively, for acquired loans subject to SOP 03-3 where the acquisition cost exceeded the fair value of the acquired loan.

(4) Also includes charges recorded for our HomeSaver Advance initiative of $171 million and $294 million for the three and nine months ended September 30, 2008, respectively.

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6. Investments in Securities

Our securities portfolio contains mortgage-related and non-mortgage-related securities. The following table displays our investments in trading and available-for-sale securities, which are presented at fair value as of September 30, 2008 and December 31, 2007.

	As of September 30, 2008	As of December 31, 2007
	(Dollars in millions)	
Mortgage-related securities:		
Fannie Mae single-class MBS	$ 151,727	$ 102,017
Fannie Mae structured MBS	70,176	77,384
Non-Fannie Mae structured	72,766	92,467
Non-Fannie Mae single-class	27,852	28,138
Mortgage revenue bonds	13,823	16,213
Other	2,607	3,179
Total	338,951	319,398
Non-mortgage-related securities:		
Asset-backed securities	11,929	15,511
Corporate debt securities	7,657	13,515
Other	2,188	9,089
Total	21,774	38,115
Total investments in securities	$ 360,725	$ 357,513

Trading Securities The following table displays our investments in trading securities and the amount of net losses recognized from holding these securities as of September 30, 2008 and December 31, 2007.

	As of September 30, 2008	As of December 31, 2007
	(Dollars in millions)	
Mortgage-related securities:		
Fannie Mae single-class MBS	$ 48,576	$ 28,394
Fannie Mae structured MBS	10,471	12,064

Non-Fannie Mae structured mortgage-related securities	16,106	21,517
Non-Fannie Mae single-class mortgage-related securities	1,084	1,199
Mortgage revenue bonds	660	782
Total	$ 76,897	$ 63,956
Non-mortgage-related securities:(1)		
Asset-backed securities	$ 11,929	--
Corporate debt securities	7,657	--
Other	2,188	--
Total	$ 21,774	--
Losses in trading securities held in our portfolio, net	$ 5,496	$ 633

(1) Reflects the election of all of our non-mortgage securities as trading securities effective January 1, 2008 with the adoption of SFAS 159.

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We record gains and losses on trading securities in "Fair value losses, net" in our condensed consolidated statements of operations. The following table displays information about our net trading gains and losses for the three and nine months ended September 30, 2008 and 2007.

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2008	2007	2008	2007
	(Dollars in millions)			
Net trading gains (losses)	$ (2,934)	$ 295	$ (5,126)	$ (145)
Net trading gains (losses) recorded in the period related to securities still held at period end	$ (2,950)	$ 52	$ (5,173)	$ (287)

Included in the table above, during the three and nine months ended September 30, 2008, we recorded trading losses on our non-mortgage securities of $1.5 billion and $1.9 billion, respectively, as a result of lower prices on these securities. The losses in the three and nine months ended September 30, 2008 also included $559 million related to non-mortgage investments for which the issuer declared bankruptcy. These investments had an unpaid principal balance of $663 million as of September 30, 2008. Available-for-Sale Securities AFS securities are initially measured at fair value and subsequent unrealized gains and losses are recorded as a component of AOCI, net of deferred taxes, in "Stockholders' equity." Gains and losses from the sale of AFS securities are recorded in "Investment gains (losses), net" in our condensed consolidated statements of operations. The following table displays the gross realized gains, losses and proceeds on sales of AFS securities for the three and nine months ended September 30, 2008 and 2007.

For the Three Months	For the Nine Months

	For the Three Months Ended September 30, 2008	2007	For the Nine Months Ended September 30, 2008	2007
	(Dollars in millions)			
Gross realized gains	$ 1,081	$ 74	$ 2,554	$ 557
Gross realized losses	(788)	(27)	(2,248)	(184)
Total proceeds	22,462	16,209	92,062	46,225

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The following tables display the amortized cost, estimated fair values corresponding to unrealized gains and losses, and additional information regarding unrealized losses by major security type for AFS securities held as of September 30, 2008 and December 31, 2007.

	As of September 30, 2008							
					Less Than 12 Consecutive Months		12 Consecutive Months or Longer	
	Total Amortized Cost(1)	Gross Unrealized Gains	Gross Unrealized Losses	Total Fair Value	Gross Unrealized Losses	Total Fair Value	Gross Unrealized Losses	Total Fair Value
	(Dollars in millions)							
Fannie Mae single-class MBS	$ 103,669	$ 665	$ (1,183)	$ 103,151	$ (974)	$ 60,991	$ (209)	$ 6,949
Fannie Mae structured MBS	59,989	489	(773)	59,705	(447)	27,410	(326)	7,532
Non-Fannie Mae single-class mortgage-related securities	26,634	261	(127)	26,768	(104)	10,427	(23)	1,132
Non-Fannie Mae structured mortgage-related securities	67,493	70	(10,903)	56,660	(3,267)	20,817	(7,636)	27,823
Mortgage revenue bonds	14,817	28	(1,682)	13,163	(800)	7,554	(882)	3,900
Other mortgage-related securities	2,600	114	(107)	2,607	(85)	1,102	(22)	132
Total	$ 275,202	$ 1,627	$ (14,775)	$ 262,054	$ (5,677)	$ 128,301	$ (9,098)	$ 47,468

	As of December 31, 2007							
					Less Than 12 Consecutive Months		12 Consecutive Months or Longer	
	Total Amortized Cost(1)	Gross Unrealized Gains	Gross Unrealized Losses	Total Fair Value	Gross Unrealized Losses	Total Fair Value	Gross Unrealized Losses	Total Fair Value
	(Dollars in millions)							
Fannie Mae single-class MBS	$ 73,560	$ 627	$ (564)	$ 73,623	$ (39)	$ 6,155	$ (525)	$ 44,110
Fannie Mae	65,225	639	(544)	65,320	(32)	4,792	(512)	29,897

structured MBS								
Non-Fannie Mae single-class mortgage-related securities	26,699	334	(94)	26,939	(12)	2,439	(82)	7,328
Non-Fannie Mae structured mortgage-related securities	73,984	317	(3,351)	70,950	(1,389)	22,925	(1,962)	30,145
Mortgage revenue bonds	15,564	146	(279)	15,431	(130)	4,210	(149)	2,686
Other mortgage-related securities	2,949	233	(3)	3,179	(2)	114	(1)	67
Asset-backed securities	15,510	1	--	15,511	--	--	--	--
Corporate debt securities	13,506	9	--	13,515	--	--	--	--
Other non-mortgage-related securities	9,089	--	--	9,089	--	--	--	--
Total	$ 296,086	$ 2,306	$ (4,835)	$ 293,557	$ (1,604)	$ 40,635	$ (3,231)	$ 114,233

(1) Amortized cost includes unamortized premiums, discounts and other cost basis adjustments, as well as other-than-temporary impairment.

The fair value of securities varies from period to period due to changes in interest rates and changes in credit performance of the underlying issuer, among other factors. For the three and nine months ended September 30, 2008, we recognized $1.8 billion and $2.4 billion in other-than-temporary impairment, primarily related to private-label securities where we concluded that it was probable that we would not collect all of the contractual principal and interest amounts due or we determined that we did not intend to hold the security until recovery of the unrealized loss. These other-than-temporary impairments consisted of $1.3 billion and $1.4 billion, respectively, in Alt-A securities and $537 million and $965 million, respectively,

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 in subprime securities for the three and nine months ended September 30, 2008. Other-than-temporary impairment loss is recognized as a component of "Investment gains (losses), net" in our condensed consolidated statements of operations. Included in the $14.8 billion of gross unrealized losses on AFS securities as of September 30, 2008 was $9.1 billion of unrealized losses that have existed for a period of 12 consecutive months or longer. The unrealized losses on these securities are due to the widening of credit spreads. Securities with unrealized losses for 12 consecutive months or longer had a market value as of September 30, 2008 that was on average 84% of their amortized cost basis. Unrealized losses on these securities will be recovered when market interest rates change or at maturity. Based on our review for impairments of AFS securities, which includes an evaluation of the collectibility of cash flows, we have concluded that the unrealized losses on AFS securities in our investment portfolio as displayed above do not represent other-than-temporary impairment as of September 30, 2008. For the three and nine months ended September 30, 2007, we recognized other-than-temporary impairment totaling $75 million and $78 million, respectively, of which $55 million for both the three and nine months ended September 30, 2007 were due to credit ratings downgrades and other credit-related events relating to certain non-mortgage investments that we had designated as available-for-sale. These events caused the fair value of these securities to decline below their carrying value.

7. Financial Guarantees

We generate revenue by absorbing the credit risk of mortgage loans and mortgage-related securities backing our Fannie Mae MBS in exchange for a guaranty fee. We primarily issue single-class and multi-class Fannie Mae MBS and guarantee to the respective MBS trusts that we will supplement amounts received by the MBS trust as required to permit timely payment of principal and interest on the related Fannie Mae MBS, irrespective of the cash flows received from borrowers. We also provide credit enhancements on taxable or tax-exempt mortgage revenue bonds issued by state and local governmental entities to finance multifamily housing for low- and moderate-income families. Additionally, we issue long-term standby commitments that require us to purchase loans from lenders if the loans meet certain delinquency criteria. We record a guaranty obligation for (i) guarantees on lender swap transactions issued or modified on or after January 1, 2003, pursuant to FIN 45, (ii) guarantees on portfolio securitization transactions, (iii) credit enhancements on mortgage revenue bonds, and (iv) our obligation to absorb losses under long-term standby commitments. Our guaranty obligation represents our estimated obligation to stand ready to perform on these guarantees. Our guaranty obligation is recorded at fair value at inception. The carrying amount of the guaranty obligation, excluding deferred profit, was $13.3 billion and $11.1 billion as of September 30, 2008 and December 31, 2007, respectively. We also record an estimate of incurred credit losses on these guarantees in "Reserve for guaranty losses" in our condensed consolidated balance sheets. These guarantees expose us to credit losses on the mortgage loans or, in the case of mortgage-related securities, the underlying mortgage loans of the related securities. The contractual terms of our guarantees range from 30 days to 40 years. However, the actual term of each guaranty may be significantly less than the contractual term based on the prepayment characteristics of the related mortgage loans. The maximum number of interest payments we would make with respect to each delinquent mortgage loan pursuant to these guarantees is typically 24 because generally we are contractually required to purchase a loan from an MBS trust when the loan is 24 months past due. Further, we expect that the number of interest payments that we would be required to make would be less than 24 to the extent that loans are either purchased earlier than the mandatory purchase date or are foreclosed upon prior to 24 months of delinquency.

 We have a portion of our guarantees reflected in our condensed consolidated balance sheets. For those guarantees recorded in our condensed consolidated balance sheets, our maximum potential exposure under these guarantees is primarily comprised of the unpaid principal balance of the underlying mortgage loans, which totaled $2.4 trillion and $2.1 trillion as of September 30, 2008 and December 31, 2007, respectively. In addition, we had exposure of $179.1 billion and $206.5 billion for other guarantees not recorded in our condensed consolidated balance sheets as of September 30, 2008 and December 31, 2007, respectively, which primarily represents the unpaid principal balance of loans underlying guarantees issued prior to the effective date of FIN 45. The maximum exposure from our guarantees is not representative of the actual loss we are likely to incur, based on our historical loss experience. In the event we were required to make payments under our guarantees, we would pursue recovery of these payments by exercising our rights to the collateral backing the underlying loans and through available credit enhancements, which includes all recourse with third parties and mortgage insurance. The maximum amount we could recover through available credit enhancements and recourse with third parties on guarantees recorded in our condensed consolidated balance sheets was $124.2 billion and $118.5 billion as of September 30, 2008 and December 31, 2007, respectively. The maximum amount we could recover through available credit enhancements and recourse with all third parties on other guarantees not recorded in our condensed consolidated balance sheets was $18.4 billion and $22.7 billion as of September 30, 2008 and December 31, 2007, respectively. Recoverability of such credit enhancements and recourse is subject to, but not limited to, our mortgage insurers' and financial guarantors' ability to meet their obligations. Refer to Note 17 "Concentrations of Credit Risk" for additional information. The following table displays changes in our "Guaranty obligations" for the three and nine months ended September 30, 2008 and 2007.

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2008	2007	2008	2007
	(Dollars in millions)			
Balance as of beginning of period	$ 16,441	$ 12,954	$ 15,393	$ 11,145
Additions to guaranty obligations(1)	1,769	2,383	6,239	5,857
Amortization of guaranty obligations into guaranty fee income	(1,155)	(777)	(4,134)	(2,248)
Impact of consolidation activity(2)	(239)	(238)	(682)	(432)
Balance as of end of period	$ 16,816	$ 14,322	$ 16,816	$ 14,322

(1) Represents the fair value of the contractual obligation and deferred profit at issuance of new guarantees.

(2) Upon consolidation of MBS trusts, we derecognize our guaranty obligation to the respective trust.

Deferred profit is a component of "Guaranty obligations" in our condensed consolidated balance sheets and is included in the table above. We recorded deferred profit on guarantees issued or modified on or after the adoption date of FIN 45 and before the adoption of SFAS 157 on January 1, 2008, if the consideration we expected to receive for our guaranty exceeded the estimated fair value of the guaranty obligation at issuance. Upon the adoption of SFAS 157, the fair value of the guaranty obligation at inception equals the fair value of the total compensation received and there are no losses or deferred profit on guaranty contracts issued on or after January 1, 2008. Deferred profit had a carrying amount of $3.5 billion and $4.3 billion as of September 30, 2008 and December 31, 2007, respectively. For the three months ended September 30, 2008 and 2007, we recognized deferred profit amortization of $210 million and $221 million, respectively. For the

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nine months ended September 30, 2008 and 2007, we recognized deferred profit amortization of $941 million and $714 million, respectively. The fair value of the guaranty obligation, net of deferred profit, associated with the Fannie Mae MBS included in "Investments in securities" was $2.4 billion and $438 million as of September 30, 2008 and December 31, 2007, respectively.

8. Acquired Property, Net

Acquired property, net consists of foreclosed property received in full satisfaction of a loan net of a valuation allowance for declines in the fair value of foreclosed properties after initial acquisition. The following table displays the activity in acquired property and the related valuation allowance for the three and nine months ended September 30, 2008 and 2007.

	For the Three Months Ended September 30, 2008			For the Nine Months Ended September 30, 2008		
	Acquired Property	Valuation Allowance(1)	Acquired Property, Net	Acquired Property	Valuation Allowance(1)	Acquired Property, Net
	(Dollars in millions)					
Balance as of beginning of period	$ 6,453	$ (458)	$ 5,995	$ 3,853	$ (251)	$ 3,602
Additions	3,468	(22)	3,446	8,494	(38)	8,456
Disposals	(1,765)	164	(1,601)	(4,191)	395	(3,796)
Write-downs, net of recoveries	--	(347)	(347)	--	(769)	(769)
Balance as of end of period	$ 8,156	$ (663)	$ 7,493	$ 8,156	$ (663)	$ 7,493

	For the Three Months Ended September 30, 2007			For the Nine Months Ended September 30, 2007		
	Acquired Property	Valuation Allowance(1)	Acquired Property, Net	Acquired Property	Valuation Allowance(1)	Acquired Property, Net
	(Dollars in millions)					
Balance as of beginning of period	$ 2,810	$ (135)	$ 2,675	$ 2,257	$ (116)	$ 2,141
Additions	1,449	(78)	1,371	3,794	(88)	3,706
Disposals	(986)	83	(903)	(2,778)	224	(2,554)
Write-downs, net of recoveries	--	(36)	(36)	--	(186)	(186)
Balance as of end of period	$ 3,273	$ (166)	$ 3,107	$ 3,273	$ (166)	$ 3,107

(1) Reflects activities in the valuation allowance for acquired properties held primarily by our Single-Family segment.

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9. Short-term Borrowings and Long-term Debt

Short-term Borrowings Our short-term borrowings (borrowings with an original contractual maturity of one year or less) consist of both "Federal funds purchased and securities sold under agreements to repurchase" and "Short-term debt" in our condensed consolidated balance sheets. The following table displays our outstanding short-term borrowings as of September 30, 2008 and December 31, 2007.

	As of			
	September 30, 2008		December 31, 2007	
	Outstanding	Weighted Average Interest Rate(1)	Outstanding	Weighted Average Interest Rate(1)
	(Dollars in millions)			
Federal funds purchased and securities sold under agreements to repurchase	$ 1,357	2.04%	$ 869	3.48%
Fixed short-term debt:				
Discount notes	$ 275,351	2.48%	$ 233,258	4.45%
Foreign exchange discount notes	304	4.20	301	4.28
Other short-term debt	232	2.74	601	4.37
Total fixed short-term debt	275,887	2.48	234,160	4.45
Floating-rate short-term debt	4,495	2.08	--	--
Total short-term debt	$ 280,382	2.48%	$ 234,160	4.45%

(1) Includes discounts, premiums and other cost basis adjustments.

Long-term Debt Long-term debt represents borrowings with an original contractual maturity of greater than one year. The following table displays our outstanding long-term debt as of September 30, 2008 and December 31, 2007.

	As of					
	September 30, 2008			December 31, 2007		
	Maturities	Outstanding	Weighted Average Interest Rate(1)	Maturities	Outstanding	Weighted Average Interest Rate(1)
	(Dollars in millions)					
Senior fixed:						
Benchmark notes and bonds	2008-2030	$ 254,620	4.92%	2008-2030	$ 256,538	5.12%
Medium-term notes	2008-2018	159,334	4.34	2008-2017	202,315	5.06
Foreign exchange notes and bonds	2009-2028	1,678	4.83	2008-2028	2,259	3.30
Other long-term debt(2)	2008-2038	72,146	5.97	2008-2038	69,717	6.01
Total senior fixed		487,778	4.89		530,829	5.20
Senior floating:						
Medium-term notes(2)	2008-2017	45,997	2.43	2008-2017	12,676	5.87
Other long-term debt(2)	2017-2037	1,090	6.50	2017-2037	1,024	7.76
Total senior floating		47,087	2.53		13,700	6.01
Subordinated fixed:						
Medium-term notes	2011	2,500	6.24	2008-2011	3,500	5.62
Other subordinated debt	2012-2019	7,067	6.56	2012-2019	7,524	6.39
Total subordinated fixed		9,567	6.48		11,024	6.14
Debt from consolidations	2008-2039	6,496	5.81	2008-2039	6,586	5.95
Total long-term debt(3)		$ 550,928	4.72%		$ 562,139	5.25%

(1) Includes discounts, premiums and other cost basis adjustments.
(2) Includes a portion of structured debt instruments at fair value.
(3) Reported amounts include a net discount and other cost basis adjustments of $14.6 billion and $11.6 billion as of September 30, 2008 and December 31, 2007, respectively.

Intraday Lines of Credit We periodically use secured and unsecured intraday funding lines of credit provided by several large financial institutions. We post collateral which, in some circumstances, the secured party has the right to repledge to third parties. As these lines of credit are uncommitted intraday loan facilities, we may not be able to draw on them if and when needed. As of September 30, 2008 and December 31, 2007, we had secured uncommitted lines of credit of $30.0 billion and $28.0 billion, respectively, and unsecured uncommitted lines of credit of $500 million and $2.5 billion, respectively. No amounts were drawn on these lines of credit as of September 30, 2008 or December 31, 2007. Credit Facility with Treasury On September 19, 2008, we entered into a lending agreement with Treasury under which we may request loans until December 31, 2009. Loans under the Treasury credit facility require approval from Treasury at the

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time of request. Treasury is not obligated under the credit facility to make, increase, renew or extend any loan to us. The credit facility does not specify a maximum amount that may be borrowed under the credit facility, but any loans made to us by Treasury pursuant to the credit facility must be collateralized by Fannie Mae MBS or Freddie Mac mortgage-backed securities. The credit facility does not specify the maturities or interest rate of loans that may be made by Treasury under the credit facility. In a Fact Sheet regarding the credit facility published by Treasury on September 7, 2008, Treasury indicated that loans made pursuant to the credit facility will be for short-term durations and would in general be expected to be for less than one month but no shorter than one week. The Fact Sheet further indicated that the interest rate on loans made pursuant to the credit facility ordinarily will be based on the daily LIBOR rate for a similar term of the loan plus 50 basis points. As of November 9, 2008, we have not drawn on this credit facility. If we borrow under this credit facility, we will account for the draws as secured borrowings.

10. Derivative Instruments and Hedging Activities

Derivative instruments are an integral part of our strategy in managing interest rate risk. Derivative instruments may be privately negotiated contracts, which are often referred to as over-the-counter ("OTC") derivatives, or they may be listed and traded on an exchange. When deciding whether to use derivatives, we consider a number of factors, such as cost, efficiency, the effect on our liquidity and capital, and our overall interest rate risk management strategy. We choose to use derivatives when we believe they will provide greater relative value or more efficient execution of our strategy than debt securities. We report derivatives at fair value as either assets or liabilities, net for each counterparty inclusive of cash collateral paid or received, in our condensed consolidated balance sheets. The derivatives we use for interest rate risk management purposes consist primarily of OTC contracts that fall into three broad categories:

ù Interest rate swap contracts. An interest rate swap is a transaction between two parties in which each agrees to exchange payments tied to different interest rates or indices for a specified period of time, generally based on a notional amount of principal. The types of interest rate swaps we use include pay-fixed swaps; receive-fixed swaps; and basis swaps.
ù Interest rate option contracts. These contracts primarily include pay-fixed swaptions, receive-fixed swaptions, cancelable swaps and interest rate caps.
ù Foreign currency swaps. These swaps convert debt that we issue in

foreign-denominated currencies into U.S. dollars. We enter into foreign currency swaps only to the extent that we issue foreign currency debt.

We enter into forward purchase and sale commitments that lock in the future delivery of mortgage loans and mortgage-related securities at a fixed price or yield. Certain commitments to purchase mortgage loans and purchase or sell mortgage-related securities meet the definition of a derivative and these commitments are recorded in our condensed consolidated balance sheets at fair value as either "Derivative assets at fair value" or "Derivative liabilities at fair value." Typically, we settle the notional amount of our mortgage commitments; however, we generally do not settle the notional amount of our other derivative instruments. Notional amounts, therefore, simply provide the basis for calculating actual payments or settlement amounts.

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The following table displays the outstanding notional balances and the estimated fair value of our derivative instruments as of September 30, 2008 and December 31, 2007.

	As of			
	September 30, 2008		December 31, 2007	
	Notional Amount	Estimated Fair Value	Notional Amount	Estimated Fair Value
	(Dollars in millions)			
Risk management derivatives:				
Swaps:				
Pay-fixed	$ 515,853	$ (15,044)	$ 377,738	$ (14,357)
Receive-fixed	372,555	6,176	285,885	6,390
Basis	24,761	(257)	7,001	(21)
Foreign currency	1,980	72	2,559	353
Swaptions:				
Pay-fixed	71,610	660	85,730	849
Receive-fixed	100,485	4,998	124,651	5,877
Interest rate caps	500	3	2,250	8
Other(1)	777	109	650	71
Net collateral payable	--	4,554	--	(712)
Accrued interest receivable (payable), net	--	(1,695)	--	221
Total risk management derivatives	$ 1,088,521	$ (424)	$ 886,464	$ (1,321)
Mortgage commitment derivatives:				
Mortgage commitments to purchase whole loans	$ 2,274	$ (14)	$ 1,895	$ 6
Forward contracts to purchase mortgage-related securities	45,590	148	25,728	91
Forward contracts to sell mortgage-related securities	35,243	84	27,743	(108)
Total mortgage commitment derivatives	$ 83,107	$ 218	$ 55,366	$ (11)

(1) Includes MBS options, swap credit enhancements and mortgage insurance contracts that are accounted for as derivatives. The mortgage insurance contracts have payment provisions that are not based on a notional amount.

Beginning in April 2008, we began to employ fair value hedge accounting for some of our interest rate risk management activities by designating hedging relationships between certain of our interest rate derivatives and mortgage assets. We achieve hedge accounting by designating all or a fixed percentage of a pay-fixed receive-variable interest rate swap as a hedge of the changes in the fair value attributable to the changes in LIBOR for a specific mortgage asset. As of September 30, 2008, we had a notional amount of $15.5 billion of derivatives in hedging relationships with a fair value loss of $272 million. We formally document all relationships between hedging instruments and the hedged items at the inception of each hedging relationship, including the risk management objective for undertaking each hedge transaction. We formally link derivatives that qualify for fair value hedge accounting to specifically-identified eligible hedged items on the balance sheet. We formally assess, both at the inception of the hedging relationship and on an ongoing basis, whether the derivatives that we use in hedging relationships are highly effective in offsetting changes in the fair values of the hedged items attributable to the specifically-identified hedged risk. We use regression analysis to assess the effectiveness of each hedging relationship. When we determine that a hedging relationship is highly effective, changes in the fair value of the hedged item attributable to changes in the benchmark interest rate are recorded as an adjustment to the carrying value of the hedged item. These adjustments are amortized into earnings over the remaining life of the hedged item in accordance with our policies for amortization of carrying value adjustments. For the three and nine months ended September 30, 2008, we recorded $2.0 billion and $1.2 billion, respectively, of increases in the carrying value of the hedged assets before related amortization due to hedge accounting. This gain on the hedged asset

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was offset by fair value losses of $2.1 billion and $1.3 billion, excluding valuation changes due to the passage of time, on the pay-fixed swaps designated as hedging instruments for the three and nine months ended September 30, 2008, respectively. During the three and nine months ended September 30, 2008, we recorded a loss for the ineffective portion of our hedges of $101 million and $115 million, respectively. Our assessment of hedge effectiveness excluded a loss of $39 million and $74 million, respectively, which was not related to changes in the benchmark interest rate for the three and nine months ended September 30, 2008. All derivative gains and losses are recorded as a component of "Fair value losses, net" in our condensed consolidated statements of operations.

11. Income Taxes

Our effective tax rate is the provision (benefit) for federal income taxes, excluding the tax effect of extraordinary items, expressed as a percentage of income or loss before federal income taxes. The effective tax rate for the three months ended September 30, 2008 and 2007 was 143% and 29%, respectively, and 69% and 45% for the nine months ended September 30, 2008 and 2007, respectively. Our effective tax rate is different from the federal statutory rate of 35% primarily due to the benefits of our investments in housing projects eligible for the low-income housing tax credit and other equity investments that provide tax credits, the establishment of a valuation allowance of $21.4 billion in the three month period ended September 30, 2008 and our holdings of tax-exempt investments. We recognize deferred tax assets and liabilities for the future tax consequences related to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and for tax credits. Our deferred tax assets, net of valuation allowances, totaled $4.6 billion and $13.0 billion as of September 30, 2008 and December 31, 2007, respectively. We evaluate our deferred tax assets for recoverability using a consistent approach which considers the relative impact of negative and positive evidence, including our historical profitability and projections of future taxable income. We are required to establish a valuation allowance for deferred tax assets and record a charge to income or stockholders' equity if we determine, based on available evidence at the time the determination is made, that it is more likely than not that some portion or all of the deferred tax assets will not be realized. In evaluating the need for a valuation allowance, we estimate future taxable income based on management approved business plans and ongoing tax planning strategies. This process involves significant management judgment about assumptions that are subject to change from period to period based on changes in tax laws or variances between our projected operating performance, our actual results and other factors. As of September 30, 2008, we were in a cumulative book taxable loss position for more than a twelve-quarter period. For purposes of establishing a deferred tax valuation allowance, this cumulative book taxable loss position is considered significant, objective evidence that we may not be able to realize some portion of our deferred tax assets in the future. Our cumulative book taxable loss position was caused by the negative impact on our results from the weak housing and credit market conditions over the past year. These conditions deteriorated dramatically during the three month period ended September 30, 2008, causing a significant increase in our pre-tax loss for the three month period ended September 30, 2008, due in part to much higher credit losses, and downward revisions to our projections of future results. Because of the volatile economic conditions during the three month period ended September 30, 2008, our projections of future credit losses have become more uncertain. As of September 30, 2008, we concluded that it was more likely than not that we would not generate sufficient future taxable income to realize all of our deferred tax assets. Our conclusion was based on our consideration of the relative weight of the available evidence, including the rapid deterioration of market conditions discussed above, the uncertainty of future market conditions on our results of operations and

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significant uncertainty surrounding our future business model as a result of the placement of the company into conservatorship by FHFA on September 6, 2008. As a result, we recorded a non-cash charge of $21.4 billion in our condensed consolidated statement of operations in the three month period ended September 30, 2008 related to the establishment of a valuation allowance for our deferred tax asset for the portion of the future tax benefit that more likely than not will not be utilized in the future. We did not establish a valuation allowance for the deferred tax asset amount of $4.6 billion as of September 30, 2008 that is related to unrealized losses recorded through AOCI on our available-for-sale securities. We believe this deferred tax amount is recoverable because we have the intent and ability to hold these securities until recovery of the unrealized loss amounts. Section 382 of the Internal Revenue Code limits a corporation's ability to use certain tax benefits when more than 50 percent of its stock has been acquired (determined under specific rules and assumptions) resulting in a change in ownership. The IRS has provided that we will not have an ownership change on or after September 7, 2008, the date that Treasury acquired the senior preferred stock and the warrant as described in "Note 1, Organization and Conservatorship." The Internal Revenue Service ("IRS") is currently examining our 2005 and 2006 federal income tax returns. The IRS Appeals Division is currently considering issues related to tax years 1999-2004. Unrecognized Tax Benefits We had $1.3 billion and $124 million of unrecognized tax benefits at September 30, 2008 and December 31, 2007, respectively. Of these amounts, we had $8 million at both September 30, 2008 and December 31, 2007, which, if resolved favorably, would reduce our effective tax rate in future periods. As of September 30, 2008 and December 31, 2007, we had accrued interest payable related to unrecognized tax benefits of $237 million and $28 million, respectively, and did not recognize any tax penalty payable. It is reasonably possible that changes in our gross balance of unrecognized tax benefits may occur within the next 12 months, including possible changes in connection with an IRS review of fair market value losses we recognized on certain securities held in our portfolio. The increase in our unrecognized tax benefit during the nine months ended September 30, 2008, is primarily due to an increase in our reserve related to fair market value losses taken on our income tax returns for 2005 and 2006 and our view of the potential for a settlement with the IRS of this issue. The potential decrease in the unrecognized tax benefit related to these fair market value losses and other smaller issues is approximately $1.1 billion. This decrease in our unrecognized tax benefit would represent a temporary difference; therefore, it would not result in a change to our effective tax rate. The following table displays the changes in our unrecognized tax benefits for the three and nine months ended September 30, 2008 and 2007.

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2008	2007	2008	2007
	(Dollars in millions)			
Beginning balance	$ 1,428	$ 163	$ 124	$ 163
Additions (reductions) based on tax positions related to prior years, net of related tax credits	(104)	--	1,200	--
Ending balance as of September 30	$ 1,324	$ 163	$ 1,324	$ 163

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12. Earnings (Loss) Per Share

The following table displays the computation of basic and diluted earnings (loss) per share of common stock for the three and nine months ended September 30, 2008 and 2007.

For the Three Months Ended September 30,	For the Nine Months Ended

			September 30,	
	2008	2007	2008	2007
	(Dollars and shares in millions, except per share amounts)			
Income (loss) before extraordinary losses	$ (28,899)	$ (1,402)	$ (33,351)	$ 1,512
Extraordinary gains (losses), net of tax effect	(95)	3	(129)	(3)
Net income (loss)	(28,994)	(1,399)	(33,480)	1,509
Preferred stock dividends and issuance costs at redemption(1)	(419)	(119)	(1,044)	(372)
Net income (loss) available to common stockholders--basic	(29,413)	(1,518)	(34,524)	1,137
Convertible preferred stock dividends(2)	--	--	--	--
Net income (loss) available to common stockholders--diluted	$ (29,413)	$ (1,518)	$ (34,524)	$ 1,137
Weighted-average common shares outstanding--basic(3)	2,262	974	1,424	973
Dilutive potential common shares:				
Stock-based awards(4)	--	--	--	2
Convertible preferred stock(5)	--	--	--	--
Weighted-average common shares outstanding--diluted	2,262	974	1,424	975
Basic earnings (loss) per share:				
Earnings (loss) before extraordinary losses(6)	$ (12.96)	$ (1.56)	$ (24.15)	$ 1.17
Extraordinary losses, net of tax effect	(0.04)	--	(0.09)	--
Basic earnings (loss) per share	$ (13.00)	$ (1.56)	$ (24.24)	$ 1.17
Diluted earnings (loss) per share:				
Earnings (loss) before extraordinary losses(6)	$ (12.96)	$ (1.56)	$ (24.15)	$ 1.17
Extraordinary losses, net of tax effect	(0.04)	--	(0.09)	--
Diluted earnings (loss) per share	$ (13.00)	$ (1.56)	$ (24.24)	$ 1.17

(1) Amounts for the three and nine months ended September 30, 2008 include approximately $6 million of dividends accumulated, but undeclared, for the reporting period on our outstanding cumulative senior preferred stock.
(2) In the computation of diluted EPS, convertible preferred stock dividends are added back to net income (loss) available to common stockholders when the assumed conversion of the preferred shares is dilutive and is assumed to be converted from the beginning of the period. For the three and nine months ended September 30, 2008 and 2007, the assumed conversion of the preferred shares had an anti-dilutive effect.
(3) Amounts for the three and nine months ended September 30, 2008 include 1.2 billion and 400 million weighted-average shares of common stock, respectively, that would be issuable upon the full exercise of the warrant issued to Treasury from the date the warrant was issued through September 30, 2008.
(4) Represents incremental shares from in-the-money nonqualified stock options and other performance awards. Weighted-average options and performance awards to purchase approximately 22 million and 14 million shares of common stock for the three months ended September 30, 2008 and 2007, respectively,

and 23 million and 17 million shares of common stock for the nine months ended September 30, 2008 and 2007, respectively, were outstanding in each period, but were excluded from the computation of diluted EPS since they would have been anti-dilutive.

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(5) Represents incremental shares from the assumed conversion of outstanding convertible preferred stock when the assumed conversion of the preferred shares is dilutive and is assumed to be converted from the beginning of the period.
(6) Amount is net of preferred stock dividends and issuance costs at redemption.

13. Employee Retirement Benefits

The following table displays components of our net periodic benefit cost for our qualified and nonqualified pension plans and other postretirement plan for the three and nine months ended September 30, 2008 and 2007. The net periodic benefit cost for each period is calculated based on assumptions at the end of the prior year.

	For the Three Months Ended September 30,					
	2008			2007		
	Pension Plans		Other Post-Retirement Plan	Pension Plans		Other Post-Retirement Plan
	Qualified	Non-Qualified		Qualified	Non-Qualified	
	(Dollars in millions)					
Service cost	$ 7	$ 2	$ 1	$ 17	$ 3	$ 5
Interest cost	12	3	3	12	2	4
Expected return on plan assets	(15)	--	--	(14)	--	--
Amortization of net actuarial (gain) loss	--	(1)	--	(1)	1	--
Amortization of net prior service cost (credit)	--	--	(1)	1	(1)	(1)
Amortization of initial transition obligation	--	--	--	--	--	1

Curtailment (gain) loss	--	(1)	--	1	--	9
Net periodic benefit cost	$ 4	$ 3	$ 3	$ 16	$ 5	$ 18

	For the Nine Months Ended September 30, 2008			2007		
	Pension Plans		Other Post-Retirement Plan	Pension Plans		Other Post-Retirement Plan
	Qualified	Non-Qualified		Qualified	Non-Qualified	
	(Dollars in millions)					
Service cost	$ 29	$ 6	$ 4	$ 45	$ 9	$ 11
Interest cost	37	8	7	36	7	9
Expected return on plan assets	(44)	--	--	(42)	--	--
Amortization of net actuarial (gain) loss	--	(1)	1	--	2	1
Amortization of net prior service cost (credit)	--	1	(4)	1	1	(1)
Amortization of initial transition obligation	--	--	1	--	--	2
Curtailment (gain) loss	--	(1)	--	1	--	9
Special termination benefit charge	--	--	3	--	--	--
Net periodic benefit cost	$ 22	$ 13	$ 12	$ 41	$ 19	$ 31

As of September 30, 2008, contributions of $4 million have been made to the nonqualified pension plans and contributions of $5 million have been made to our postretirement benefit plan. We anticipate contributing an additional $2 million to our nonqualified pension plans during 2008 for a total of $6 million. Also, we anticipate contributing an additional $2 million during 2008 to fund our postretirement benefit plan for a total of $7 million.

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Because the criteria of our funding policy were met as of December 31, 2007, our most recent measurement date, we did not expect to make a contribution during 2008 and as such, had not made a contribution to our qualified pension plan during the nine month period ended September 30, 2008. However, in light of the extreme market volatility and recent dramatic decline in the global equity markets, we determined in October 2008 that a review of the value of our qualified pension plan assets and the funded status should be completed prior

to our next annual valuation. During our review, we determined that plan assets would likely be below our funding target as of our next measurement date. Accordingly, in November 2008, consistent with our funding policy, we elected to make a voluntary contribution of $80 million to our qualified pension plan for 2008 to offset some of the recent investment losses. We will re-evaluate the funded status at year-end to determine if additional contributions are needed under our funding policy. There was no impact to our condensed consolidated financial statements as of September 30, 2008 related to this contribution.

14. Segment Reporting

We manage our business using three operating segments: Single-Family; HCD; and Capital Markets. During the three months ended September 30, 2008, our chief executive officer was replaced. Our new chief executive officer has been delegated the authority by FHFA to conduct day-to-day management activities, and as such, our chief executive officer continues to be the chief operating decision maker who makes decisions about resources to be allocated to each segment and assesses segment performance. Our segment financial results include directly attributable revenues and expenses. Additionally, we allocate to each of our segments: (i) capital using FHFA minimum capital requirements adjusted for over- or under-capitalization; (ii) indirect administrative costs; and (iii) a provision (benefit) for federal income taxes. In addition, we allocate intercompany guaranty fee income as a charge to Capital Markets from the Single-Family and HCD segments for managing the credit risk on mortgage loans held by the Capital Markets segment. The following table displays our segment results for the three and nine months ended September 30, 2008 and 2007.

	For the Three Months Ended September 30, 2008			
	Single-Family	HCD	Capital Markets	Total
	(Dollars in millions)			
Net interest income (expense)(1)	$ 133	$ (86)	$ 2,308	$ 2,355
Guaranty fee income (expense)(2)	1,674	161	(360)	1,475
Trust management income	63	2	--	65
Investment losses, net	(17)	--	(1,607)	(1,624)
Fair value losses, net	--	--	(3,947)	(3,947)
Debt extinguishment gains, net	--	--	23	23
Losses from partnership investments	--	(587)	--	(587)
Fee and other income	68	43	53	164
Administrative expenses	(235)	(77)	(89)	(401)
Provision for credit losses	(8,740)	(23)	--	(8,763)
Other expenses	(623)	(7)	(18)	(648)
Loss before federal income taxes and extraordinary losses	(7,677)	(574)	(3,637)	(11,888)
Provision for federal income taxes	6,550	2,025	8,436	17,011
Loss before extraordinary losses	(14,227)	(2,599)	(12,073)	(28,899)
Extraordinary losses	--	--	(95)	(95)
Net loss	$ (14,227)	$ (2,599)	$ (12,168)	$ (28,994)

(1) Includes cost of capital charge.

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(2) Includes intercompany guaranty fee income (expense) allocated to Single-Family and HCD from Capital Markets for absorbing the credit risk on mortgage loans held in our portfolio.

	For the Three Months Ended September 30, 2007			
	Single-Family	HCD	Capital Markets	Total
	(Dollars in millions)			
Net interest income (expense)(1)	$ 100	$ (106)	$ 1,064	$ 1,058
Guaranty fee income (expense)(2)	1,424	115	(307)	1,232
Losses on certain guaranty contracts	(292)	(2)	--	(294)
Trust management income	138	8	--	146
Investment losses, net(3)	(47)	--	(112)	(159)
Fair value losses, net(3)	--	--	(2,082)	(2,082)
Debt extinguishment gains, net	--	--	31	31
Losses from partnership investments	--	(147)	--	(147)
Fee and other income(3)	80	70	67	217
Administrative expenses	(370)	(134)	(156)	(660)
Provision for credit losses	(1,084)	(3)	--	(1,087)
Other expenses(3)	(233)	(5)	(1)	(239)
Loss before federal income taxes and extraordinary losses	(284)	(204)	(1,496)	(1,984)
Benefit for federal income taxes	(98)	(301)	(183)	(582)
Income (loss) before extraordinary losses	(186)	97	(1,313)	(1,402)
Extraordinary gains, net of tax effect	--	--	3	3
Net income (loss)	$ (186)	$ 97	$ (1,310)	$ (1,399)

(1) Includes cost of capital charge.
(2) Includes intercompany guaranty fee income (expense) allocated to Single-Family and HCD from Capital Markets for absorbing the credit risk on mortgage loans held in our portfolio.
(3) Certain prior period amounts have been reclassified to conform with the current period presentation in our condensed consolidated statements of operations.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS--(Continued)(UNAUDITED)

	For the Nine Months Ended September 30, 2008			
	Single-Family	HCD	Capital Markets	Total
	(Dollars in millions)			
Net interest income (expense)(1)	$ 409	$ (277)	$ 5,970	$ 6,102
Guaranty fee income (expense)(2)	5,435	443	(1,043)	4,835
Trust management income	242	5	--	247
Investment losses, net	(102)	--	(2,516)	(2,618)
Fair value losses, net	--	--	(7,807)	(7,807)
Debt extinguishment losses, net	--	--	(158)	(158)
Losses from partnership investments	--	(923)	--	(923)
Fee and other income	262	156	198	616
Administrative expenses	(809)	(289)	(327)	(1,425)
Provision for credit losses	(16,898)	(23)	--	(16,921)
Other expenses	(1,478)	(82)	(132)	(1,692)
Loss before federal income taxes and extraordinary losses	(12,939)	(990)	(5,815)	(19,744)
Provision for federal income taxes	4,702	1,387	7,518	13,607
Loss before extraordinary losses	(17,641)	(2,377)	(13,333)	(33,351)
Extraordinary losses	--	--	(129)	(129)
Net loss	$ (17,641)	$ (2,377)	$ (13,462)	$ (33,480)

(1) Includes cost of capital charge.
(2) Includes intercompany guaranty fee income (expense) allocated to Single-Family and HCD from Capital Markets for absorbing the credit risk on mortgage loans held in our portfolio.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS--(Continued)(UNAUDITED)

	For the Nine Months Ended September 30, 2007			
	Single-Family	HCD	Capital Markets	Total
	(Dollars in millions)			
Net interest income (expense)(1)	$ 293	$ (303)	$ 3,455	$ 3,445
Guaranty fee income (expense)(2)	4,015	326	(891)	3,450
Losses on certain guaranty contracts	(1,023)	(15)	--	(1,038)
Trust management income	433	27	--	460
Investment gains (losses), net(3)	(46)	--	89	43
Fair value losses, net(3)	--	--	(1,224)	(1,224)
Debt extinguishment gains, net	--	--	72	72
Losses from partnership investments	--	(527)	--	(527)
Fee and other income(3)	246	251	254	751
Administrative expenses	(1,108)	(420)	(490)	(2,018)
Benefit (provision) for credit losses	(1,771)	1	--	(1,770)

Other expenses(3)	(575)	(17)	(8)	(600)
Income (loss) before federal income taxes and extraordinary losses	464	(677)	1,257	1,044
Provision (benefit) for federal income taxes	159	(1,047)	420	(468)
Income before extraordinary losses	305	370	837	1,512
Extraordinary losses, net of tax effect	--	--	(3)	(3)
Net income	$ 305	$ 370	$ 834	$ 1,509

(1) Includes cost of capital charge.
(2) Includes intercompany guaranty fee income (expense) allocated to Single-Family and HCD from Capital Markets for absorbing the credit risk on mortgage loans held in our portfolio.
(3) Certain prior period amounts have been reclassified to conform with the current period presentation in our condensed consolidated statements of operations.

15. Stockholders' Equity

Common Stock Shares of common stock outstanding, net of shares held as treasury stock, totaled 1,070 million and 974 million as of September 30, 2008 and December 31, 2007, respectively. On May 14, 2008, we received gross proceeds of $2.6 billion from the issuance of 94 million new shares of no par value common stock with a stated value of $0.5250 per share. During the conservatorship, the powers of the stockholders are suspended. Accordingly, our common stockholders do not have the ability to elect directors or to vote on other matters during the conservatorship unless FHFA elects to delegate this authority to them. The senior preferred stock purchase agreement with Treasury prohibits the payment of dividends on common stock without the prior written consent of Treasury. The conservator also has eliminated common stock dividends. In addition, we issued a warrant to Treasury that provides Treasury with the right to purchase shares of our common stock equal to 79.9% of the total number of shares of common stock outstanding on a fully diluted basis on the date of exercise for a nominal price, which would substantially dilute the ownership in Fannie Mae of our common stockholders at the time

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 of exercise. Refer to the "Issuance of Senior Preferred Stock and Common Stock Warrant to Treasury" section below for further description of the warrant. Preferred Stock As of September 30, 2008 and December 31, 2007, we had preferred stock outstanding (other than the senior preferred stock) of $21.7 billion and $16.9 billion, respectively. During the conservatorship, the powers of the preferred stockholders are suspended. The senior preferred stock purchase agreement with Treasury prohibits the payment of dividends on the preferred stock (other than the senior preferred stock) without the prior written consent of Treasury. The conservator also has eliminated preferred stock dividends. In addition, as described under "Issuance of Senior Preferred Stock and Common Stock Warrant to Treasury" below, on September 8, 2008, we issued senior preferred stock that ranks senior to all other series of preferred stock as to both dividends and distributions upon dissolution, liquidation or winding up of the company. During the nine months ended September 30, 2008, we issued an aggregate of $4.8 billion in preferred stock (other than the senior preferred stock), as set forth below: On May 14, 2008, we received gross proceeds of $2.6 billion from the issuance of 52 million shares of 8.75% Non-Cumulative Mandatory Convertible Preferred Stock, Series 2008-1, with a stated value of $50 per share. Each share has a liquidation preference equal to its stated value of $50 per share plus an amount equal to the dividend for the then-current quarterly dividend period. The Mandatory Convertible Series 2008-1 Preferred Stock is not redeemable by us. On May 13, 2011, the mandatory conversion date, each share of the Preferred Stock will automatically convert into between 1.5408 and 1.8182 shares of our common stock, subject to anti-dilution adjustments, depending on the average of the closing prices per share of our common stock for each of the 20 consecutive trading days ending on the third trading day prior to such date. At any time prior to the mandatory conversion date, holders may elect to convert each share of our Preferred Stock into a minimum of 1.5408 shares of common stock, subject to anti-dilution adjustments. The Mandatory Convertible Series 2008-1 shares are considered participating securities for purposes of calculating earnings per share. On May 19, 2008, we received gross proceeds of $2.0 billion from the issuance of 80 million shares of 8.25% Non-Cumulative Preferred Stock, Series T, with a stated value of $25 per share. Subsequent to the initial issuance, we received gross proceeds of $200 million from an additional issuance of 8 million shares on May 22, 2008 and $25 million on June 4, 2008, from the additional issuance of 1 million shares. Each share has a liquidation preference equal to its stated value of $25 per share plus accrued dividends for the then-current quarterly dividend period. The Series T Preferred Stock may be redeemed, at our option, on or after May 20, 2013. Pursuant to the covenants set forth in the senior preferred stock purchase agreement described below, we must obtain the prior written consent of Treasury in order to exercise our option to redeem the Series T Preferred Stock. Issuance of Senior Preferred Stock and Common Stock Warrant to Treasury On September 8, 2008, we issued one million shares of Variable Liquidation Preference Senior Preferred Stock, Series 2008-2 ("senior preferred stock"), with an aggregate stated value and initial liquidation preference of $1.0 billion. On September 7, 2008, we issued a warrant to purchase common stock to Treasury. The senior preferred stock and the warrant were issued in consideration for the commitment from Treasury to provide up to $100.0 billion in cash to us under the terms set forth in the senior preferred stock purchase agreement described below. We did not receive any cash proceeds as a result of issuing these shares or the warrant. We have assigned a value of $4.5 billion to Treasury's commitment, which has been recorded as a reduction to additional paid-in-capital and was partially offset by the aggregate fair value of the warrant. There

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was no impact to the total balance of stockholders' equity as a result of the issuance as displayed in our condensed consolidated statement of changes in stockholders' equity. Variable Liquidation Preference Senior Preferred Stock, Series 2008-2 Shares of the senior preferred stock have no par value and have a stated value and initial liquidation preference equal to $1,000 per share. The liquidation preference of the senior preferred stock is subject to adjustment. To the extent dividends are not paid in cash for any dividend period, the dividends will accrue and be added to the liquidation preference of the senior preferred stock. In addition, any amounts paid by Treasury to us pursuant to Treasury's funding commitment provided in the senior preferred stock purchase agreement and any quarterly commitment fee payable under the senior preferred stock purchase agreement that are not paid in cash to or waived by Treasury will be added to the liquidation preference of the senior preferred stock. We may not make payments to reduce the liquidation preference of the senior preferred stock below an aggregate of $1.0 billion, unless Treasury is also terminating its funding commitment. As of November 9, 2008, there have been no changes to the liquidation preference of the senior preferred stock since the initial issuance. Holders of the senior preferred stock are entitled to receive, if declared by our Board of Directors, cumulative quarterly cash dividends at an annual rate of 10% per year based on the then-current liquidation preference of the senior preferred stock. The initial dividend, if declared, will be payable on December 31, 2008 and will be for the period from but not including September 8, 2008 through and including December 31, 2008. If at any time we fail to pay cash dividends in a timely manner, then immediately following such failure and for all dividend periods thereafter until the dividend period following the date on which we have paid in cash full cumulative dividends (including any unpaid dividends added to the liquidation preference), the dividend rate will be 12% per year. As of November 9, 2008, our Board has not declared the initial dividend on the senior preferred stock. The senior preferred stock ranks prior to our common stock and all other outstanding series of our preferred stock as to both dividends and rights upon liquidation. We may not declare or pay dividends on, make distributions with respect to, or redeem, purchase or acquire, or make a liquidation payment with respect to, any common stock or other securities ranking junior to the senior preferred stock without the prior written consent of Treasury. Shares of the senior preferred stock are not convertible. Shares of the senior preferred stock have no general or special voting rights, other than those set forth in the certificate of designation for the senior preferred stock or otherwise required by law. The consent of holders of at least two-thirds of all outstanding shares of senior preferred stock is generally required to amend the terms of the senior preferred stock or to create any class or series of stock that ranks prior to or on parity with the senior preferred stock. We are not permitted to redeem the senior preferred stock prior to the termination of Treasury's funding commitment under the senior preferred stock purchase agreement, however, we are permitted to pay down the liquidation preference of the outstanding shares of senior preferred stock to the extent of (i) accrued and unpaid dividends previously added to the liquidation preference and not previously paid down; and (ii) quarterly commitment fees previously added to the liquidation preference and not previously paid down. In addition, to the extent we issue any shares of capital stock for cash at any time the senior preferred stock is outstanding, we are required to use the net proceeds of the issuance to pay down the liquidation preference of the senior preferred stock; however, the liquidation preference of each share of senior preferred stock may not be paid down below $1,000 per share prior to the termination of Treasury's funding commitment. Following the termination of Treasury's funding commitment, we may pay down the liquidation preference of all outstanding shares of senior preferred stock at any time, in whole or in part. If after termination of Treasury's

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funding commitment, we pay down the liquidation preference of each outstanding share of senior preferred stock in full, the shares will be deemed to have been redeemed as of the payment date. Common Stock Warrant The warrant gives Treasury the right to purchase shares of our common stock equal to 79.9% of the total number of shares of common stock outstanding on a fully diluted basis on the date of exercise. The warrant may be exercised in whole or in part at any time on or before September 7, 2028, by delivery to Fannie Mae of: (a) a notice of exercise; (b) payment of the exercise price of $0.00001 per share; and (c) the warrant. If the market price of one share of common stock is greater than the exercise price, in lieu of exercising the warrant by payment of the exercise price, Treasury may elect to receive shares equal to the value of the warrant (or portion thereof being canceled) pursuant to the formula specified in the warrant. Upon exercise of the warrant, Treasury may assign the right to receive the shares of common stock issuable upon exercise to any other person. We recorded the aggregate fair value of the warrant of $3.5 billion as a component of additional paid-in-capital upon issuance of the warrant. If the warrant is exercised, the stated value of the common stock issued will be reclassified as "Common Stock" in our condensed consolidated balance sheet. As of November 9, 2008, Treasury has not exercised the warrant. Senior Preferred Stock Purchase Agreement with Treasury On September 7, 2008, we, through FHFA, in its capacity as conservator, entered into a senior preferred stock purchase agreement with Treasury. The agreement was amended and restated on September 26, 2008. Pursuant to the agreement, in exchange for Treasury's commitment to provide up to $100.0 billion in funding to us and in addition to our issuance of the senior preferred stock and the common stock warrant described above, beginning on March 31, 2010, we will pay a periodic commitment fee to Treasury on a quarterly basis, which will accrue from January 1, 2010. The fee, to be mutually agreed upon by us and Treasury and to be determined with reference to the market value of Treasury's commitment as then in effect, will be determined by or before December 31, 2009, and will be reset every five years. Treasury may waive the periodic commitment fee for up to one year at a time, in its sole discretion, based on adverse conditions in the U.S. mortgage market. We may elect to pay the periodic commitment fee in cash or add the amount of the fee to the liquidation preference of the senior preferred stock. Treasury's funding commitment under the senior preferred stock purchase agreement is intended to ensure that we maintain a positive net worth. The senior preferred stock purchase agreement provides that, on a quarterly basis, we generally may draw funds up to the amount, if any, by which our total liabilities exceed our total assets, as reflected on our consolidated balance sheet for the applicable fiscal quarter (referred to as the "deficiency amount"), provided that the aggregate amount funded under the agreement may not exceed $100.0 billion. The senior preferred stock purchase agreement provides that the deficiency amount will be calculated differently if we become subject to receivership or other liquidation process. The deficiency amount may be increased above the otherwise applicable amount upon our mutual written agreement with Treasury. In addition, if the Director of FHFA determines that the Director will be mandated by law to appoint a receiver for us unless our capital is increased by receiving funds under the commitment in an amount up to the deficiency amount (subject to the $100.0 billion maximum amount that may be funded under the agreement), then FHFA, in its capacity as our conservator, may request that Treasury provide funds to us in such amount. The senior preferred stock purchase agreement also provides that, if we have a deficiency amount as of the date of completion of the liquidation of our assets, we may request funds from Treasury in an amount up to the deficiency amount (subject to the $100.0 billion maximum amount that may be funded under the agreement). Any amounts that we draw under the senior preferred stock purchase agreement will be added to the liquidation preference of the senior preferred stock. No additional shares of senior preferred stock are

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required to be issued under the senior preferred stock purchase agreement. As of November 9, 2008, we have not drawn any amounts under the commitment. Covenants The senior preferred stock purchase agreement provides that until the senior preferred stock is repaid or redeemed in full, we may not, without the prior written consent of Treasury:

ù Declare or pay any dividend (preferred or otherwise) or make any other distribution with respect to any Fannie Mae equity securities (other than with respect to the senior preferred stock or warrant);
ù Redeem, purchase, retire or otherwise acquire any Fannie Mae equity securities (other than the senior preferred stock or warrant);
ù Sell or issue any Fannie Mae equity securities (other than the senior preferred stock, the warrant and the common stock issuable upon exercise of the warrant and other than as required by the terms of any binding agreement in effect on the date of the senior preferred stock purchase agreement);
ù Terminate the conservatorship (other than in connection with a receivership);
ù Sell, transfer, lease or otherwise dispose of any assets, other than dispositions for fair market value: (a) to a limited life regulated entity (in the context of receivership); (b) of assets and properties in the ordinary course of business, consistent with past practice; (c) in connection with a liquidation of Fannie Mae by a receiver; (d) of cash or cash equivalents for cash or cash equivalents; or (e) to the extent necessary to comply with the covenant described below relating to the reduction of our mortgage assets beginning in 2010;
ù Incur indebtedness that would result in our aggregate indebtedness exceeding 110% of our aggregate indebtedness as of June 30, 2008;
ù Issue any subordinated debt;
ù Enter into a corporate reorganization, recapitalization, merger, acquisition or similar event; or
ù Engage in transactions with affiliates unless the transaction is (a) pursuant to the senior preferred stock purchase agreement, the senior preferred stock or the warrant, (b) upon arm's length terms or (c) a transaction undertaken in the ordinary course or pursuant to a contractual obligation or customary employment arrangement in existence on the date of the senior preferred stock purchase agreement.

The agreement also provides that we may not own mortgage assets in excess of (a) $850.0 billion on December 31, 2009, or (b) on December 31 of each year thereafter, 90% of the aggregate amount of our mortgage assets as of December 31 of the immediately preceding calendar year, provided that we are not required to own less than $250.0 billion in mortgage assets. In addition, the agreement provides that we may not enter into any new compensation arrangements or increase amounts or benefits payable under existing compensation arrangements with our named executive officers (as defined by SEC rules) without the consent of the Director of FHFA, in consultation with the Secretary of the Treasury. Termination Provisions The senior preferred stock purchase agreement provides that Treasury's funding commitment will terminate under any the following circumstances: (i) the completion of our liquidation and fulfillment of Treasury's obligations under its funding commitment at that time, (ii) the payment in full of, or reasonable provision for,

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all of our liabilities (whether or not contingent, including mortgage guaranty obligations), or (iii) the funding by Treasury of $100.0 billion under the agreement. In addition, Treasury may terminate its funding commitment and declare the senior preferred stock purchase agreement null and void if a court vacates, modifies, amends, conditions, enjoins, stays or otherwise affects the

appointment of the conservator or otherwise curtails the conservator's powers. Treasury may not terminate its funding commitment solely by reason of our being in conservatorship, receivership or other insolvency proceeding, or due to our financial condition or any adverse change in our financial condition. Waivers and Amendments The senior preferred stock purchase agreement provides that most provisions of the agreement may be waived or amended by mutual written agreement of the parties; however, no waiver or amendment of the agreement is permitted that would decrease Treasury's aggregate funding commitment or add conditions to Treasury's funding commitment if the waiver or amendment would adversely affect in any material respect the holders of our debt securities or guaranteed Fannie Mae MBS. Third-party Enforcement Rights In the event of our default on payments with respect to our debt securities or guaranteed Fannie Mae MBS, if Treasury fails to perform its obligations under its funding commitment and if we and/or the conservator are not diligently pursuing remedies in respect of that failure, the holders of these debt securities or Fannie Mae MBS may file a claim in the United States Court of Federal Claims for relief requiring Treasury to fund to us the lesser of (1) the amount necessary to cure the payment defaults on our debt and Fannie Mae MBS and (2) the lesser of (a) the deficiency amount and (b) $100.0 billion less the aggregate amount of funding previously provided under the commitment. Any payment that Treasury makes under those circumstances will be treated for all purposes as a draw under the senior preferred stock purchase agreement that will increase the liquidation preference of the senior preferred stock.

16. Regulatory Capital Requirements

On September 12, 2008, FHFA advised us that it will continue to monitor on a quarterly basis the core and total capital measures related to the associated minimum capital requirements previously established. However, during the period of the conservatorship, our risk-based and critical capital requirements are not binding and our quarterly capital classifications by FHFA have been suspended. As of September 30, 2008, we had a minimum capital deficiency of $16.4 billion. On October 9, 2008, FHFA announced that we were classified as "undercapitalized" as of June 30, 2008 (the most recent date for which results have been published by FHFA). FHFA determined that, as of June 30, 2008, our core capital exceeded both the FHFA-directed and statutory minimum capital requirement and that our total capital exceeded our required risk-based capital. Under the Regulatory Reform Act, however, FHFA has the authority to make a discretionary downgrade of our capital adequacy classification should certain safety and soundness conditions arise that could impact future capital adequacy. Accordingly, although the amount of capital we held as of June 30, 2008 was sufficient to meet our statutory and regulatory capital requirements, FHFA downgraded our capital classification to "undercapitalized" based on its discretionary authority provided in the Regulatory Reform Act and events that occurred subsequent to June 30, 2008. FHFA has directed us, during the time we are under conservatorship, to focus on managing to a positive stockholders' equity while returning to long-term profitability. As of September 30, 2008, we had stockholders' equity of $9.3 billion.

Pursuant to the Regulatory Reform Act, if our assets are less than our obligations (negative net worth) for a period of 60 days, FHFA will be mandated by law to appoint a receiver for Fannie Mae. Treasury's funding commitment under the senior preferred stock purchase agreement is intended to ensure that we maintain a positive net worth, in order to avoid this mandatory trigger of receivership under the Regulatory Reform Act. In order to maintain a positive net worth, we may draw up to $100.0 billion in funds from Treasury under the senior preferred stock purchase agreement. As of November 9, 2008, we have not drawn on Treasury's funding commitment under the senior preferred stock purchase agreement. In addition, as described in Note 15, "Stockholders' Equity," under the senior preferred stock purchase agreement, we are restricted from engaging in certain capital transactions, such as the declaration of dividends, without the prior written consent of Treasury, until the senior preferred stock is repaid or redeemed in full.

17. Concentrations of Credit Risk

Non-traditional Loans; Alt-A and Subprime Loans and Securities

We own and guarantee loans with non-traditional features, such as interest-only loans and negative-amortizing loans. We also own and guarantee Alt-A and subprime mortgage loans and mortgage-related securities. An Alt-A mortgage loan generally refers to a mortgage loan that can be underwritten with reduced or alternative documentation than that required for a full documentation mortgage loan but may also include other alternative product features. As a result, Alt-A mortgage loans generally have a higher risk of default than non-Alt-A mortgage loans. In reporting our Alt-A exposure, we have classified mortgage loans as Alt-A if the lenders that deliver the mortgage loans to us have classified the loans as Alt-A based on documentation or other product features. We have classified private-label mortgage-related securities held in our investment portfolio as Alt-A if the securities were labeled as such when issued. A subprime mortgage loan generally refers to a mortgage loan made to a borrower with a weaker credit profile than that of a prime borrower. As a result of the weaker credit profile, subprime borrowers have a higher likelihood of default than prime borrowers. Subprime mortgage loans are typically originated by lenders specializing in this type of business or by subprime divisions of large lenders, using processes unique to subprime loans. In reporting our subprime exposure, we have classified mortgage loans as subprime if the mortgage loans are originated by one of these specialty lenders or a subprime division of a large lender. We have classified private-label mortgage-related securities held in our investment portfolio as subprime if the securities were labeled as such when issued. We reduce our risk associated with these loans through credit enhancements, as described below under "Mortgage Insurers." The following table displays the percentage of our conventional single-family mortgage credit book of business that consists of interest-only loans, negative-amortizing adjustable rate mortgages ("ARMs") and loans with an estimated mark-to-market loan to value ("LTV") ratio of greater than 80% as of September 30, 2008 and December 31, 2007.

	Percentage of Conventional Single-Family Mortgage Credit Book of Business As of	
	September 30, 2008	December 31, 2007
Interest-only loans	8%	8%
Negative-amortizing ARMs	1	1
80%+ LTV loans	31	20

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The following table displays information regarding the Alt-A and subprime mortgage loans and mortgage-related securities in our mortgage credit book of business as of September 30, 2008 and December 31, 2007.

	As of September 30, 2008		As of December 31, 2007	
	Unpaid Principal Balance	Percent of Book of Business(1)	Unpaid Principal Balance	Percent of Book of Business(1)
	(Dollars in millions)			
Loans and Fannie Mae MBS:				
Alt-A(2)	$ 302,183	10%	$ 318,121	12%
Subprime(3)	20,020	1	22,126	1
Total	$ 322,203	11%	$ 340,247	13%
Private-label securities:				
Alt-A(4)	$ 28,607	1%	$ 32,475	1%
Subprime(5)	25,959	1	32,040	1
Total	$ 54,566	2%	$ 64,515	2%

(1) Calculated based on total unpaid principal balance of the total single-family mortgage credit book of business.
(2) Represents Alt-A mortgage loans held in our portfolio and Fannie Mae MBS backed by Alt-A mortgage loans.
(3) Represents subprime mortgage loans held in our portfolio and Fannie Mae MBS backed by subprime mortgage loans.
(4) Represents private-label mortgage-related securities backed by Alt-A mortgage loans.
(5) Represents private-label mortgage-related securities backed by subprime mortgage loans.

Derivatives Counterparties. The risk associated with a derivative transaction is that a counterparty will default on payments due to us. If there is a default we may have to acquire a replacement derivative from a different counterparty at a higher cost or may be unable to find a suitable replacement. Our derivative credit exposure relates principally to interest rate and foreign currency derivative contracts. Typically, we seek to manage these exposures by contracting with experienced counterparties that are rated A- (or its equivalent) or better. These counterparties consist of large banks, broker-dealers and other financial institutions that have a significant presence in the derivatives market, most of which are based in the United States. For the three and nine months ended September 30, 2008, we recognized a loss of $104 million in our condensed consolidated statements of operations as a component of "Fair value losses, net" resulting from the bankruptcy of one of our counterparties. We also manage our exposure to derivatives counterparties by requiring collateral to limit our counterparty credit risk exposure. We have a collateral management policy with provisions for requiring collateral on interest rate and foreign currency derivative contracts in net gain positions based upon the counterparty's credit rating. The collateral includes cash, U.S. Treasury securities, agency debt and agency mortgage-related securities. Collateral posted to us is held and monitored daily by a third-party custodian. We analyze credit exposure on our derivative instruments daily and make collateral calls as appropriate based on the results of internal pricing models and dealer quotes. The table below displays the credit exposure on outstanding risk management derivative instruments by counterparty credit ratings, as well as the notional amount outstanding and the number of counterparties, as of September 30, 2008 and December 31, 2007.

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	As of September 30, 2008					
	Credit Rating(1)					
	AAA	AA+/AA/AA-	A+/A/A-	Subtotal	Other(2)	Total
	(Dollars in millions)					
Credit loss exposure(3)	--	$ 1,536	$ 45	$ 1,581	$ 109	$ 1,690
Less: Collateral held(4)	--	1,085	45	1,130	--	1,130
Exposure net of collateral	--	$ 451	--	$ 451	$ 109	$ 560
Additional information:						
Notional amount	$ 275	$ 828,599	$ 258,821	$ 1,087,695	$ 826	$ 1,088,521
Number of counterparties	1	15	3	19		

	As of December 31, 2007					
	Credit Rating(1)					
	AAA	AA+/AA/AA-	A+/A/A-	Subtotal	Other(2)	Total
	(Dollars in millions)					
Credit loss exposure(3)	$ 4	$ 1,578	$ 1,004	$ 2,586	$ 74	$ 2,660
Less: Collateral held(5)	--	1,130	988	2,118	--	2,118
Exposure net of collateral	$ 4	$ 448	$ 16	$ 468	$ 74	$ 542
Additional information:						
Notional amount	$ 1,050	$ 637,847	$ 246,860	$ 885,757	$ 707	$ 886,464
Number of counterparties	1	17	3	21		

(1) We manage collateral requirements based on the lower credit rating, as issued by Standard & Poor's and Moody's, of the legal entity. The credit rating reflects the equivalent Standard & Poor's rating for any ratings based on Moody's scale.
(2) Includes MBS options, defined benefit mortgage insurance contracts, guaranteed guarantor trust swaps and swap credit enhancements accounted for as derivatives.
(3) Represents the exposure to credit loss on derivative instruments, which is estimated by calculating the cost, on a present value basis, to replace all outstanding contracts in a gain position. Derivative gains and losses with the same counterparty are netted where a legal right of offset exists under an enforceable master netting agreement. This table excludes mortgage commitments accounted for as derivatives.
(4) Represents both cash and noncash collateral posted by our counterparties to us. The value of the non-cash collateral is reduced in accordance with the counterparty agreements to help ensure recovery of any loss through the

disposition of the collateral. We posted cash collateral of $5.7 billion related to our counterparties' credit exposure to us as of September 30, 2008.

(5) Represents both cash and noncash collateral posted by our counterparties to us, adjusted for the collateral transferred subsequent to month-end, based on credit loss exposure limits on derivative instruments as of December 31, 2007. Settlement dates which vary by counterparty and ranged from one to three business days following the credit loss exposure valuation dates of December 31, 2007. The value of the non-cash collateral is reduced in accordance with counterparty agreements to help ensure recovery of any loss through the disposition of the collateral. We posted cash collateral of $1.2 billion related to our counterparties' credit exposure to us as of December 31, 2007.

Other concentrations Mortgage Servicers. Mortgage servicers collect mortgage and escrow payments from borrowers, pay taxes and insurance costs from escrow accounts, monitor and report delinquencies, and perform other required activities on our behalf. Our business with our mortgage servicers is concentrated. Our ten largest single-family mortgage servicers serviced 73% and 74% of our single-family mortgage credit book of business as of September 30, 2008 and December 31, 2007, respectively. Our ten largest multifamily mortgage servicers

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serviced 71% and 72% of our multifamily mortgage credit book of business as of September 30, 2008 and December 31, 2007, respectively. In July 2008, our largest single-family mortgage servicer was acquired. Reduction in the number of mortgage servicers would result in an increase in our concentration risk with the remaining servicers in the industry. If one of our principal mortgage servicers fails to meet its obligations to us, it could increase our credit-related expenses and credit losses, result in financial losses to us and have a material adverse effect on our earnings, liquidity, financial condition and net worth. Mortgage Insurers. We had primary and pool mortgage insurance coverage on single-family mortgage loans in our guaranty book of business of $108.2 billion and $9.7 billion, respectively, as of September 30, 2008, compared with $93.7 billion and $10.4 billion, respectively, as of December 31, 2007. Over 99% of our mortgage insurance was provided by eight mortgage insurance companies as of both September 30, 2008 and December 31, 2007. Recent increases in mortgage insurance claims due to higher credit losses in recent periods have adversely affected the financial results and condition of many mortgage insurers. In various actions since December 31, 2007, Standard & Poor's, Fitch and Moody's downgraded the insurer financial strength ratings of seven of our top eight primary mortgage insurer counterparties. As of September 30, 2008, these seven mortgage insurers provided $115.8 billion, or 98%, of our total mortgage insurance coverage on single-family loans in our guaranty book of business. The current weakened financial condition of many of our mortgage insurer counterparties creates an increased risk that our mortgage insurer counterparties will fail to fulfill their obligations to reimburse us for claims under insurance policies. If we determine that it is probable that we will not collect all of our claims from one or more of these mortgage insurer counterparties, it could result in an increase in our loss reserves, which could adversely affect our earnings, liquidity, financial condition and net worth. As of September 30, 2008, we have not included any provision for losses resulting from the inability of our mortgage insurers to fully pay claims. Financial Guarantors. We were the beneficiary of financial guarantees of approximately $10.4 billion and $11.8 billion on the securities held in our investment portfolio or on securities that have been resecuritized to include a Fannie Mae guaranty and sold to third parties as of September 30, 2008 and December 31, 2007, respectively. The securities covered by these guarantees consist primarily of private-label mortgage-related securities and municipal bonds. We obtained these guarantees from nine financial guaranty insurance companies. These financial guaranty contracts assure the collectability of timely interest and ultimate principal payments on the guaranteed securities if the cash flows generated by the underlying collateral are not sufficient to fully support these payments. If a financial guarantor fails to meet its obligations to us with respect to the securities for which we have obtained financial guarantees, it could reduce the fair value of our mortgage-related securities and result in financial losses to us, which could have a material adverse effect on our earnings, liquidity, financial condition and net worth.

18. Fair Value of Financial Instruments

We carry financial instruments at fair value, amortized cost or lower of cost or market. As defined in SFAS 157, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (also referred to as an exit price). When available, the fair value of our financial instruments is based on quoted market prices, valuation techniques that use observable market-based inputs or unobservable inputs that are corroborated by market

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data. Pricing information we obtain from third parties is internally validated for reasonableness prior to use in the consolidated financial statements. When observable market prices are not readily available, we generally estimate the fair value using market data alternate techniques or internally developed models using significant inputs that are generally less readily observable from objective sources. Market data includes prices of financial instruments with similar maturities and characteristics, duration, interest rate yield curves, measures of volatility and prepayment rates. If market data needed to estimate fair value is not available, we estimate fair value using internally-developed models that employ a discounted cash flow approach. These estimates are based on pertinent information available to us at the time of the applicable reporting periods. In certain cases, fair values are not subject to precise quantification or verification and may fluctuate as economic and market factors vary, and our evaluation of those factors changes. Although we use our best judgment in estimating the fair value of these financial instruments, there are inherent limitations in any estimation technique. In these cases, a minor change in an assumption could result in a significant change in our estimate of fair value, thereby increasing or decreasing the amounts of our consolidated assets, liabilities, stockholders' equity net income or loss. The fair value of financial instruments disclosure required by SFAS No. 107, Disclosures about Fair Value of Financial Instruments, includes commitments to purchase multifamily mortgage loans and single family reverse mortgage loans, which are off-balance sheet financial instruments that are not recorded in our condensed consolidated balance sheets. The fair value of these commitments are included as "Mortgage loans held for investment, net of allowance for loan losses." The disclosure excludes certain financial instruments, such as plan obligations for pension and other postretirement benefits, employee stock option and stock purchase plans, and also excludes all non-financial instruments. As a result, the fair value of our financial assets and liabilities does not represent the underlying fair value of our total consolidated assets and liabilities.

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The following table displays the carrying value and estimated fair value of our financial instruments as of September 30, 2008 and December 31, 2007.

	As of			
	September 30, 2008		December 31, 2007	
	Carrying Value	Estimated Fair Value	Carrying Value(1)	Estimated Fair Value(1)
	(Dollars in millions)			
Financial assets:				
Cash and cash equivalents(2)	$ 36,489	$ 36,489	$ 4,502	$ 4,502
Federal funds sold and securities purchased under agreements to resell	33,420	33,389	49,041	49,041
Trading securities	98,671	98,671	63,956	63,956
Available-for-sale securities	262,054	262,054	293,557	293,557
Mortgage loans held for sale	7,908	7,938	7,008	7,083
Mortgage loans held for investment, net of allowance for loan losses	397,834	387,255	396,516	395,822
Advances to lenders	9,605	9,421	12,377	12,049
Derivative assets	1,099	1,099	885	885
Guaranty assets and buy-ups	11,318	15,161	10,610	14,258
Total financial assets	$ 858,398	$ 851,477	$ 838,452	$ 841,153
Financial liabilities:				
Federal funds purchased and securities sold under agreements to repurchase	$ 1,357	$ 1,377	$ 869	$ 869
Short-term debt	280,382	280,413	234,160	234,368
Long-term debt	550,928	562,629	562,139	580,333
Derivative liabilities	1,305	1,305	2,217	2,217
Guaranty obligations	16,816	74,913	15,393	20,549
Total financial liabilities	$ 850,788	$ 920,637	$ 814,778	$ 838,336

(1) Pursuant to our adoption of FSP FIN 39-1, we have reduced "Derivative assets at fair value" and "Derivative liabilities at fair value" in our condensed consolidated balance sheet as of December 31, 2007.
(2) Includes restricted cash of $188 million and $561 million as of September 30, 2008 and December 31, 2007.

Notes to Fair Value of Financial Instruments Cash and Cash Equivalents--The carrying value of cash and cash equivalents is a reasonable estimate of their approximate fair value. Federal Funds Sold and Securities Purchased Under Agreements to Resell--The carrying value of our federal funds sold and securities purchased under agreements to resell approximates the fair value of these instruments due to their short-term nature, exclusive of dollar roll repurchase transactions. The fair value of our dollar roll repurchase transactions reflects prices for similar securities in the market. Trading

Securities and Available- for-Sale Securities--Our investments in securities are recognized at fair value in our condensed consolidated financial statements. Fair values of securities are primarily based on observable market prices or prices obtained from third parties. Details of these estimated fair values by type are displayed in "Note 6, Investments in Securities."

Mortgage Loans Held for Sale--Held for sale ("HFS") loans are reported at the lower of cost or market ("LOCOM") in our condensed consolidated balance sheets. We determine the fair value of our mortgage loans based on comparisons to Fannie Mae MBS with similar characteristics. Specifically, we use the observable market value of our Fannie Mae MBS as a base value, from which we subtract or add the fair value of the associated guaranty asset, guaranty obligation and master servicing arrangements. Mortgage Loans Held for Investment--Held for investment ("HFI") loans are recorded in our condensed consolidated balance sheets at the principal amount outstanding, net of unamortized premiums and discounts, cost basis adjustments and an allowance for loan losses. We determine the fair value of our mortgage loans based on comparisons to Fannie Mae MBS with similar characteristics. Specifically, we use the observable market value of our Fannie Mae MBS as a base value, from which we subtract or add the fair value of the associated guaranty asset, guaranty obligation and master servicing arrangements. Certain loans that do not qualify for MBS securitization are valued using market based data for similar loans or through a model approach that simulates a loan sale via a synthetic structure. Advances to Lenders--The carrying value of the majority of our advances to lenders approximates the fair value of these instruments due to their short-term nature. Advances to lenders for which the carrying value does not approximate fair value are valued based on comparisons to Fannie Mae MBS with similar characteristics, and applying the same pricing methodology as used for HFI loans as described above. Derivatives Assets and Liabilities (collectively, "Derivatives")--Our risk management derivatives and mortgage commitment derivatives are recognized in our condensed consolidated balance sheets at fair value, taking into consideration the effects of any legally enforceable master netting agreements that allow us to settle derivative asset and liability positions with the same counterparty on a net basis, as well as cash collateral. We use observable market prices or market prices obtained from third parties for derivatives, when available. For derivative instruments where market prices are not readily available, we estimate fair value using model-based interpolation based on direct market inputs. Direct market inputs include prices of instruments with similar maturities and characteristics, interest rate yield curves and measures of interest rate volatility. Details of these estimated fair values by type are displayed in "Note 10, Derivative Instruments and Hedging Activities." Guaranty Assets and Buy-ups--We estimate the fair value of guaranty assets based on the present value of expected future cash flows of the underlying mortgage assets using management's best estimate of certain key assumptions, which include prepayment speeds, forward yield curves, and discount rates commensurate with the risks involved. These cash flows are projected using proprietary prepayment, interest rate and credit risk models. Because guaranty assets are like an interest-only income stream, the projected cash flows from our guaranty assets are discounted using one month LIBOR plus the option-adjusted spread ("OAS") for interest only trust securities. The interest only OAS is calibrated using prices of a representative sample of interest only trust securities. We believe the remitted fee income is less liquid than trust interest only securities and more like excess servicing strip. We take a further haircut of the present value for liquidity considerations. The haircut is based on market quotes from dealers.

The fair value of the guaranty assets as presented in the table above and the recurring fair value measurement table below include the fair value of any associated buy-ups, which is estimated in the same manner as guaranty assets but are recorded separately as a component of "Other assets" in our condensed consolidated balance sheets. While the fair value of the guaranty assets reflect all guaranty arrangements, the carrying value primarily reflects only those arrangements entered into subsequent to our adoption of FIN 45. Federal Funds Purchased and Securities Sold Under Agreements to Repurchase--The carrying value of our federal funds purchased and securities sold under agreements to repurchase approximate the fair value of these instruments due to the short-term nature of these liabilities, exclusive of dollar roll repurchase transactions.

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Short-Term Debt and Long-Term Debt--We value the majority of our short-term and long-term debt using pricing services. Where third party pricing is not available on non-callable debt, we use a discounted cash flow approach based on the Fannie Mae yield curve with an adjustment to reflect fair values at the offer side of the market. When third party pricing is not available for callable bonds, we use internally-developed models calibrated to market to price these bonds. To estimate the fair value of structured notes, cash flows are evaluated taking into consideration any derivatives through which we have swapped out of the structured features of the notes. We continue to use third party prices to value our subordinated debt. Guaranty Obligations--The fair value of all guaranty obligations measured subsequent to their initial recognition, is our estimate of a hypothetical transaction price we would receive if we were to issue our guaranty to an unrelated party in a standalone arm's-length transaction at the measurement date. While the fair value of the guaranty obligation reflects all guaranty arrangements, the carrying value primarily reflects only those arrangements entered into subsequent to our adoption of FIN 45. See Note 2, "Summary of Significant Accounting Policies" for information regarding the change in approach in measuring the fair value of our guaranty obligation. Fair Value Measurement Effective January 1, 2008, we adopted SFAS 157, which provides a framework for measuring fair value under GAAP, as well as expanded information about assets and liabilities measured at fair value, including the effect of fair value measurements on earnings. The impact of adopting SFAS 157 increased the beginning balance of retained earnings as of January 1, 2008 by $62 million, net of tax. As described above, the inputs used to determine fair value can be readily observable, market corroborated or unobservable. We use valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Valuation Hierarchy The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. We perform a detailed analysis of the assets and liabilities that are subject to SFAS 157 to determine the appropriate level based on the observability of the inputs used in the valuation techniques. Assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories based on the lowest level input that is significant to the fair value measurement in its entirety:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2: Observable market-based inputs other than quoted prices in active markets for identical assets or liabilities.
Level 3: Unobservable inputs.

Level 1 consists of instruments whose value is based on quoted market prices in active markets, such as U.S. Treasuries. Level 2 includes instruments that are primarily valued using valuation techniques that use observable market-based inputs or unobservable inputs that are corroborated by market data. These inputs consider various assumptions, including time value, yield curve, volatility factors, prepayment speeds, default rates, loss severity, current market and contractual prices for the underlying financial instruments, as well as other relevant economic measures. Substantially all of these assumptions are observable in the marketplace, can be derived from observable market data or are supported by observable levels at which transactions are executed in the marketplace. This category also includes instruments whose values are based on quoted market prices

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provided by a single dealer that is corroborated by a recent transaction. Instruments in this category include mortgage and non-mortgage-related securities, mortgage loans held for sale, debt and derivatives. Level 3 is comprised of instruments whose fair value is estimated based on a market approach using alternate techniques or internally developed models using significant inputs that are generally less readily observable because of limited market activity or little or no price transparency. We include instruments whose value is based on a single source such as a dealer, broker or pricing service which cannot be corroborated by recent market transactions. Included in this category are guaranty assets and buy-ups, master servicing assets and liabilities, mortgage loans, mortgage and non-mortgage-related securities, long-term debt, derivatives, and acquired property. Recurring Change in Fair Value The following table displays our assets and liabilities measured on our condensed consolidated balance sheet at fair value on a recurring basis subsequent to initial recognition, including instruments for which we have elected the fair value option. Specifically, as disclosed under SFAS 157 requirements, total assets measured at fair value on a recurring basis and classified as level 3 were $69.6 billion, or 8% of "Total assets" in our condensed consolidated balance sheet as of September 30, 2008.

	Fair Value Measurements as of September 30, 2008				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Netting Adjustment(1)	Estimated Fair Value
	(Dollars in millions)				
Assets:					
Trading securities	$ 6	$ 84,492	$ 14,173	--	$ 98,671
Available-for-sale securities	--	208,731	53,323	--	262,054
Derivative assets(2)	--	20,808	280	(19,990)	1,098
Guaranty assets and buy-ups	--	--	1,866	--	1,866
Total assets at	$ 6	$ 314,031	$ 69,642	$ (19,990)	$ 363,689

fair value					
Liabilities:					
Short-term debt	--	$ 4,495	--	--	$ 4,495
Long-term debt	--	19,200	2,511	--	21,711
Derivative liabilities(2)	--	25,648	209	(24,553)	1,304
Other liabilities	--	1,923	--	--	1,923
Total liabilities at fair value	--	$ 51,266	$ 2,720	$ (24,553)	$ 29,433

(1) Derivative contracts are reported on a gross basis by level. The netting adjustment represents the effect of the legal right to offset under legally enforceable master netting agreements to settle with the same counterparty on a net basis, as well as cash collateral.
(2) Excludes accrued fees related to the termination of derivative contracts.

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The following table displays a reconciliation of all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (level 3) for the three and nine months ended September 30, 2008. The table also displays gains and losses due to changes in fair value, including both realized and unrealized gains and losses, recorded in our condensed consolidated statements of operations for level 3 assets and liabilities for the three and nine months ended September 30, 2008.

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)
For the Three Months Ended September 30, 2008

	Trading Securities	Available-for-sale Securities	Net Derivatives	Guaranty Assets and Buy-ups	Long-Term Debt
		(Dollars in millions)			
Beginning balance as of July 1, 2008	$ 14,325	$ 40,033	$ 163	$ 1,947	$ (3,309)
Realized/unrealized gains (losses) included in net loss	(631)	(890)	49	(44)	23
Unrealized losses included in other comprehensive loss	--	(1,574)	--	(123)	--
Purchases, sales, issuances, and settlements, net	(948)	2,440	(57)	86	775
Transfers in/out of Level 3, net(1)	1,427	13,314	(84)	--	--
Ending balance as of September 30, 2008	$ 14,173	$ 53,323	$ 71	$ 1,866	$ (2,511)

Net unrealized losses included in net loss related to assets and liabilities still held at period end(2)	$ (513)	--	$ (4)	$ (63)	$ 31

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)
For the Nine Months Ended September 30, 2008

	Trading Securities	Available-for-sale Securities	Net Derivatives	Guaranty Assets and Buy-ups	Long-Term Debt
		(Dollars in millions)			
Beginning balance as of January 1, 2008	$ 18,508	$ 20,920	$ 161	$ 1,568	$ (7,888)
Realized/unrealized gains (losses) included in net loss	(1,074)	(987)	41	157	29
Unrealized losses included in other comprehensive loss	--	(2,655)	--	(113)	--
Purchases, sales, issuances, and settlements, net	(3,348)	611	(149)	254	5,150
Transfers in/out of Level 3, net(1)	87	35,434	18	--	198
Ending balance as of September 30, 2008	$ 14,173	$ 53,323	$ 71	$ 1,866	$ (2,511)
Net unrealized gains (losses) included in net loss related to assets and liabilities still held at period end(2)	$ (460)	--	$ (49)	$ 145	$ 76

(1) When pricing service quotes are not available or differ from additional market information, we may use alternate techniques based upon multiple data sources which can result in level 3 prices. The increase in level 3 balances during the three months ended September 30, 2008 resulted from the transfer from level 2 to level 3 of primarily private-label mortgage-related securities backed by Alt-A loans or subprime loans, partially offset by liquidations. This transfer reflects the ongoing effects of the extreme disruption in the mortgage market and severe reduction in market liquidity for certain mortgage products, such as private-label mortgage-related securities backed by Alt-A loans or subprime

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS--(Continued)(UNAUDITED)

loans. Due to the reduction in recently executed transactions and market price quotations for these instruments, the market inputs for these instruments are less observable.

(2) Amount represents temporary changes in fair value. Amortization, accretion and other-than-temporary impairments are not considered unrealized and not included in this amount.

The following table displays gains and losses (realized and unrealized) recorded in our condensed consolidated statements of operations for the three and nine months ended September 30, 2008 for assets and liabilities transferred into level 3 measured in our condensed consolidated balance sheet at fair value on a recurring basis.

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) For the Three Months Ended September 30, 2008		
	Trading Securities	Available-for-sale Securities	Net Derivatives
	(Dollars in millions)		
Realized/unrealized losses included in net loss	$ (203)	$ (442)	$ (84)
Unrealized losses included in other comprehensive loss	--	(78)	--
Total losses	$ (203)	$ (520)	$ (84)
Amount of Level 3 Transfers in	$ 2,807	$ 18,295	$ (84)

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) For the Nine Months Ended September 30, 2008		
	Trading Securities	Available-for-sale Securities	Net Derivatives
	(Dollars in millions)		
Realized/unrealized gains (losses) included in net loss	$ (382)	$ (662)	$ 18
Unrealized losses included in other comprehensive loss	--	(2,326)	--
Total gains (losses)	$ (382)	$ (2,988)	$ 18
Amount of Level 3 Transfers in	$ 8,467	$ 48,346	$ 18

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The following table displays gains and losses (realized and unrealized) included in our condensed consolidated statements of operations for the three and nine months ended September 30, 2008 for our level 3 assets and liabilities measured in our condensed consolidated balance sheet at fair value on a recurring basis.

	For the Three Months Ended September 30, 2008				
	Interest Income Investment in Securities	Guaranty Fee Income	Investment Gains (Losses), net	Fair Value Gains (Losses), net	Total
	(Dollars in millions)				
Total realized/unrealized gains (losses) included in net loss as of September 30, 2008	$ 10	$ (149)	$ (807)	$ (547)	$ (1,493)
Net unrealized gains (losses) related to the assets and liabilities still held as of September 30, 2008	--	$ (63)	--	$ (486)	$ (549)

	For the Nine Months Ended September 30, 2008				
	Interest Income Investment in Securities	Guaranty Fee Income	Investment Gains (Losses), net	Fair Value Gains (Losses), net	Total
	(Dollars in millions)				
Total realized/unrealized gains (losses) included in net loss as of September 30, 2008	$ 5	$ (137)	$ (719)	$ (983)	$ (1,834)
Net unrealized gains (losses) related to the assets and liabilities still held as of September 30, 2008	--	$ 145	--	$ (433)	$ (288)

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS--(Continued)(UNAUDITED)
Non-recurring Change in Fair Value The following table displays assets and liabilities measured at fair value on a non-recurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when we evaluate for impairment), and the gains or losses recognized for the three and nine months ended September 30, 2008, as a result of fair value measurement are summarized below.

	Fair Value Measurements For the Nine Months Ended of September 30, 2008				For the Three Months Ended September 30, 2008	For the Nine Months Ended September 30, 2008
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Estimated Fair Value	Total Gains (Losses)	Total Gains (Losses)
	(Dollars in millions)					
Assets:						
Mortgage loans held for sale, at lower of cost or market		$ 19,032	$ 1,130	$ 20,162 (1)	$ 5	$ (310)
Mortgage loans held for investment, at amortized cost		--	1,180	1,180 (2)	(26)	(61)
Acquired property, net		--	5,989	5,989 (3)	(349)	(828)
Guaranty assets		--	4,191	4,191 (4)	(145)	(445)
Master servicing assets		--	620	620	20	(242)
Total assets at fair value		$ 19,032	$ 13,110	$ 32,142	$ (495)	$ (1,886)
Liabilities:						
Master servicing liabilities		--	$ 9	$ 9	$ (1)	$ (1)
Total liabilities at fair value		--	$ 9	$ 9	$ (1)	$ (1)

(1) Includes $13.6 billion of mortgage loans held for sale that were sold, retained as a mortgage-related security or redesignated to mortgage loans

held for investment as of September 30, 2008.
(2) Includes $99 million of mortgage loans held for investment liquidated or transferred to foreclosed properties as of September 30, 2008.
(3) Includes $2.5 billion of foreclosed properties that were sold as of September 30, 2008.
(4) Includes $19 million of guaranty assets extinguished as of September 30, 2008.

Valuation Classification The following is a description of the instruments measured at fair value under SFAS 157 as well as the general classification of such instruments pursuant to the valuation hierarchy described above under SFAS 157. Trading Securities and Available- for-Sale Securities--Fair value is determined using quoted market prices in active markets for identical assets, when available. Securities, such as U.S. Treasuries, whose value is based on quoted market prices in active markets for identical assets are classified as level 1. If quoted market prices in active markets for identical assets are not available, we use quoted market prices in active markets for similar securities that we adjust for observable or corroborated pricing services market information. A significant amount of the population is valued using prices provided by four pricing services for identical assets. In the

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absence of observable or corroborated market data, we use internally developed estimates, incorporating market-based assumptions wherever such information is available. The fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows. Such instruments may generally be classified within level 2 of the valuation hierarchy. Where there is limited activity or less transparency around inputs to the valuation, securities are classified as level 3. Mortgage Loans Held for Sale--Includes loans where fair value is determined on a pool level, loan level or product and interest rate basis. Level 2 inputs include MBS values. Level 3 inputs include MBS values where price is influenced significantly by extrapolation from observable market data, products in inactive markets or unobservable inputs. Mortgage Loans Held for Investment--Represents individually impaired loans, classified as level 3, where fair value is less than carrying value. Includes modified and delinquent loans acquired from MBS trusts under SOP 03-3. Valuations are based on regional prices and level 3 inputs include the collateral value used to value the loan. Acquired Property, Net--Includes foreclosed property received in full satisfaction of a loan. The fair value of our foreclosed properties is determined by third-party appraisals, when available. When third-party appraisals are not available, we estimate fair value based on factors such as prices for similar properties in similar geographical areas and/or assessment through observation of such properties. Our acquired property is classified within level 3 of the valuation hierarchy because significant inputs are unobservable. Derivatives Assets and Liabilities (collectively, "Derivatives")--The valuation of risk management derivatives uses observable market data provided by third-party sources where available, resulting in level 2 classification. Certain highly complex derivatives use only a single source of price information due to lack of transparency in the market and may be modeled using significant assumptions, resulting in level 3 classification. Mortgage commitment derivatives use observable market data, quotes and actual transaction levels adjusted for market movement and are typically classified as level 2. Adjustments for market movement that require internal model results and cannot be corroborated by observable market data are classified as level 3. Guaranty Assets and

Buy-ups--Guaranty assets related to our portfolio securitizations are measured at fair value on a recurring basis and are classified within level 3 of the valuation hierarchy. Guaranty assets in a lender swap transaction that are impaired under Emerging Issues Task Force Issue No. 99-20, Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests that Continue to Be Held by a Transferor in Securitized Financial Assets, are measured at fair value on a non-recurring basis and are classified within level 3 of the fair value hierarchy. As described above, level 3 inputs include management's best estimate of certain key assumptions. Master Servicing Assets and Liabilities--We value our master servicing assets and liabilities based on the present value of expected cash flows of the underlying mortgage assets using management's best estimates of certain key assumptions, which include prepayment speeds, forward yield curves, adequate compensation, and discount rates commensurate with the risks involved. Changes in anticipated prepayment speeds, in particular, result in fluctuations in the estimated fair values of our master servicing assets and liabilities. If actual prepayment experience differs from the anticipated rates used in our model, this difference may result in a material change in the fair value. Our master servicing assets and liabilities are classified within level 3 of the valuation hierarchy. Short-Term Debt and Long-Term Debt--The majority of our debt instruments are priced using pricing services. Where third party pricing is not available on non-callable debt, we use a discounted cash flow approach based on the Fannie Mae yield curve with an adjustment to reflect fair values at the offer side of the market. When third party pricing is not available for callable bonds, we use internally-developed models calibrated to market

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 to price these bonds. Included within Short-Term Debt and Long-Term Debt are structured notes for which we elected the fair value option under SFAS 159. To estimate the fair value of structured notes, cash flows are evaluated taking into consideration any derivatives through which we have swapped out of the structured features of the notes. Where the inputs into the valuation are primarily based upon observable market data, our debt is classified within level 2 of the valuation hierarchy. Where significant inputs are unobservable or valued with a quote from a single source, our debt is classified within level 3 of the valuation hierarchy. Other Liabilities--Represents dollar roll repurchase transactions that reflect prices for similar securities in the market. Valuations are based on observable market-based inputs, quoted market prices and actual transaction levels adjusted for market movement and are typically classified as level 2. Adjustments for market movement that require internal model results that cannot be corroborated by observable market data are classified as level 3. Fair Value Option On January 1, 2008, we adopted SFAS 159. SFAS 159 allows companies the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities, and requires that the difference between the carrying value before election of the fair value option and the fair value of these instruments be recorded as an adjustment to beginning retained earnings in the period of adoption on a contract-by-contract basis. The following table displays the impact of adopting SFAS 159 to beginning retained earnings as of January 1, 2008.

	Carrying Value as of January 1, 2008 Prior to Adoption of	Transition	Fair Value as of January 1, 2008 After Adoption of

	Fair Value Option	Gain (Loss)	Fair Value Option
	(Dollars in millions)		
Investments in securities	$ 56,217	$ 143 (1)	$ 56,217
Long-term debt	9,809	(10)	9,819
Pre-tax cumulative effective of adoption		133	
Increase in deferred taxes		(47)	
Cumulative effect of adoption to beginning retained earnings		$ 86	

(1) We adopted the fair value option for certain securities classified within our mortgage-related and non-mortgage-related investment portfolio previously classified as available-for-sale. These securities are presented in our condensed consolidated balance sheet at fair value in accordance with SFAS 115 and the amount of transition gain was recognized in AOCI as of December 31, 2007 prior to adoption of SFAS 159.

Elections The following is a discussion of the primary financial instruments for which we made fair value elections and the basis for those elections. Non-mortgage-related securities We elected the fair value option for all non-mortgage-related securities, excluding those non-mortgage-related securities that are classified as cash equivalents, as these securities are held primarily for liquidity purposes and fair value reflects the most transparent basis for reporting. As of September 30, 2008, these instruments had an aggregate fair value of $19.4 billion.

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Prior to the adoption of SFAS 159, these available-for-sale securities were recorded at fair value in accordance with SFAS 115, with changes in fair value recorded in AOCI. Following the election of the fair value option, these securities were reclassified to "Trading securities" in our condensed consolidated balance sheet and are now recorded at fair value with subsequent changes in fair value recorded in "Fair value losses, net" in our condensed consolidated statements of operations. Mortgage-related securities We elected the fair value option for certain 15-year and 30-year agency mortgage-related securities that were previously classified as available-for-sale securities in our mortgage portfolio. These securities were selected for the fair value option primarily in order to reduce the volatility in earnings that results from accounting asymmetry between our derivatives that are accounted for at fair value through earnings and our available-for-sale securities that are accounted for at fair value through AOCI. As of September 30, 2008, these instruments had an aggregate fair value of $16.1 billion. Prior to the adoption of SFAS 159, these securities were recorded at fair value in accordance with SFAS 115 with changes recorded in AOCI. Following the election of the fair value option, these securities were reclassified to "Trading securities" in our condensed consolidated balance sheet and are now recorded at fair value with subsequent changes in fair value recorded in "Fair value losses, net" in our condensed consolidated statements of operations. Structured debt instruments We elected the fair value option for short-term and long-term structured debt instruments that are issued in response to specific investor demand and have interest rates that are based on a calculated index or formula and that are economically hedged with derivatives at the time of

issuance. By electing the fair value option for these instruments, we are able to eliminate the volatility in our results of operations that would otherwise result from the accounting asymmetry created by the accounting for these structured debt instruments at cost while accounting for the related derivatives at fair value. As of September 30, 2008, these instruments had an aggregate fair value and unpaid principal balance of $4.5 billion, and an aggregate fair value and unpaid principal balance of $21.7 billion, recorded in "Short-term debt" and "Long-term debt," respectively, in our condensed consolidated balance sheet. Following the election of the fair value option, these debt instruments are recorded at fair value with subsequent changes in fair value recorded in "Fair value losses, net." These structured debt instruments continue to be classified as either "Short-term debt" or "Long-term debt" in our condensed consolidated balance sheets based on their original maturities. Interest accrued on these short-term and long-term debt instruments continues to be recorded in "Interest expense" in our condensed consolidated statements of operations.

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Changes in Fair Value under the Fair Value Option Election The following table displays debt fair value gains (losses), net, including changes attributable to instrument-specific credit risk. Amounts are recorded as a component of "Fair value losses, net" in our condensed consolidated statements of operations for the three and nine months ended September 30, 2008, for which the fair value election was made.

	For the Three Months Ended September 30, 2008			For the Nine Months Ended September 30, 2008		
	Short-Term Debt	Long-Term Debt	Total Gains (Losses)	Short-Term Debt	Long-Term Debt	Total Gains (Losses)
			(Dollars in millions)			
Changes in instrument-specific risk	$ (10)	$ (113)	$ (123)	$ (5)	$ (50)	$ (55)
Other changes in fair value	16	141	157	10	93	103
Debt fair value gains, net	$ 6	$ 28	$ 34	$ 5	$ 43	$ 48

In determining specific risk, the changes in Fannie Mae debt spreads to LIBOR that occurred during the period were taken into consideration with the overall change in the fair value of the debt for which we elected the fair value option under SFAS 159. Specifically, cash flows are evaluated taking into consideration any derivatives through which Fannie Mae has swapped out of the structured features of the notes and thus created a floating rate LIBOR-based debt instrument. The change in value of these LIBOR-based cash flows based on the Fannie Mae yield curve at the beginning and end of the period represents the instrument specific risk.

19. Commitments and Contingencies

We are party to various types of legal proceedings that are subject to many uncertain factors that are not recorded in our condensed consolidated financial statements. Litigation claims and proceedings of all types are subject to many uncertain factors that generally cannot be predicted with assurance. The following describes our material legal proceedings, examinations and other matters. An unfavorable outcome in certain of these legal proceedings could have a material adverse effect on our business, financial condition, results of operations and cash flows. In view of the inherent difficulty of predicting the outcome of these proceedings, we cannot state with confidence what the eventual outcome of the pending matters will be. Because we concluded that a loss with respect to any pending matter discussed below was not both probable and reasonably estimable as of November 9, 2008, we have not recorded a reserve for any of those matters. With respect to the lawsuits described below, we believe we have valid defenses to the claims in these lawsuits and intend to defend these lawsuits vigorously. In addition to the matters specifically described herein, we are also involved in a number of legal and regulatory proceedings that arise in the ordinary course of business that we do not expect will have a material impact on our business. During 2007 and 2008, we advanced fees and expenses of certain current and former officers and directors in connection with various legal proceedings pursuant to indemnification agreements. None of these amounts were material. Securities Class Action Lawsuits In re Fannie Mae Securities Litigation Beginning on September 23, 2004, 13 separate complaints were filed by holders of certain of our securities against us, as well as certain of our former officers, in three federal district courts. All of the cases were consolidated and/or transferred to the U.S. District Court for the District of Columbia. The court entered an

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order naming the Ohio Public Employees Retirement System and State Teachers Retirement System of Ohio as lead plaintiffs. The lead plaintiffs filed a consolidated complaint on March 4, 2005 against us and certain of our former officers. That complaint was subsequently amended on April 17, 2006 and then again on August 14, 2006. The lead plaintiffs' second amended complaint also added KPMG LLP and Goldman, Sachs & Co. as additional defendants. The lead plaintiffs allege that the defendants made materially false and misleading statements in violation of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, and SEC Rule 10b-5 promulgated thereunder, largely with respect to accounting statements that were inconsistent with the GAAP requirements relating to hedge accounting and the amortization of premiums and discounts. The lead plaintiffs contend that the alleged fraud resulted in artificially inflated prices for our common stock and seek unspecified compensatory damages, attorneys' fees, and other fees and costs. On January 7, 2008, the court issued an order that certified the action as a class action, and appointed the lead plaintiffs as class representatives and their counsel as lead counsel. The court defined the class as all purchasers of Fannie Mae common stock and call options and all sellers of publicly traded Fannie Mae put options during the period from April 17, 2001 through December 22, 2004. On April 16, 2007, KPMG LLP, our former outside auditor and a co-defendant in the shareholder class action suit, filed cross-claims against us in this action for breach of contract, fraudulent misrepresentation, fraudulent inducement, negligent misrepresentation and contribution. KPMG amended these cross-claims on February 15, 2008. KPMG is seeking unspecified compensatory, consequential, restitutionary, rescissory and punitive damages, including purported damages related to legal costs, exposure to legal liability, costs and expenses of responding to investigations related to our accounting, lost fees, attorneys'

fees, costs and expenses. Our motion to dismiss certain of KPMG's cross-claims was denied. On July 18, 2008, in the consolidated shareholder class action lawsuit against us and certain of our former officers, the Court granted the stipulated dismissal of the Evergreen individual securities case filed by certain institutional investors. On October 17, 2008, FHFA intervened in the consolidated shareholder class action (as well as in the consolidated ERISA litigation and the shareholder derivative lawsuits pending in the United States District Court for the District of Columbia) and filed a motion to stay those cases. On October 20, 2008, the Court issued an order staying the cases until January 6, 2009. Securities Class Action Lawsuits Pursuant to the Securities Act of 1933 Beginning on August 7, 2008, a series of shareholder lawsuits were filed under the Securities Act against underwriters of issuances of certain Fannie Mae common and preferred stock. Two of these lawsuits were also filed against us and one of those two was also filed against certain former Fannie Mae officers and directors. While the factual allegations in these cases vary to some degree, these plaintiffs generally allege that defendants misled investors by understating the company's need for capital, causing putative class members to purchase shares at artificially inflated prices. Their complaints allege similar violations of Section 12(a)(2) of the Securities Act, and seek rescission, damages, interest, costs, attorneys' and experts' fees, and other equitable and injunctive relief. Each individual case is described more fully below. We believe we have valid defenses to the claims in these lawsuits and intend to defend against these lawsuits vigorously. Krausz v. Fannie Mae, et al. On September 11, 2008, Malka Krausz filed a complaint in New York Supreme Court against Fannie Mae, former officers Daniel H. Mudd and Stephen M. Swad, and underwriters Lehman Brothers, Inc., Merrill Lynch, Pierce, Fenner & Smith Inc., Goldman Sachs & Co., and J.P. Morgan Securities, Inc. The complaint

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was filed on behalf of purchasers of Fannie Mae's Fixed-to-Floating Rate Non-Cumulative Preferred Stock, Series S (referred to as the "Series S Preferred Stock") pursuant to an offering that closed on December 11, 2007. The complaint alleges that defendants misled investors by understating our need for capital, causing putative class members to purchase shares at artificially inflated prices. The complaint contends further that the defendants violated Sections 12(a)(2) and 15 of the Securities Act. The complaint also asserts claims for common law fraud and negligent misrepresentation. Plaintiff seeks rescission of the purchases, damages, costs, including attorneys', accountants', and experts' fees, and other unspecified relief. On October 6, 2008, this case was removed to the United States District Court for the Southern District of New York, where it is currently pending. On October 14, 2008, we, along with certain of the defendants, filed a motion to dismiss this case. Our motion remains pending. Kramer v. Fannie Mae, et al. On September 26, 2008, Daniel Kramer filed a securities class action complaint in the Superior Court of New Jersey, Law Division, Bergen County, against Fannie Mae, Merrill Lynch, Pierce, Fenner & Smith Inc., Citigroup Global Markets Inc., Morgan Stanley & Co. Inc., UBS Securities LLC, Wachovia Capital Markets LLC, Moody's Investors Services, Inc., The McGraw-Hill Companies, Inc., Standard & Poor's Ratings Services, and Fitch Ratings, Inc. The complaint was filed on behalf of purchasers of Fannie Mae's Series S Preferred Stock and/or Fannie Mae's 8.25% Non-cumulative Preferred Stock, Series T (referred to as the "Series T Preferred Stock") issued pursuant to an offering that closed on May 13, 2008. The complaint alleges that the defendants violated Section 12(a)(2) of the Securities Act. Plaintiff seeks rescission of the purchases, damages, costs, including attorneys', accountants', and experts' fees, and other unspecified relief. On October 27, 2008, this lawsuit was removed to the United States District Court for the District of New Jersey, where it is currently pending. Securities Class Action Lawsuits Pursuant to the Securities Exchange Act of 1934 On September 8, 2008, the first of several shareholder lawsuits was filed under the Exchange Act against certain current and former Fannie Mae officers and directors, underwriters of issuances of certain Fannie Mae common and preferred stock, and, in one case, Fannie Mae. While the factual allegations in these cases vary to some degree, the plaintiffs generally allege that defendants misled investors by understating the company's need for capital, causing putative class members to purchase shares at artificially inflated prices. The plaintiffs generally allege similar violations of Sections 10(b) (and Rule 10b-5 promulgated thereunder) and 20(a) of the Exchange Act, and seek damages, interest, costs, attorneys' and experts' fees, and injunctive and other unspecified equitable relief. Each individual case is described more fully below. We believe we have valid defenses to the claims in these lawsuits and intend to defend against these lawsuits vigorously. Genovese v. Ashley, et al. On September 8, 2008, John A. Genovese filed a securities class action complaint in the U.S. District Court for the Southern District of New York against former officers and directors Stephen B. Ashley, Robert J. Levin, Daniel H. Mudd, and Stephen Swad. Fannie Mae was not named as a defendant. The complaint was filed on behalf of all persons who purchased or otherwise acquired the publicly traded securities of Fannie Mae between November 16, 2007 and September 5, 2008. The complaint alleges that the defendants violated Sections 10(b) (and Rule 10b-5 promulgated thereunder) and 20(a) of the Exchange Act. Plaintiff seeks damages, interest, costs, attorneys' fees, and injunctive and other unspecified equitable relief.

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Gordon v. Ashley, et al. On September 11, 2008, Hilda Gordon filed a securities class action complaint in the U.S. District Court for the Southern District of Florida against current and former officers and directors Stephen B. Ashley, Dennis Beresford, Louis J. Freeh, Brenda J. Gaines, Frederick Harvey, III, Karen N. Horn, Robert J. Levin, Thomas Lund, Bridget A. Macaskill, Daniel H. Mudd, Leslie Rahl, John C. Sites, Jr., Greg C. Smith, Stephen Swad, H. Patrick Swygert, and John K. Wulff. Fannie Mae was not named as a defendant. The complaint was filed on behalf of all persons who purchased or otherwise acquired the publicly traded securities of Fannie Mae between November 16, 2007 and September 11, 2008. In addition to alleging that the defendants violated Sections 10(b) (and Rule 10b-5 promulgated thereunder) and 20(a) of the Exchange Act, the complaint also alleges that they violated the Florida Deceptive and Unfair Trade Practices Act. Plaintiff seeks damages, interest, costs, attorneys' fees, and injunctive and other unspecified equitable relief. Crisafi v. Merrill Lynch, et al. On September 16, 2008, Nicholas Crisafi and Stella Crisafi, Trustees FBO the Crisafi Inter Vivos Trust, filed a securities class action complaint in the U.S. District Court for the Southern District of New York against former officers and directors Stephen B. Ashley, Robert J. Levin, Daniel H. Mudd, and Stephen Swad as well as underwriters Citigroup Global Markets, Inc., Merrill Lynch, Pierce, Fenner & Smith Inc., Morgan Stanley & Co., Inc., UBS Securities LLC, and Wachovia Capital Markets LLC. Fannie Mae was not named as a defendant. The complaint was filed on behalf of purchasers of Fannie Mae's Series T Preferred Stock, from May 13, 2008 to September 6, 2008. The complaint alleges that the defendants violated Sections 10(b) (and Rule 10b-5 promulgated thereunder) and 20(a) of the Exchange Act. The plaintiffs seek compensatory damages, including interest, and costs and expenses, including attorneys' and experts' fees. Fogel Capital Mgmt. v. Fannie Mae, et al. On September 18, 2008, Fogel Capital Management, Inc. filed a securities class action complaint in the U.S. District Court for the Southern District of New York against Fannie Mae and current and former officers and directors Stephen B. Ashley, Dennis Beresford, Louis J. Freeh, Brenda J. Gaines, Frederick Harvey, III, David Hisey, Karen N. Horn, Robert J. Levin, Bridget A. Macaskill, Daniel H. Mudd, Peter Niculescu, Leslie Rahl, John C. Sites, Jr., Greg C. Smith, Stephen Swad, H. Patrick Swygert, and John K. Wulff. The complaint's factual allegations and claims for relief are based on purchases of Fannie Mae's Series S Preferred Stock, but the plaintiff purports to bring the suit on behalf of purchasers of all Fannie Mae securities from November 9, 2007 through September 5, 2008. The complaint alleges that the defendants violated Sections 10(b) (and Rule 10b-5 promulgated thereunder) and 20(a) of the Exchange Act. The plaintiffs seek compensatory damages, including interest, costs and expenses, including attorneys' and experts' fees, and injunctive and other unspecified equitable relief. Jesteadt v. Ashley, et al. On September 24, 2008, Leonard and Grace Jesteadt filed a securities class action complaint in the U.S. District Court for the Western District of Pennsylvania against current and former officers and directors Stephen B. Ashley, Dennis R. Beresford, Louis J. Freeh, Brenda J. Gaines, Frederick B. Harvey, III, Karen N. Horn, Robert J. Levin, Thomas Lund, Bridget A. Macaskill, Daniel H. Mudd, Leslie Rahl, John C. Sites, Jr., Greg C. Smith, Stephen Swad, H. Patrick Swygert, and John K. Wulff. Fannie Mae was not named as a defendant. The complaint was filed on behalf of all persons who purchased or otherwise acquired the publicly traded securities of Fannie Mae between November 16, 2007 and September 24, 2008. The complaint alleges that the defendants violated Sections 10(b) (and Rule 10b-5 promulgated thereunder) and 20(a) of the

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Exchange Act. The plaintiffs seek permanent injunctive relief, compensatory damages, including interest, costs and expenses, including attorneys' and experts' fees. Sandman v. J.P. Morgan Securities, Inc., et al. On September 29, 2008, Dennis Sandman filed a securities class action complaint in the U.S. District Court for the Southern District of New York against former officers and directors Stephen B. Ashley, Robert J. Levin, Daniel H. Mudd, and Stephen Swad, and underwriters Banc of America Securities LLC, Goldman Sachs & Co., J.P. Morgan Securities, Inc., Lehman Brothers, Inc., and Merrill Lynch, Pierce, Fenner & Smith, Inc. Fannie Mae was not named as a defendant. The complaint was filed on behalf of purchasers of Fannie Mae's 8.75% Non-Culumative Mandatory Convertible Preferred Stock Series 2008-1 from May 14, 2008 to September 5, 2008. The complaint alleges that the defendants violated Sections 10(b) (and Rule 10b-5 promulgated thereunder) and 20(a) of the Exchange Act. Plaintiff seeks compensatory damages, including interest, and costs and expenses, including attorneys' and experts' fees. Frankfurt v. Lehman Bros., Inc., et al. On October 7, 2008, plaintiffs David L. Frankfurt, the Frankfurt Family Ltd., The David Frankfurt 2000 Family Trust, and the David Frankfurt 2002 Family Trust filed a securities class action complaint in the U.S. District Court for the Southern District of New York against former officers and directors Stephen Ashley, Daniel Mudd, Stephen Swad, and Robert Levin, and underwriters Lehman Brothers, Inc., Merrill Lynch, Pierce, Fenner & Smith, Inc., J.P. Morgan Securities, Inc., and Goldman Sachs & Co. Fannie Mae was not named as a defendant. The complaint was filed on behalf of purchasers of Fannie Mae's Series S Preferred Stock from December 11, 2007 to September 5, 2008. The complaint alleges that the defendants violated Sections 10(b) (and Rule 10b-5 promulgated thereunder) and 20(a) of the Exchange Act. The plaintiffs seek compensatory damages, including interest, and reasonable costs and expenses, including attorneys' and experts' fees. Schweitzer v. Merrill Lynch, et al. On October 8, 2008, plaintiffs Stephen H. Schweitzer and Linda P. Schweitzer filed a securities class action complaint in the U.S. District Court for the Southern District of New York against former officers and directors Stephen B. Ashley, Daniel H. Mudd, Stephen M. Swad, and Robert J. Levin, and underwriters Merrill Lynch, Pierce, Fenner & Smith, Inc., Goldman Sachs & Co., J.P. Morgan Securities, Inc., Banc of America Securities LLC, Bear, Stearns & Co., Citigroup Global Markets, Inc., Deutsche Bank Securities, Inc., Morgan Stanley & Co., Inc., and UBS Securities LLC. Fannie Mae was not named as a defendant. The complaint was filed on behalf of purchasers of Fannie Mae's Series S Preferred Stock in or traceable to the offering of Series S Preferred Stock that closed December 11, 2007, through September 5, 2008. The complaint alleges that the defendants violated Sections 10(b) (and Rule 10b-5 promulgated thereunder) and 20(a) of the Exchange Act. The plaintiffs seek compensatory damages, including interest, and reasonable costs and expenses, including attorneys' and experts' fees. Williams v. Ashley, et al. On October 10, 2008, plaintiffs Lynn Williams and SteveAnn Williams filed a securities class action complaint in the U.S. District Court for the Southern District of New York against current and former officers and directors Stephen B. Ashley, Stephen M. Swad, Robert J. Levin, Dennis R. Beresford, Louis J. Freeh, Brenda J. Gaines, Karen N. Horn, Bridget A. Macaskill, Leslie Rahl, John C. Sites, Greg C. Smith, H. Patrick Swygert, and John K. Wulff. Fannie Mae was not named as a defendant. The complaint was filed on behalf of

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purchasers of Fannie Mae's Series S Preferred Stock, from December 6, 2007 through September 5, 2008. The complaint alleges that defendants violated Sections 10(b) (and Rule 10b-5 promulgated thereunder) and 20(a) of the Exchange Act. The plaintiffs seek compensatory damages, including interest, and reasonable costs and expenses, including attorneys' and experts' fees. Securities Class Action Lawsuit Pursuant to the Securities Act of 1933 and the Securities Exchange Act of 1934 Jarmain v. Merrill Lynch, et al. On October 3, 2008, Brian Jarmain filed a securities class action complaint in the U.S. District Court for the Southern District of New York against former officers and directors Stephen B. Ashley, Robert J. Levin, Daniel H. Mudd, and Stephen M. Swad, and underwriters Citigroup Global Markets, Inc., Merrill Lynch, Pierce, Fenner & Smith, Inc., Morgan Stanley & Co., Inc., UBS Securities LLC, and Wachovia Capital Markets LLC. Fannie Mae was not named as a defendant. The complaint was filed on behalf of purchasers of Fannie Mae's Series T Preferred Stock from May 13, 2008 to September 6, 2008. The complaint alleges violations of both Section 12(a)(2) of the Securities Act and Sections 10(b) (and Rule 10b-5 promulgated thereunder) and 20(a) of the Exchange Act. Plaintiff seeks compensatory damages, including interest, fees and expenses, including attorneys' and experts' fees, and injunctive and other unspecified equitable and relief. Shareholder Derivative Lawsuits In re Fannie Mae Shareholder Derivative Litigation Beginning on September 28, 2004, ten plaintiffs filed twelve shareholder derivative actions (i.e., lawsuits filed by shareholder plaintiffs on our behalf) in three different federal district courts and the Superior Court of the District of Columbia against certain of our current and former officers and directors and against us as a nominal defendant. All of these shareholder derivative actions have been consolidated into the U.S. District Court for the District of Columbia and the court entered an order naming Pirelli Armstrong Tire Corporation Retiree Medical Benefits Trust and Wayne County Employees' Retirement System as co-lead plaintiffs. A consolidated complaint was filed on September 26, 2005 against certain of our current and former officers and directors and against us as a nominal defendant. The consolidated complaint alleges that the defendants purposefully misapplied GAAP, maintained poor internal controls, issued a false and misleading proxy

statement and falsified documents to cause our financial performance to appear smooth and stable, and that Fannie Mae was harmed as a result. The claims are for breaches of the duty of care, breach of fiduciary duty, waste, insider trading, fraud, gross mismanagement, violations of the Sarbanes-Oxley Act of 2002, and unjust enrichment. Plaintiffs seek unspecified compensatory damages, punitive damages, attorneys' fees, and other fees and costs, as well as injunctive relief directing us to adopt certain proposed corporate governance policies and internal controls. The lead plaintiffs filed an amended complaint on September 1, 2006, which added certain third parties as defendants. The amended complaint also added allegations concerning the nature of certain transactions between these entities and Fannie Mae, and added additional allegations from OFHEO's May 2006 report on its special investigation of Fannie Mae and from a report by the law firm of Paul, Weiss, Rifkind & Garrison LLP on its investigation of Fannie Mae. On May 31, 2007, the court dismissed this consolidated lawsuit in its entirety against all defendants. On June 27, 2007, plaintiffs filed a Notice of Appeal with the U.S. Court of Appeals for the District of Columbia. On April 16, 2008, the Court of Appeals granted lead plaintiffs' motion to file a second amended complaint, which added only additional jurisdictional allegations.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS--(Continued)(UNAUDITED) On August 8, 2008, the U.S. Court of Appeals for the D.C. Circuit upheld the District Court's dismissal of the consolidated derivative action. On September 4, 2008, the plaintiffs filed a motion for rehearing en banc. On September 10, 2008, the Court of Appeals issued an order calling for a response to the petition to be filed by September 25, 2008. On September 24, 2008, we filed a motion to invoke the 45-day stay available under 12 U.S.C. (s) 4617(b)(1) due to the conservatorship. On September 29, 2008, the Court granted our motion and held the case in abeyance pending further order of the Court; and further directed the parties to file motions to govern on November 10, 2008. On September 20, 2007, James Kellmer, a shareholder who had filed one of the derivative actions that was consolidated into the consolidated derivative case, filed a motion for clarification or, in the alternative, for relief of judgment from the Court's May 31, 2007 Order dismissing the consolidated case. Mr. Kellmer's motion seeks clarification that the Court's May 31, 2007 dismissal order does not apply to his January 10, 2005 action, and that his case can now proceed. This motion is pending. On June 29, 2007, Mr. Kellmer also filed a new derivative action in the U.S. District Court for the District of Columbia. Mr. Kellmer's new complaint alleges that he made a demand on the Board of Directors on September 24, 2004, and that this new action should now be allowed to proceed. On December 18, 2007, Mr. Kellmer filed an amended complaint that narrowed the list of named defendants to certain of our current and former directors, Goldman Sachs Group, Inc. and us, as a nominal defendant. The factual allegations in Mr. Kellmer's 2007 amended complaint are largely duplicative of those in the amended consolidated complaint and his amended complaint's claims are based on theories of breach of fiduciary duty, indemnification, negligence, violations of the Sarbanes-Oxley Act of 2002 and unjust enrichment. His amended complaint seeks unspecified money damages, including legal fees and expenses, disgorgement and punitive damages, as well as injunctive relief. In addition, on July 6, 2007, Arthur Middleton filed a derivative action in the U.S. District Court for the District of Columbia that is also based on Mr. Kellmer's alleged September 24, 2004 demand. This complaint names as defendants certain of our current and former officers and directors, the Goldman Sachs Group, Inc., Goldman, Sachs & Co. and us, as a nominal defendant. The allegations in this new complaint are essentially identical to the allegations in the amended consolidated complaint referenced above, and this plaintiff seeks identical relief. On July 27, 2007, Mr. Kellmer filed a motion to consolidate these two new derivative cases and to be appointed lead counsel. We filed a motion to dismiss Mr. Middleton's complaint for lack of standing on October 3, 2007, and a motion to dismiss Mr. Kellmer's 2007 complaint for lack of subject matter jurisdiction on October 12, 2007. These motions remain pending. On October 17, 2008, FHFA intervened in the shareholder derivative lawsuits pending in the United States District Court for the District of Columbia, including, the June 9, 2007 case filed by Mr. Kellmer, the July 6, 2007 case filed by Mr. Middleton and the Arthur and Agnes Derivative Litigation described below (as well as in the consolidated shareholder class action and the consolidated ERISA litigation), and filed a motion to stay those cases. On October 20, 2008, the Court issued an order staying these cases until January 6, 2009. Arthur Derivative Litigation On November 26, 2007, Patricia Browne Arthur filed a shareholder derivative action in the U.S. District Court for the District of Columbia against certain of our current and former officers and directors and against us as a nominal defendant. The complaint alleges that the defendants wrongfully failed to disclose our exposure to the subprime mortgage crisis and that this failure artificially inflated our stock price and allowed certain of the defendants to profit by selling their shares based on material inside information; and that the Board improperly

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authorized the company to buy back $100 million in shares while the stock price was artificially inflated. The complaint alleges that the defendants violated Sections 10(b) (and Rule 10b-5 promulgated thereunder) and 20(a) of the Securities Exchange Act of 1934. It also alleges breaches of fiduciary duties; misappropriation of information; waste of corporate assets; and unjust enrichment. Plaintiff seeks damages on behalf of the company; corporate governance changes; equitable relief in the form of attaching, impounding or imposing a constructive trust on the individual defendants' assets; restitution; and attorneys' fees and costs. Agnes Derivative Litigation On June 25, 2008, L. Jay Agnes filed a shareholder derivative complaint in the United States District Court for the District of Columbia against certain of our current and former directors and officers, Fannie Mae as a nominal defendant, Washington Mutual, Inc., Kerry K. Killinger; Countrywide Financial Corporation and its subsidiaries and/or affiliates, Countrywide Home Loans, Inc., Countrywide Home Equity Loan Trust, and Countrywide Bank, FSB, LandSafe, Inc., Angelo R. Mozilo; First American Corporation, First American eAppraiseIt, Anthony R. Merlo, Jr., and Goldman Sachs Group, Inc. The complaint alleges two general categories of derivative claims purportedly on our behalf against the current and former Fannie Mae officer and director defendants. First, it alleges illegal accounting manipulations occurring from approximately 1998 through 2004 ("pre-2005 claims"), which is based on the May 2006 OFHEO Report and is largely duplicative of the allegation contained in the existing derivative actions. Second, it makes allegations similar to those in the Arthur Derivative Litigation that was filed in November 2007 and described above. Specifically the complaint contends that the current and former Fannie Mae officer and director defendants irresponsibly engaged in "highly speculative real estate transactions" and concealed the extent of the Company's exposure to the subprime mortgage crisis, while wasting Company assets by causing it to repurchase its own shares at inflated prices at the same time that certain defendants sold their personally held shares. Based upon these allegations, the complaint asserts causes of action against the current and former Fannie Mae officer and director defendants for breach of fiduciary duty, indemnification, negligence, unjust enrichment, and violations of Section 304 of the

Sarbanes-Oxley Act of 2002. In addition, Mr. Agnes asserts a direct claim on his own behalf under Section 14(a) of the Securities Exchange Act of 1934 and SEC Rule 14a-9 based upon allegations that the Company's 2008 Proxy Statement was intentionally false and misleading and concealed material facts in order that members of the Board could remain in control of the company. The complaint seeks a declaration that the current and former officer and director defendants breached their fiduciary duties; a declaration that the election of directors pursuant to the 2008 Proxy Statement is null and void; a new election of directors; an accounting for losses and damages to us as a result of the alleged misconduct; disgorgement; unspecified compensatory damages; punitive damages; attorneys' fees, and other fees and costs; as well as injunctive relief directing us to reform our corporate governance and internal control procedures. ERISA Actions In re Fannie Mae ERISA Litigation (formerly David Gwyer v. Fannie Mae) On October 14, 2004, David Gwyer filed a proposed class action complaint in the U.S. District Court for the District of Columbia. Two additional proposed class action complaints were filed by other plaintiffs on May 5, 2005 and May 10, 2005. These cases are based on the Employee Retirement Income Security Act of 1974 ("ERISA") and name us, our Board of Directors' Compensation Committee and certain of our former and current officers and directors as defendants.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS--(Continued)(UNAUDITED)
These cases were consolidated on May 24, 2005 in the U.S. District Court for the District of Columbia and a consolidated complaint was filed on June 16, 2005. The plaintiffs in this consolidated ERISA-based lawsuit purport to represent a class of participants in our Employee Stock Ownership Plan between January 1, 2001 and the present. Their claims are based on alleged breaches of fiduciary duty relating to accounting matters. Plaintiffs seek unspecified damages, attorneys' fees, and other fees and costs, and other injunctive and equitable relief. On July 23, 2007, the Compensation Committee of our Board of Directors filed a motion to dismiss, which the Court denied on July 17, 2008. On October 17, 2008, FHFA intervened in the consolidated case (as well as in the consolidated shareholder class action and the shareholder derivative lawsuits pending in the United States District Court for the District of Columbia) and filed a motion to stay those cases. On October 20, 2008, the Court issued an order staying the cases until January 6, 2009. Moore v. Fannie Mae, et al. On October 23, 2008, Mary P. Moore filed a proposed class action complaint in the U.S. District Court for the District of Columbia against our Board of Directors' Compensation Committee, our Benefits Plans Committee, and current and former Fannie Mae officers and directors Daniel H. Mudd, Stephen B. Ashley, Louis J. Freeh, Brenda J. Gaines, Bridget A. Macaskill, Gregory C. Smith, and David C. Hisey. This case is based on the Employee Retirement Income Security Act of 1974 ("ERISA"). Plaintiff alleges that defendants, as fiduciaries of Fannie Mae's Employee Stock Ownership Plan ("ESOP,") breached their duties to ESOP participants and beneficiaries with regards to the ESOP's investment in Fannie Mae common stock when it was no longer prudent to continue to do so. Plaintiff purports to represent a class of participants and beneficiaries or the ESOP whose accounts invested in Fannie Mae common stock beginning April 17, 2007. The complaint alleges that the defendants breached purported fiduciary duties with respect to the ESOP. Plaintiff seeks unspecified damages, attorneys' fees, and other fees and costs and injunctive and other equitable relief. Antitrust Lawsuits In re G-Fees Antitrust Litigation Since January 18, 2005, we have been served with 11 proposed class action complaints filed by single-family borrowers that allege that we and Freddie Mac violated federal and state antitrust and consumer protection statutes by agreeing to artificially fix, raise, maintain or stabilize the

price of our and Freddie Mac's guaranty fees. Two of these cases were filed in state courts. The remaining cases were filed in federal court. The two state court actions were voluntarily dismissed. The federal court actions were consolidated in the U.S. District Court for the District of Columbia. Plaintiffs filed a consolidated amended complaint on August 5, 2005. Plaintiffs in the consolidated action seek to represent a class of consumers whose loans allegedly "contain a guarantee fee set by" us or Freddie Mac between January 1, 2001 and the present. Plaintiffs seek unspecified damages, treble damages, punitive damages, and declaratory and injunctive relief, as well as attorneys' fees and costs. We and Freddie Mac filed a motion to dismiss on October 11, 2005. On October 29, 2008, the court denied our motion to dismiss in part and granted it in part. Escrow Litigation Casa Orlando Apartments, Ltd., et al. v. Federal National Mortgage Association (formerly known as Medlock Southwest Management Corp., et al. v. Federal National Mortgage Association)

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS--(Continued)(UNAUDITED) A complaint was filed against us in the U.S. District Court for the Eastern District of Texas (Texarkana Division) on June 2, 2004, in which plaintiffs purport to represent a class of multifamily borrowers whose mortgages are insured under Sections 221(d)(3), 236 and other sections of the National Housing Act and are held or serviced by us. The complaint identified as a proposed class low- and moderate-income apartment building developers who maintained uninvested escrow accounts with us or our servicer. Plaintiffs Casa Orlando Apartments, Ltd., Jasper Housing Development Company and the Porkolab Family Trust No. 1 allege that we violated fiduciary obligations that they contend we owed to borrowers with respect to certain escrow accounts and that we were unjustly enriched. In particular, plaintiffs contend that, starting in 1969, we misused these escrow funds and are therefore liable for any economic benefit we received from the use of these funds. Plaintiffs seek a return of any profits, with accrued interest, earned by us related to the escrow accounts at issue, as well as attorneys' fees and costs. Our motions to dismiss and for summary judgment with respect to the statute of limitations were denied. Plaintiffs filed an amended complaint on December 16, 2005. On January 3, 2006, plaintiffs filed a motion for class certification, which remains pending. Former Management Arbitration Former CFO Arbitration In the arbitration matter with our former Chief Financial Officer and Vice Chairman, J. Timothy Howard, discovery has commenced. The arbitrator has been selected and the arbitration is scheduled to commence November 18, 2008. Investigation by the Securities and Exchange Commission On September 26, 2008, we received notice of an ongoing inquiry into Fannie Mae by the SEC regarding certain accounting and disclosure matters. We also received a request for preservation of documents related to the inquiry from the staff of the SEC. We subsequently received a request for documents from the staff of the SEC. We are cooperating fully with this inquiry. Investigation by the Department of Justice On September 26, 2008, we received notice of an ongoing federal investigation by the United States Attorney for the Southern District of New York into certain accounting, disclosure and corporate governance matters. In connection with that investigation, Fannie Mae received a Grand Jury subpoena for documents. That subpoena was subsequently withdrawn. However, we have been informed that the Department of Justice is continuing an investigation. We are cooperating fully with this investigation. Committee on Oversight and Government Reform Hearing On October 20, 2008, we received a letter from Henry A. Waxman, Chairman of the Committee on Oversight and Government Reform of the House of Representatives of the Congress of the United States that the Committee had scheduled a hearing for November 20, 2008, related to the financial conditions at Fannie Mae and Freddie Mac, the conservatorships and the GSEs' roles in the ongoing financial crisis. The letter requests documents and information concerning, among other things, risk and risk assessments, losses, subprime and other loans, capital, and accounting issues. We are cooperating fully with these requests.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Quantitative and qualitative disclosure about market risk is set forth in "Part I--Item 2--MD&A--Risk Management--Interest Rate Risk Management and Other Market Risks."

Item 4. Controls and Procedures

Overview We are required under applicable laws and regulations to maintain controls and procedures, which include disclosure controls and procedures as well as internal control over financial reporting, as further described below. Disclosure Controls and Procedures Disclosure controls and procedures refer to controls and other procedures designed to ensure that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information we are required to disclose in the reports that we file or submit under the Exchange Act is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding our required disclosure. In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management was required to apply its judgment in evaluating and implementing possible controls and procedures. Evaluation of Disclosure Controls and Procedures As required by Rule 13a-15 under the Exchange Act, management has evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures as in effect as of September 30, 2008. As a result of management's evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective at a reasonable assurance level as of September 30, 2008 or as of the date of filing this report. Our Board of Directors and its Audit Committee lack oversight authority with respect to our disclosure controls and procedures and we have not yet updated the design of our disclosure controls and procedures to account for the conservatorship. As a result, we have not been able to rely upon the disclosure controls and procedures that were in place as of September 30, 2008 or as of the date of this filing. However, we and the conservator are designing and implementing policies and procedures and have undertaken numerous steps and activities, as identified below under "Mitigating Actions During Conservatorship," intended to permit accumulation and communication to management of information needed to meet our disclosure obligations under the federal securities laws, including disclosure affecting our financial statements. We have identified two material weaknesses in our internal control over financial reporting, which management considers an integral part of our disclosure controls and procedures. We are continuing to work with the conservator to remediate our disclosure controls and procedures and, together with the conservator, believe that we will complete the remediation by the end of the first quarter of 2009. As of the date of this report, however, the deficiency in our disclosure controls and procedures has not been remediated. Material Weaknesses in Internal Control Over Financial Reporting The Public Company Accounting Oversight Board's Auditing Standard No. 5 defines a material weakness as a deficiency or a combination of deficiencies in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. As with our disclosure controls and procedures, despite

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the activities described below under "Mitigating Actions During Conservatorship," we were unable to design, implement, test, train and operate policies and procedures that remediated the following two material weaknesses in our internal control over financial reporting as of September 30, 2008 and as of the date of filing this report:

ù Board of Directors and Audit Committee. Upon the appointment of FHFA as the conservator on September 6, 2008, the Board of Directors and its committees, including the Audit Committee, ceased to have any authority. The Audit Committee, in accordance with its charter, is responsible for reviewing and discussing with management and others the adequacy and effectiveness of our disclosure controls and procedures and management reports thereon, as well as the annual audited and quarterly unaudited financial statements and certain disclosures required to be contained in our periodic reports. In addition, the Audit Committee previously consulted with management to address disclosure and accounting issues and reviewed drafts of periodic reports before we filed such reports with the SEC. As of September 30, 2008 and the date of this filing, neither a Board of Directors nor an Audit Committee has been reconstituted. As a result, we lacked the appropriate governance structure to provide oversight of our financial and accounting matters.

ù Policy Updates. We have not yet updated the design of our disclosure controls and procedures to account for the conservatorship. As a result, we have not been able to implement, test or operate newly designed policies and procedures, nor have we been able to provide appropriate communications and training regarding such newly designed policies and procedures. Therefore, our disclosure controls and procedures have not provided adequate mechanisms for information to be communicated. Accordingly, we did not maintain effective controls and procedures designed to ensure complete and accurate disclosure as required by GAAP.

Since September 30, 2008, we have made the following progress in remediating these material weaknesses in internal control over financial reporting and in improving the effectiveness of our disclosure controls and procedures:

ù Board of Directors and Board Committees. The conservator has indicated that it intends to appoint a full Board of Directors to which it will delegate specified roles and responsibilities. It is expected that many of the activities we describe below under "Mitigating Actions During Conservatorship" will no longer be necessary once a Board of Directors and committees with powers similar to those possessed by the Board of Directors and its committees prior to conservatorship are reconstituted.

ù Updated Policies. We are working with our conservator to design, implement, test, and operate updated policies and procedures intended to ensure that adequate communication will occur under these unique circumstances, and to provide communication and training regarding those policies and procedures.

We are continuing to work with the conservator to remediate our disclosure controls and procedures and, together with the conservator, believe that we will complete the remediation by the end of the first quarter of 2009. Mitigating Actions During Conservatorship Together with our conservator, management has engaged in activities, and employed procedures and practices, intended to permit accumulation and communication to management of information needed to meet our disclosure obligations under the federal securities laws, including disclosure affecting our financial statements. These include the following.

ù Beginning on September 8, 2008, FHFA examiners established a presence on site at our headquarters and at locations of other key operations, in part to enhance good communication with management and employees.
ù Each department, as well as each executive officer of the company who remained after the conservatorship, was assigned a designated FHFA liaison who monitored activities within that department,

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provided direction and advice, and made themselves available to answer questions for that officer or department and raise issues with others at FHFA for prompt resolution.

ù FHFA representatives established weekly meetings with various groups within the company to enhance the flow of information and to provide oversight on a variety of matters, including accounting, capital markets management, fulfillment of mission, external communications and legal matters.
ù The Director of FHFA is in frequent communication with our President and Chief Executive Officer.
ù Various officials within FHFA, including a number of senior officials, have participated in review of our various SEC filings and have engaged in discussions regarding issues associated with the information contained in those filings.
ù Senior officials within FHFA's accounting group have met weekly with our senior financial executives regarding our accounting policies, practices and procedures.
ù As part of the process for filing this Quarterly Report on Form 10-Q, senior members of management met with representatives of the conservator. At that meeting, the representatives of the conservator in attendance discussed and reviewed with various members of senior management: the final draft of this report; management's representation letter to our independent registered public accounting firm; and significant accounting decisions. In addition, during that meeting, the representatives of the conservator asked questions and discussed issues in a manner similar to that previously employed by our Audit Committee.

Changes in Internal Control over Financial Reporting Management has evaluated, with the participation of our Chief Executive Officer and Chief Financial

Officer, whether any changes in our internal control over financial reporting that occurred during our last fiscal quarter have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Based on the evaluation we conducted, management has concluded that the following changes in our internal control over financial reporting that occurred during the third quarter of 2008 have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting:

ù Conservatorship. On September 6, 2008, FHFA was appointed conservator of Fannie Mae. By operation of law, the conservator succeeded to the powers of our shareholders, management and Board of Directors. As a result, we ceased to have functioning committees of the Board of Directors, including the Audit Committee, Nominating and Corporate Governance Committee and Compensation Committee.

ù Changes in Management. During the third quarter of 2008, we appointed a new Chief Executive Officer and announced several management changes, including the appointment of a new Chief Financial Officer, Chief Risk Officer, head of Capital Markets & Treasury, and interim General Counsel. We also announced the resignations of our Chief Business Officer and Chief Information Officer.

PART II--OTHER INFORMATION

Item 1. Legal Proceedings

The following information supplements and amends our discussion set forth under "Part I--Item 3--Legal Proceedings" in our 2007 Form 10-K and "Part II--Item 1--Legal Proceedings" in our Quarterly Reports on Form 10-Q for the quarters ended June 30, 2008 and March 31, 2008. In addition to the matters specifically described in this item, we are involved in a number of legal and regulatory proceedings that arise in the ordinary course of business that do not have a material impact on our business. We record reserves for claims and lawsuits when they are both probable and reasonably estimable. We presently cannot determine the ultimate resolution of the matters described below and in our 2007 Form 10-K and Quarterly Reports on Form 10-Q for the quarters ended June 30, 2008 and March 31, 2008. For matters where the likelihood or extent of a loss is not probable or cannot be reasonably estimated, we have not

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recognized in our condensed consolidated financial statements the potential liability that may result from these matters. If one or more of these matters is determined against us, it could have a material adverse effect on our earnings, liquidity and financial condition. Securities Class Action Lawsuits In re Fannie Mae Securities Litigation In the consolidated shareholder class action lawsuit filed against us and certain of our former officers, on July 18, 2008, the Court granted the stipulated dismissal of the Evergreen individual securities case filed by certain institutional investors. On October 17, 2008, FHFA intervened in the consolidated shareholder class action (as well as in the consolidated ERISA litigation and the shareholder derivative lawsuits pending in the United States District Court for the District of Columbia) and filed a motion to stay those cases. On October 20, 2008, the Court issued an order staying these cases until January 6, 2009. Securities Class Action Lawsuits Pursuant to the Securities Act of 1933 Beginning on August 7, 2008, a series of shareholder lawsuits were filed under the Securities Act against underwriters of offerings of certain Fannie Mae common and preferred stock. Two of these lawsuits were also filed against us, and one of those two was also filed against certain former Fannie Mae officers and directors. While the factual allegations in these cases vary to some degree, these plaintiffs generally allege that defendants misled investors by understating the company's need for capital, causing putative class members to purchase shares at artificially inflated prices. Their complaints allege similar violations of Section 12(a)(2) of the Securities Act, and seek rescission, damages, interest, costs, attorneys' and experts' fees, and other equitable and injunctive relief. Each individual case is described more fully below. We believe we have valid defenses to the claims in these lawsuits and intend to defend against these lawsuits vigorously. Krausz v. Fannie Mae, et al. On September 11, 2008, Malka Krausz filed a complaint in New York Supreme Court against Fannie Mae, former officers Daniel H. Mudd and Stephen M. Swad, and underwriters Lehman Brothers, Inc., Merrill Lynch, Pierce, Fenner & Smith Inc., Goldman Sachs & Co., and J.P. Morgan Securities, Inc. The complaint was filed on behalf of purchasers of Fannie Mae's Fixed-to-Floating Rate Non-Cumulative Preferred Stock, Series S (referred to as the "Series S Preferred Stock") pursuant to an offering that closed on December 11, 2007. The complaint alleges that defendants misled investors by understating our need for capital, causing putative class members to purchase shares at artificially inflated prices. The complaint contends further that the defendants violated Sections 12(a)(2) and 15 of the Securities Act. The complaint also asserts claims for common law fraud and negligent misrepresentation. Plaintiff seeks rescission of the purchases, damages, costs, including attorneys', accountants', and experts' fees, and other unspecified relief. On October 6, 2008, this case was removed to the United States District Court for the Southern District of New York, where it is currently pending. On October 14, 2008, we, along with certain of the defendants, filed a motion to dismiss this case. Our motion remains pending. Kramer v. Fannie Mae, et al. On September 26, 2008, Daniel Kramer filed a securities class action complaint in the Superior Court of New Jersey, Law Division, Bergen County, against Fannie Mae, Merrill Lynch, Pierce, Fenner & Smith Inc., Citigroup Global Markets Inc., Morgan Stanley & Co. Inc., UBS Securities LLC, Wachovia Capital Markets LLC, Moody's Investors Services, Inc., The McGraw-Hill Companies, Inc., Standard & Poor's Ratings Services, and Fitch Ratings, Inc. The complaint was filed on behalf of purchasers of Fannie Mae's Series S Preferred Stock and/or Fannie Mae's 8.25% Non-cumulative Preferred Stock, Series T (referred to as the "Series T Preferred Stock") issued pursuant to an offering that closed on May 13, 2008. The complaint alleges that the defendants violated Section 12(a)(2) of the Securities Act. Plaintiff seeks rescission of the purchases, damages, costs, including attorneys', accountants', and experts' fees, and other unspecified relief. On

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October 27, 2008, this lawsuit was removed to the United States District Court for the District of New Jersey, where it is currently pending. Securities Class Action Lawsuits Pursuant to the Securities Exchange Act of 1934 On September 8, 2008, the first of several shareholder lawsuits was filed under the Exchange Act against certain current and former Fannie Mae officers and directors, underwriters of issuances of certain Fannie Mae common and preferred stock, and, in one case, Fannie Mae. While the factual allegations in these cases vary to some degree, the plaintiffs generally allege that defendants misled investors by understating the company's need for capital, causing putative class members to purchase shares at artificially inflated prices. The plaintiffs generally allege similar violations of Sections 10(b) (and Rule 10b-5 promulgated thereunder) and 20(a) of the Exchange Act, and seek damages, interest, costs, attorneys' and experts' fees, and injunctive and other unspecified equitable relief. Each individual case is described more fully below. We believe we have valid defenses to the claims in these lawsuits and intend to defend against these lawsuits vigorously. Genovese v. Ashley, et al.

On September 8, 2008, John A. Genovese filed a securities class action complaint in the U.S. District Court for the Southern District of New York against former officers and directors Stephen B. Ashley, Robert J. Levin, Daniel H. Mudd, and Stephen Swad. Fannie Mae was not named as a defendant. The complaint was filed on behalf of all persons who purchased or otherwise acquired the publicly traded securities of Fannie Mae between November 16, 2007 and September 5, 2008. The complaint alleges that the defendants violated Sections 10(b) (and Rule 10b-5 promulgated thereunder) and 20(a) of the Exchange Act. Plaintiff seeks damages, interest, costs, attorneys' fees, and injunctive and other unspecified equitable relief. Gordon v. Ashley, et al. On September 11, 2008, Hilda Gordon filed a securities class action complaint in the U.S. District Court for the Southern District of Florida against current and former officers and directors Stephen B. Ashley, Dennis Beresford, Louis J. Freeh, Brenda J. Gaines, Frederick Harvey, III, Karen N. Horn, Robert J. Levin, Thomas Lund, Bridget A. Macaskill, Daniel H. Mudd, Leslie Rahl, John C. Sites, Jr., Greg C. Smith, Stephen Swad, H. Patrick Swygert and John K. Wulff. Fannie Mae was not named as a defendant. The complaint was filed on behalf of all persons who purchased or otherwise acquired the publicly traded securities of Fannie Mae between November 16, 2007 and September 11, 2008. In addition to alleging that the defendants violated Sections 10(b) (and Rule 10b-5 promulgated thereunder) and 20(a) of the Exchange Act, the complaint also alleges that they violated the Florida Deceptive and Unfair Trade Practices Act. Plaintiff seeks damages, interest, costs, attorneys' fees, and injunctive and other unspecified equitable relief. Crisafi v. Merrill Lynch, et al. On September 16, 2008, Nicholas Crisafi and Stella Crisafi, Trustees FBO the Crisafi Inter Vivos Trust, filed a securities class action complaint in the U.S. District Court for the Southern District of New York against former officers and directors Stephen B. Ashley, Robert J. Levin, Daniel H. Mudd, and Stephen Swad as well as underwriters Citigroup Global Markets, Inc., Merrill Lynch, Pierce, Fenner & Smith Inc., Morgan Stanley & Co., Inc., UBS Securities LLC, and Wachovia Capital Markets LLC. Fannie Mae was not named as a defendant. The complaint was filed on behalf of purchasers of Fannie Mae's Series T Preferred Stock from May 13, 2008 to September 6, 2008. The complaint alleges that the defendants violated Sections 10(b) (and Rule 10b-5 promulgated thereunder) and 20(a) of the Exchange Act. The plaintiffs seek compensatory damages, including interest, and costs and expenses, including attorneys' and experts' fees. Fogel Capital Mgmt. v. Fannie Mae, et al. On September 18, 2008, Fogel Capital Management, Inc. filed a securities class action complaint in the U.S. District Court for the Southern District of New York against Fannie Mae and current and former officers and directors Stephen B. Ashley, Dennis Beresford, Louis J. Freeh, Brenda J. Gaines, Frederick Harvey, III,

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David Hisey, Karen N. Horn, Robert J. Levin, Bridget A. Macaskill, Daniel H. Mudd, Peter Niculescu, Leslie Rahl, John C. Sites, Jr., Greg C. Smith, Stephen Swad, H. Patrick Swygert, and John K. Wulff. The complaint's factual allegations and claims for relief are based on purchases of Fannie Mae's Series S Preferred Stock, but the plaintiff purports to bring the suit on behalf of purchasers of all Fannie Mae securities from November 9, 2007 through September 5, 2008. The complaint alleges that the defendants violated Sections 10(b) (and Rule 10b-5 promulgated thereunder) and 20(a) of the Exchange Act. The plaintiffs seek compensatory damages, including interest, costs and expenses, including attorneys' and experts' fees, and injunctive and other unspecified equitable relief. Jesteadt v. Ashley, et al. On September 24, 2008, Leonard and Grace Jesteadt filed a securities class action complaint in the U.S. District Court for the Western District of Pennsylvania against current and former officers and directors Stephen B. Ashley, Dennis R. Beresford, Louis J. Freeh, Brenda J. Gaines, Frederick B. Harvey, III, Karen N. Horn, Robert J. Levin, Thomas Lund, Bridget A. Macaskill, Daniel H. Mudd, Leslie Rahl, John C. Sites, Jr., Greg C. Smith, Stephen Swad, H. Patrick Swygert, and John K. Wulff.

Fannie Mae was not named as a defendant. The complaint was filed on behalf of all persons who purchased or otherwise acquired the publicly traded securities of Fannie Mae between November 16, 2007 and September 24, 2008. The complaint alleges that the defendants violated Sections 10(b) (and Rule 10b-5 promulgated thereunder) and 20(a) of the Exchange Act. The plaintiffs seek permanent injunctive relief, compensatory damages, including interest, costs and expenses, including attorneys' and experts' fees. Sandman v. J.P. Morgan Securities, Inc., et al. On September 29, 2008, Dennis Sandman filed a securities class action complaint in the U.S. District Court for the Southern District of New York against former officers and directors Stephen B. Ashley, Robert J. Levin, Daniel H. Mudd, and Stephen Swad, and underwriters Banc of America Securities LLC, Goldman Sachs & Co., J.P. Morgan Securities, Inc., Lehman Brothers, Inc., and Merrill Lynch, Pierce, Fenner & Smith, Inc. Fannie Mae was not named as a defendant. The complaint was filed on behalf of purchasers of Fannie Mae's 8.75% Non-Culumative Mandatory Convertible Preferred Stock Series 2008-1 from May 14, 2008 to September 5, 2008. The complaint alleges that the defendants violated Sections 10(b) (and Rule 10b-5 promulgated thereunder) and 20(a) of the Exchange Act. Plaintiff seeks compensatory damages, including interest, and costs and expenses, including attorneys' and experts' fees. Frankfurt v. Lehman Bros., Inc., et al. On October 7, 2008, plaintiffs David L. Frankfurt, the Frankfurt Family Ltd., The David Frankfurt 2000 Family Trust, and the David Frankfurt 2002 Family Trust filed a securities class action complaint in the U.S. District Court for the Southern District of New York against former officers and directors Stephen Ashley, Daniel Mudd, Stephen Swad, and Robert Levin, and underwriters Lehman Brothers, Inc., Merrill Lynch, Pierce, Fenner & Smith, Inc., J.P. Morgan Securities, Inc., and Goldman Sachs & Co. Fannie Mae was not named as a defendant. The complaint was filed on behalf of purchasers of Fannie Mae's Series S Preferred Stock from December 11, 2007 to September 5, 2008. The complaint alleges that the defendants violated Sections 10(b) (and Rule 10b-5 promulgated thereunder) and 20(a) of the Exchange Act. The plaintiffs seek compensatory damages, including interest, and reasonable costs and expenses, including attorneys' and experts' fees. Schweitzer v. Merrill Lynch, et al. On October 8, 2008, plaintiffs Stephen H. Schweitzer and Linda P. Schweitzer filed a securities class action complaint in the U.S. District Court for the Southern District of New York against former officers and directors Stephen B. Ashley, Daniel H. Mudd, Stephen M. Swad, and Robert J. Levin, and underwriters Merrill Lynch, Pierce, Fenner & Smith, Inc., Goldman Sachs & Co., J.P. Morgan Securities, Inc., Banc of America Securities LLC, Bear, Stearns & Co., Citigroup Global Markets, Inc., Deutsche Bank Securities, Inc., Morgan Stanley & Co., Inc., and UBS Securities LLC. Fannie Mae was not named as a defendant. The

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complaint was filed on behalf of purchasers of Fannie Mae's Series S Preferred Stock in or traceable to the offering of Series S Preferred Stock that closed December 11, 2007, through September 5, 2008. The complaint alleges that the defendants violated Sections 10(b) (and Rule 10b-5 promulgated thereunder) and 20(a) of the Exchange Act. The plaintiffs seek compensatory damages, including interest, and reasonable costs and expenses, including attorneys' and experts' fees. Williams v. Ashley, et al. On October 10, 2008, plaintiffs Lynn Williams and SteveAnn Williams filed a securities class action complaint in the U.S. District Court for the Southern District of New York against current and former officers and directors Stephen B. Ashley, Stephen M. Swad, Robert J. Levin, Dennis R. Beresford, Louis J. Freeh, Brenda J. Gaines, Karen N. Horn, Bridget A. Macaskill, Leslie Rahl, John C. Sites, Greg C. Smith, H. Patrick Swygert, and John K. Wulff. Fannie Mae was not named as a defendant. The complaint was filed on behalf of purchasers of Fannie Mae's Series S Preferred Stock from December 6, 2007 through September 5, 2008. The complaint alleges that defendants violated Sections 10(b) (and Rule 10b-5 promulgated thereunder) and 20(a) of the Exchange Act. The plaintiffs seek compensatory damages, including interest, and reasonable costs and expenses, including attorneys' and experts' fees. Securities Class Action Lawsuit Pursuant to the Securities Act of 1933 and the Securities Exchange Act of 1934 Jarmain v. Merrill Lynch, et al. On October 3, 2008, Brian Jarmain filed a securities class action complaint in the U.S. District Court for the Southern District of New York against former officers and directors Stephen B. Ashley, Robert J. Levin, Daniel H. Mudd, and Stephen M. Swad, and underwriters Citigroup Global Markets, Inc., Merrill Lynch, Pierce, Fenner & Smith, Inc., Morgan Stanley & Co., Inc., UBS Securities LLC, and Wachovia Capital Markets LLC. Fannie Mae was not named as a defendant. The complaint was filed on behalf of purchasers of Fannie Mae's Series T Preferred Stock from May 13, 2008 to September 6, 2008. The complaint alleges violations of both Section 12(a)(2) of the Securities Act and Sections 10(b) (and Rule 10b-5 promulgated thereunder) and 20(a) of the Exchange Act. Plaintiff seeks compensatory damages, including interest, fees and expenses, including attorneys' and experts' fees, and injunctive and other unspecified equitable and relief. Shareholder Derivative Lawsuits In re Fannie Mae Shareholder Derivative Litigation On August 8, 2008, the U.S. Court of Appeals for the D.C. Circuit upheld the District Court's dismissal of the consolidated shareholder derivative lawsuit against certain of our current and former officers and directors and against us as a nominal defendant. On September 4, 2008, the plaintiffs filed a motion for rehearing en banc. On September 10, 2008, the Court of Appeals issued an order calling for a response to the petition to be filed by September 25, 2008. On September 24, 2008, we filed a motion to invoke the 45- day stay available under 12 U.S.C. (s) 4617(b)(1) due to the conservatorship. On September 29, 2008, the Court granted our motion and held the case in abeyance pending further order of the Court and further directed the parties to file motions to govern on November 10, 2008. ERISA Lawsuit Moore v. Fannie Mae, et al. On October 23, 2008, Mary P. Moore filed a proposed class action complaint in the U.S. District Court for the District of Columbia against our Board of Directors' Compensation Committee, our Benefits Plans Committee, and current and former Fannie Mae officers and directors Daniel H. Mudd, Stephen B. Ashley, Louis J. Freeh, Brenda J. Gaines, Bridget A. Macaskill, Gregory C. Smith, and David C. Hisey. This case is based on the Employee Retirement Income Security Act of 1974 ("ERISA"). The complaint alleges that defendants, as fiduciaries of Fannie Mae's Employee Stock Ownership Plan ("ESOP,") breached their duties to ESOP

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participants and beneficiaries with regards to the ESOP's investment in Fannie Mae common stock when it was no longer prudent to continue to do so. Plaintiff purports to represent a class of participants in and beneficiaries of the ESOP whose accounts were invested in Fannie Mae common stock beginning April 17, 2007. The complaint alleges that the defendants breached purported fiduciary duties with respect to the ESOP. Plaintiff seeks unspecified damages, attorneys' fees, and other fees and costs and injunctive and other equitable relief. Antitrust Lawsuits In re G-Fees Antitrust Litigation In the consolidated class action relating to our guaranty fees, on October 29, 2008, the Court denied our motion to dismiss in part and granted it in part. Former Management Arbitration Former CFO Arbitration In the arbitration matter with our former Chief Financial Officer and Vice Chairman, J. Timothy Howard, discovery has commenced, and the arbitrator has been selected. The arbitration is scheduled to commence November 18, 2008. Investigation by the Securities and Exchange Commission On September 26, 2008, we received notice of an ongoing inquiry into Fannie Mae by the SEC regarding certain accounting and disclosure matters. We also received a request for preservation of documents related to the inquiry from the staff of the SEC. We subsequently received a request for documents from the staff of the SEC. We are cooperating fully with this inquiry. Investigation by the Department of Justice On September 26, 2008, we received notice of an ongoing federal investigation by the United States Attorney for the Southern District of New York into certain accounting, disclosure and corporate governance matters. In connection with that investigation, Fannie Mae received a Grand Jury subpoena for documents. That subpoena was subsequently withdrawn. However, we have been informed that the Department of Justice is continuing an investigation. We are cooperating fully with this investigation. Committee on Oversight and Government Reform Hearing On October 20, 2008, we received a letter from Henry A. Waxman, Chairman of the Committee on Oversight and Government Reform of the House of Representatives of the Congress of the United States, indicating that the Committee had scheduled a hearing for November 20, 2008 related to the financial conditions at Fannie Mae and Freddie Mac, the conservatorships and the GSEs' roles in the ongoing financial crisis. The letter requests documents and information concerning, among other things, risk and risk assessments, losses, subprime and other loans, capital and accounting issues. We are cooperating with these requests.

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed under "Part I--Item 1A--Risk Factors" in our 2007 Form 10-K, as supplemented and updated by the discussion in "Part I--Item 2--MD&A" in this report and the discussion below. The risks described in "Risks Relating to Our Business" are specific to us and our business, while those described in "Risks Relating to Our Industry" relate to the industry in which we operate. These factors could materially adversely affect our business, financial condition, results of operations, liquidity and net worth, and could cause our actual results to differ materially from our historical results or the results contemplated by the forward-looking statements contained in this report.

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The risks described in our 2007 Form 10-K, our quarterly reports on Form 10-Q for the quarters ended March 31, 2008 and June 30, 2008, and in this report are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition, results of operations, liquidity and net worth. Risks Relating to Our Business We are currently under the control of the conservator. The impact of the conservatorship on the management of our business may materially and adversely affect our business, financial condition, results of operations, liquidity and net worth. When FHFA was appointed as our conservator, it immediately succeeded to: (1) all of our rights, titles, powers and privileges, and that of any stockholder, officer or director of Fannie Mae with respect to us and our assets; and (2) title to all of our books, records and assets held by any other legal custodian or third party. As a result, we are currently under the control of our conservator. The conservatorship has no specified termination date; we do not know when or how it will be terminated. The Secretary of the Treasury and the Director of FHFA stated that the conservatorship was implemented "to help restore confidence in Fannie Mae and Freddie Mac, enhance their capacity to fulfill their mission, and mitigate the systemic risk that has contributed directly to the instability in the current market." We do not know whether the objectives will change, what actions FHFA and Treasury may take or cause us to take in pursuit of their objectives, and whether the actions taken will achieve those objectives. Under the Regulatory Reform Act, as conservator, FHFA may take "such action as may be necessary to put the regulated entity in a sound and solvent condition." We have no control over FHFA's actions, or the actions it may direct us to take. FHFA is also conservator of Freddie Mac, our primary competitor. We do not know the impact on our business of FHFA serving as conservator of Freddie Mac. In addition, under the Regulatory Reform Act, FHFA may take any action authorized by the statute which FHFA determines is in its best interests or our best interests, in its sole discretion. Other agencies of the U.S. government, as well as Congress, also may have an interest in the conduct of our business. As with FHFA, we do not know what actions they will direct us to take. Under the Regulatory Reform Act, FHFA can direct us to enter into contracts or enter into contracts on our behalf. FHFA also has the authority to repudiate contracts entered into by us prior to the appointment of FHFA as conservator, although it must exercise this authority within a reasonable period of time following its appointment. Further, FHFA, as conservator, generally has the power to transfer or sell any of our assets or liabilities and may do so without any approval, assignment or consent. We describe the powers of the conservator in "Part I--Item 2--MD&A--Conservatorship and Treasury Agreements--Conservatorship," the terms of the senior preferred stock purchase agreement in "Part I--Item 2--MD&A--Conservatorship and Treasury Agreements--Treasury Agreements--Senior Preferred Stock Purchase Agreement and Related Issuance of Senior Preferred Stock and Common Stock Warrant" and the covenants contained in the senior preferred stock purchase agreement in "Part I--Item 2--MD&A--Conservatorship and Treasury Agreements--Treasury Agreements--Covenants Under Treasury Agreements--Senior Preferred Stock Purchase Agreement Covenants." Our lack of control over our business may adversely affect our business, financial condition, results of operations, liquidity and net worth. The conservatorship has no specified termination date and the future structure of our business following termination of the conservatorship is uncertain. We do not know when or how the conservatorship will be terminated or what our business structure will be during or following the termination of the conservatorship. We do not know whether we will exist in the same or a similar form or continue to conduct our business as we did before the conservatorship, or whether the conservatorship will end in receivership. We can give no assurance that we will remain a stockholder-owned company. The Secretary of the Treasury has stated that 2008 and 2009 should be viewed as a "time out" where we and Freddie Mac are stabilized while policymakers decide our future role and structure. He also

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indicated that there is a consensus that we and Freddie Mac pose a systemic risk and that we cannot continue in our current form. Under the Regulatory Reform Act, the appointment of FHFA as the receiver of Fannie Mae would immediately terminate the conservatorship. The consequences of our being placed into receivership are described in the following risk factor. If we are not placed into receivership and the conservatorship is terminated, our business will remain subject to the restrictions of the senior preferred stock purchase agreement for the foreseeable future, unless it is amended by mutual agreement of us and Treasury. The restrictions on our business under the senior preferred stock purchase agreement are described in "Part I--Item 2--MD&A--Conservatorship and Treasury Agreements--Treasury Agreements--Covenants under Treasury Agreements--Senior Preferred Stock Purchase Agreement Covenants." Our regulator is authorized or required to place us into receivership under specified conditions, which would result in the liquidation of our assets and could have a material adverse effect on holders of our common stock, preferred stock, debt securities and Fannie Mae MBS. Under the Regulatory Reform Act, FHFA must place us into receivership if our assets are less than our obligations or if we have not been paying our debts, in either case, for a period of 60 days. In addition, we could be put in receivership at the discretion of the Director of FHFA at any time for other reasons, including conditions that FHFA has already asserted existed at the time the Director of FHFA placed us into conservatorship. These include: a substantial dissipation of assets or earnings due to unsafe or unsound practices; the existence of an unsafe or unsound condition to transact business; an inability to meet our obligations in the ordinary course of business; a weakening of our condition due to unsafe or unsound practices or conditions; critical undercapitalization; the likelihood of losses that will deplete substantially all of our capital; or by consent. A receivership would terminate the conservatorship. In addition to the powers FHFA has as conservator, the appointment of FHFA as our receiver would terminate all rights and claims that our shareholders and creditors may have against our assets or under our Charter arising as a result of their status as shareholders or creditors, except for their right to payment, resolution or other satisfaction of their claims as permitted under the Regulatory Reform Act. Unlike a conservatorship, the purpose of which is to conserve our assets and return us to a sound and solvent condition, the purpose of a receivership is to liquidate our assets and resolve claims against us. In the event of a liquidation of our assets, only after paying the secured and unsecured claims against the company (including repaying all outstanding debt obligations), the administrative expenses of the receiver and the liquidation preference of the senior preferred stock would any liquidation proceeds be available to repay the liquidation preference on any other series of preferred stock. Finally, only after the liquidation preference on all series of preferred stock is repaid would any liquidation proceeds be available for distribution to the holders of our common stock. There can be no assurance that there would be sufficient proceeds to repay the liquidation preference of any series of our preferred stock or to make any distribution to the holders of our common stock. To the extent we are placed in receivership and do not or cannot fulfill our guaranty to the holders of our Fannie Mae MBS, they could become unsecured creditors of ours with respect to claims made under our guaranty. The investment by Treasury significantly restricts our business activities and requires that we pay substantial dividends and fees, which could adversely affect our business, financial condition, results of operations, liquidity and net worth. By its terms, Treasury's investment in our business is indefinite and may be permanent. Restrictions Relating to Covenants. The senior preferred stock purchase agreement we entered into with Treasury includes a number of covenants that significantly restrict our business activities. We cannot, without the prior written consent of Treasury: pay dividends; sell, issue, purchase or redeem Fannie Mae equity securities; sell, transfer, lease or otherwise dispose of assets other than for fair market value in specified situations; engage in transactions with affiliates other than on arms'-length terms or in the ordinary course of business; issue subordinated debt; or incur indebtedness that would result in our aggregate indebtedness exceeding 110% of our aggregate indebtedness as of June 30, 2008. We provide a detailed description of these

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covenants in "Part I--Item 2--MD&A--Conservatorship and Treasury Agreements--Treasury Agreements--Covenants under Treasury Agreements--Senior Preferred Stock Purchase Agreement Covenants." The restrictions imposed by these covenants could adversely affect our business, financial condition, results of operations, liquidity and net worth. Mortgage Portfolio Cap. Pursuant to the senior preferred stock purchase agreement, we are not permitted to increase the size of our mortgage portfolio to more than $850 billion through the end of 2009, and beginning in 2010 we are required to reduce the size of our mortgage portfolio by 10% per year (based on the size of the portfolio on December 31 of the prior year) until it reaches $250 billion. This mortgage portfolio cap may force us to sell mortgage assets at unattractive prices and may prevent us from purchasing mortgage assets at attractive prices. Moreover, the interest income we generate from the mortgage assets we hold in our portfolio is a primary source of our revenue, which we expect will be reduced as the size of our portfolio is reduced. As a result, this mortgage portfolio cap could have a material adverse effect on our business, financial condition, results of operations, liquidity and net worth. Cost of Treasury Investment. Beginning in 2010, we are obligated to pay a quarterly commitment fee to Treasury in exchange for its continued funding commitment under the senior preferred stock purchase agreement. This fee has not yet been established and could be substantial. We are also required to pay dividends on the senior preferred stock at a rate of 10% per year (or 12% in specified circumstances) based on the liquidation preference of the stock, which is currently $1 billion. The amount of the liquidation preference may increase as follows: by the amount of each draw if we draw on Treasury's funding commitment; by the amount of each unpaid dividend if we fail to pay any required dividend; and by the amount of each unpaid quarterly commitment fee if we fail to pay any required commitment fee. Because dividends on the senior preferred stock are paid based on the then-current liquidation preference of the stock, any increases in the liquidation preference will increase the amount of the dividends payable, and the increase may be substantial. If the increase in dividends payable is substantial, it could have a material adverse effect on our business, results of operations, financial condition, liquidity and net worth. Moreover, increases in the liquidation preference of the senior preferred stock will make it more difficult for us to achieve self-sustaining profitability in the future. Indefinite Nature of Treasury Investment. We have issued to Treasury one million shares of senior preferred stock and a warrant to purchase shares of our common stock equal to 79.9% of the total number of shares of our common stock outstanding on a fully diluted basis on the date of exercise. The senior preferred stock will remain outstanding until Treasury's funding commitment is terminated and the liquidation preference on the senior preferred stock is fully repaid. Treasury's funding commitment will terminate under any of the following circumstances: (1) the completion of our liquidation and fulfillment of Treasury's obligations under its funding commitment at that time, (2) the payment in full of, or the reasonable provision for, all of our liabilities (whether or not contingent, including mortgage guaranty obligations), or (3) the funding by Treasury of $100 billion under the commitment. The warrant will remain exercisable through September 7, 2028. Accordingly, even if the conservatorship is terminated, the U.S. government will have an equity ownership stake in our company so long as the senior preferred stock is outstanding, the warrant is exercisable or the U.S. government holds shares of our common stock issued upon exercise of the warrant. These terms of Treasury's investment effectively eliminate our ability to raise equity capital from private sources. Moreover, drawing under the Treasury's funding commitment could permanently impair our ability to build independent sources of capital and will make it more difficult for us to achieve self-sustaining profitability in the future. Treasury's funding commitment may not be sufficient to keep us in a solvent condition. Under the senior preferred stock purchase agreement, Treasury has made a commitment to provide up to $100 billion in funding as needed to help us maintain a positive net worth. To the extent we draw under the funding commitment in the future, the amount of Treasury's funding commitment will be reduced by that amount. If we continue to experience substantial losses in future periods or to the extent that we experience a liquidity crisis that prevents us from accessing the unsecured debt markets, this commitment may not be sufficient to keep us in solvent condition or from being placed into receivership.

We may not be able to rely on the Treasury credit facility in the event of a liquidity crisis. Treasury is not obligated by the terms of the Treasury credit facility to make any loans to us. In addition, we must provide collateral securing any loan that Treasury makes to us under the Treasury credit facility in the form of Fannie Mae MBS or Freddie Mac mortgage-backed securities. Treasury may reduce the value assigned to the collateral by whatever amount Treasury determines, and may request additional collateral. In addition, Treasury may require that we immediately repay, on demand, any one or more of the loans outstanding under the credit facility, regardless of the originally scheduled maturity date of the loan. Loans also become immediately due and payable upon the occurrence of specified events of default, which includes our receivership. Upon the occurrence of any event of default, Treasury may pursue specified remedies, including sale of the collateral we provided. If Treasury requires us to immediately repay loans made to us pursuant to the credit facility, there can be no assurance that we will be able to make those payments or borrow sufficient funds from alternative sources to make those payments. In addition, the forced sale of our collateral could adversely affect our business, financial condition, results of operations, liquidity and net worth. The conservatorship and investment by Treasury have had, and will continue to have, a material adverse effect on our common and preferred shareholders. No voting rights during conservatorship. The rights and powers of our shareholders are suspended during the conservatorship. The conservatorship has no specified termination date. During the conservatorship, our common shareholders do not have the ability to elect directors or to vote on other matters unless the conservator delegates this authority to them. Dividends have been eliminated. The conservator has eliminated common and preferred stock dividends (other than dividends on the senior preferred stock) during the conservatorship. In addition, under the terms of the senior preferred stock purchase agreement, dividends may not be paid to common or preferred shareholders (other than the senior preferred stock) without the consent of Treasury, regardless of whether or not we are in conservatorship. No longer managed to maximize shareholder returns. According to a statement made by the Secretary of the Treasury on September 7, 2008, because we are in conservatorship, we "will no longer be managed with a strategy to maximize shareholder returns." Liquidation preference of senior preferred stock. The senior preferred stock ranks prior to our common stock and all other series of our preferred stock, as well as any capital stock we issue in the future, as to both dividends and distributions upon liquidation. Accordingly, if we are liquidated, the senior preferred stock is entitled to its then-current liquidation preference, plus any accrued but unpaid dividends, before any distribution is made to the holders of our common stock or other preferred stock. As of November 7, 2008, the liquidation preference on the senior preferred stock was $1 billion; however, the liquidation preference could increase substantially if we draw on Treasury's funding commitment under the senior preferred stock purchase agreement, if we do not pay dividends owed on the senior preferred stock or if we do not pay the quarterly commitment fee under the senior preferred stock purchase agreement. If we are liquidated, there may not be sufficient funds remaining after payment of amounts to our creditors and to Treasury as holder of the senior preferred stock to make any distribution to holders of our common stock and other preferred stock. Warrant may substantially dilute investment of current shareholders. If Treasury exercises its warrant to purchase shares of our common stock equal to 79.9% of the total number of shares of our common stock outstanding on a fully diluted basis, the ownership interest in the company of our then existing common shareholders will be substantially diluted. It is possible that private shareholders will not own more than 20.1% of our total common equity for the duration of our existence. Market price and liquidity of our common and preferred stock has substantially declined and may decline further. After our entry into conservatorship, the market price for our common stock declined substantially (to a low of less than $1 per share at times) and the investments of our common and preferred shareholders

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have lost substantial value. Our common and preferred stock may never recover their value and we do not know if or when we will pay dividends in the future. We do not know when or how the conservatorship will be terminated, and if or when the rights and powers of our shareholders, including the voting powers of our common shareholders, will be restored. Moreover, even if the conservatorship is terminated, by their terms, we remain subject to the senior preferred stock purchase agreement, senior preferred stock and warrant. For a description of additional restrictions on and risks to our shareholders, see "Part I--Item 2--MD&A--Conservatorship and Treasury Agreements--Effect of

Conservatorship and Treasury Agreements on Stockholders." Following our entry into conservatorship, our business objectives have been modified and our business practices may be modified, which could adversely affect our business, results of operations, financial condition, liquidity and net worth. Prior to the conservatorship, our business was managed with a strategy to maximize shareholder returns. However, according to a statement made by the Secretary of the Treasury on September 7, 2008, because we are in conservatorship, we "will no longer be managed with a strategy to maximize common shareholder returns." Based on our Charter, public statements from Treasury officials and guidance from the conservator, we currently have a variety of different objectives that create conflicts in our strategic and day-to-day decision making. These conflicts are likely to lead to less than optimal outcomes as to any particular individual objective, and possibly as to all of them. Moreover, some of these objectives may adversely affect our economic returns, in both the short term and long term. These competing objectives also create risks to our business. For example, we anticipate that we may be asked or directed to undertake activities to support the mortgage market and to help borrowers; these activities are likely to have an adverse effect on our business, results of operations, financial condition, liquidity and net worth. Business practices that we implemented in order to increase our revenues, decrease our costs and manage the risks to our business prior to the conservatorship may be modified or reversed under the direction of the conservator in order to support mission-related objectives. For example, we recently announced the cancellation of a planned increase in our adverse market delivery charge in order to lower mortgage costs and support the mortgage market. We are currently evaluating all of our risk management, underwriting guidelines, pricing and costs and could make further changes in order to support our mission and other objectives. These changes could have an adverse effect on our business, results of operations, financial condition, liquidity and net worth. Our efforts to meet our mission-related goals may adversely affect our business, results of operations, financial condition, liquidity and net worth. Our efforts to fulfill the housing goals and subgoals previously established by HUD have reduced our profitability because these efforts often resulted in our acquisition of higher risk loans, on which we typically incur proportionately more credit losses than on other types of loans. Accordingly, these efforts have contributed to our higher credit losses and may lead to further increases in our credit losses. In addition, in support of our mission to provide liquidity, stability and affordability in the mortgage market and to provide assistance to struggling homeowners, we may take, or be directed by the conservator to take, a variety of actions that could adversely affect our economic returns, possibly significantly, such as: increasing our purchase of loans that pose a higher credit risk; reducing our guaranty fees; refraining from foreclosing on seriously delinquent loans; increasing our purchases of loans out of MBS trusts in order to modify them; and modifying loans to extend the maturity, lower the interest rate or reduce the amount of principal owed by the borrower. Actions we take or are directed to take in support of our mission could adversely affect our business, results of operations, financial condition, liquidity and net worth.

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Our limited ability to access the debt capital markets, particularly the long-term debt markets, has had, and may continue to have, a material adverse effect on our ability to fund our operations and on our costs, liquidity, business, results of operations, financial condition and net worth. Our ability to operate our business, meet our obligations and generate net interest income depends primarily on our ability to issue substantial amounts of debt frequently, with a variety of maturities and call features and at attractive rates. Since early July 2008, market concerns about our capital position and the future of our business (including future profitability, future structure, regulatory actions and agency status) and the extent of U.S. government support for our business has severely negatively impacted our access to the unsecured debt markets, particularly for long-term or callable debt, and has increased the yields on our debt as compared to relevant market benchmarks. In October, we experienced even further deterioration in our access to the long-term debt market and a significant increase in the yields on our short-term debt as compared to relevant market benchmarks. This is due to both the continuing severe market disruptions and market concerns about us as well as recent actions by the Secretary of the Treasury, the Chairman of the Federal Reserve Board and the Chairman of the FDIC to guarantee until June 30, 2012 new senior unsecured debt issued on or before June 30, 2009 by all FDIC-insured institutions and the companies that own these institutions. This guarantee has caused some purchasers to prefer the guaranteed senior debt over our debt obligations, which are not, directly or indirectly, guaranteed by the U.S. government. Given our significantly limited ability to issue long-term debt, we are likely to continue to need to meet these refinancing requirements by issuing short-term debt, increasingly exposing us to the risk of increasing interest rates, adverse credit market conditions and insufficient demand for our debt to meet our refinancing needs. Due to current financial market conditions and current market concerns about our business, we currently expect this trend toward dependence on short-term debt and increased roll over risk to continue. This increases the likelihood that we will need to either rely on our liquidity contingency plan, obtain funds from the Treasury credit facility, or face the possibility that we may not be able to repay our debt obligations as they become due. In the current market environment, we have significant uncertainty regarding our ability to carry out our liquidity contingency plans.

A primary source of our revenue is the net interest income we earn from the difference, or spread, between the return that we receive on our mortgage assets and our borrowing costs. The issuance of short-term and long-term debt securities in the domestic and international capital markets is our primary source of funding for our purchases of assets for our mortgage portfolio and for repaying or refinancing our existing debt. Our ability to obtain funds through the issuance of debt, and the cost at which we are able to obtain these funds, depends on many factors, including:

ù our corporate and regulatory structure, including our status as a GSE under conservatorship;
ù the commitment of Treasury to provide funding to us;
ù legislative or regulatory actions relating to our business, including any actions that would affect our GSE status or add additional requirements that would restrict or reduce our ability to issue debt;
ù other actions by the U.S. Government, such as the FDIC's guarantee of corporate debt instruments;
ù our credit ratings, including rating agency actions relating to our credit ratings;
ù our financial results and changes in our financial condition;
ù significant events relating to our business or industry;
ù the public's perception of the risks to and financial prospects of our business, industry or the markets in general;
ù the preferences of debt investors;
ù the breadth of our investor base;
ù prevailing conditions in the capital markets;

ù foreign exchange rates;
ù interest rate fluctuations;

ù the rate of inflation;
ù competition from other issuers of agency debt;
ù general economic conditions in the U.S. and abroad; and
ù broader trade and political considerations among the U.S. and other countries.

Foreign investors hold a significant portion of our debt securities and are an important source of funding for our business. The willingness of foreign investors to purchase and hold our debt securities may be influenced by many factors, including changes in the world economy, changes in foreign-currency exchange rates, regulatory and political factors, as well as the availability of and preferences for other investments. Foreign investors are also significant purchasers of mortgage-related securities, and changes in the strength and stability of foreign demand for mortgage-related securities could affect the overall market for those securities and the returns available to us on our portfolio investments. If foreign investors divest a significant portion of their holdings, our funding costs may increase. We have experienced reduced demand for our debt obligations from some of our historical sources of that demand, particularly in international markets. The willingness of foreign investors to purchase or hold our debt securities, as well as our mortgage-related securities, and any changes to such willingness, may materially affect our liquidity, earnings, financial condition and net worth. In addition, our increasing reliance on short-term debt, combined with limitations on the availability of a sufficient volume of reasonably priced derivative instruments to hedge that short-term debt position, may have an adverse impact on our duration and interest rate risk management positions. See "Risk Management--Interest Rate Risk Management and Other Market Risks" for more information regarding our interest rate risk management activities. Pursuant to our senior preferred stock purchase agreement with Treasury, we may not incur indebtedness that would result in our aggregate indebtedness exceeding 110% of our aggregate indebtedness as of June 30, 2008 and we may not incur any subordinated indebtedness. Our calculation of our aggregate indebtedness as of June 30, 2008, which has not been confirmed by Treasury, set this debt limit at $892 billion. We calculate aggregate indebtedness as the unpaid principal balance of our debt outstanding, or in the case of long-term zero coupon bonds, at maturity and exclude basis adjustments and debt from consolidations. As of October 31, 2008, we estimate that our aggregate indebtedness totaled $880 billion, significantly limiting our ability to issue additional debt. If we are unable to issue both short- and long-term debt securities at attractive rates and in amounts sufficient to operate our business and meet our obligations, it would have a continuing material adverse effect on our liquidity, earnings, financial condition and net worth. Our liquidity contingency plan may not provide sufficient liquidity to operate our business and meet our obligations in the event that we cannot access the debt capital markets. We maintain a liquidity policy, which includes a liquidity contingency plan that is intended to allow us to meet all of our cash obligations for 90 days without relying upon the issuance of unsecured debt. This plan is described in "Part I--Item 2--MD&A--Liquidity and Capital Management--Liquidity--Liquidity Risk Management--Liquidity Contingency Plan." In adverse market conditions, such as the ones we are currently experiencing, our ability to meet that 90-day plan is likely to be significantly impaired and our ability to repay maturing indebtedness and fund our operations could be significantly impaired. Within the 90-day time frame contemplated by our liquidity contingency plan, we depend on continuous access to secured financing in the repurchase and securities lending markets to continue our operations. That access could be impaired by numerous factors that are specific to Fannie Mae, such as the conservatorship, our historical lack of reliance on repurchase arrangements, and operational risks, and factors that are not specific to Fannie Mae, such as the rapidly declining market values for assets and the severe disruption of the financial markets that has been

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ongoing. Our ability to sell mortgage assets and other assets may also be impaired, or be subject to a greater reduction in value if other market participants are seeking to sell similar assets at the same time. A decrease in our credit ratings would have an adverse effect on our ability to issue debt on reasonable terms, which could reduce our earnings and materially adversely affect our ability to conduct our normal business operations and our liquidity and financial condition. Our borrowing costs and our broad access to the debt capital markets depend in large part on our high credit ratings, particularly on our senior unsecured debt. Our ratings are subject to revision or withdrawal at any time by the rating agencies. Factors such as the amount of our net losses, deterioration in our financial condition, actions by governmental entities or others, and sustained declines in our long-term profitability could adversely affect our credit ratings. The reduction in our credit ratings could increase our borrowing costs, limit our access to the capital markets and trigger additional collateral requirements under our derivatives contracts and other borrowing arrangements. It may also reduce our earnings and materially adversely affect our liquidity, our ability to conduct our normal business operations, our financial condition and results of operations. Our credit ratings and ratings outlook is included in "Part I--Item 2--MD&A--Liquidity and Capital Management--Liquidity--Credit Ratings." We are subject to mortgage credit risk. We expect increases in borrower delinquencies and defaults on mortgage loans that we own or that back our guaranteed Fannie Mae MBS to continue to materially and adversely affect our business, results of operations, financial condition and net worth. We are exposed to mortgage credit risk relating to both the mortgage loans that we hold in our investment portfolio and the mortgage loans that back our guaranteed Fannie Mae MBS because borrowers may fail to make required payments of principal and interest on the mortgage loans, exposing us to the risk of credit losses and credit-related expenses. Conditions in the housing and financial markets have worsened dramatically during 2008, contributing to a deterioration in the credit performance of our book of business, including higher serious delinquency rates, default rates and average loan loss severities on the mortgage loans we hold or that back our guaranteed Fannie Mae MBS, as well as a substantial increase in our inventory of foreclosed properties. In addition, deteriorating economic conditions have also negatively affected the credit performance of our book of business. These worsening credit performance trends have been most notable in certain higher risk loan categories, states and vintages. We present detailed information about the risk characteristics of our conventional single-family mortgage credit book of business in "Part I--Item 2--MD&A--Risk Management--Credit Risk Management--Mortgage Credit Risk Management" and we present detailed information on our credit-related expenses, credit losses and results of operations for the first nine months of 2008 in "Part I--Item 2--MD&A--Consolidated Results of Operations." We expect that these adverse credit performance trends will continue and may accelerate. As a result, we expect to continue to experience increased delinquencies, defaults, credit-related expenses and credit losses for the remainder of 2008 and 2009. We believe these increased delinquencies, defaults, credit-related expenses and credit losses will continue to materially and adversely affect our business, results of operations, financial condition and net worth. The amount by which delinquencies, defaults, credit-related expenses and credit losses will increase will depend on a variety of factors, including the extent of national and regional declines in home prices, the level of interest rates and employment rates. In particular, we expect that a recession (which most economists believe we are experiencing) in the United States, specific regions of the country or in other countries that are significant trading partners with the United States would increase unemployment in the United States and significantly increase the level of our delinquencies, defaults, credit-related expenses and credit losses.

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As a result of the conservatorship, we have experienced significant management changes and we may lose a significant number of valuable employees, which could have a material adverse effect on our ability to do business and our results of operations. Since the establishment of the conservatorship, several of our senior executive officers have left the company, including our President and Chief Executive Officer, General Counsel, Chief Business Officer and Chief Technology Officer. FHFA appointed Herbert Allison as our new President and Chief Executive Officer at the commencement of the conservatorship, and there have been several internal management changes to fill key positions. It may take time for the new management team to be retained and to become sufficiently familiar with our business and each other to effectively develop and implement our business strategies. This turnover in key management positions could harm our financial performance and results of operations. Management attention may be diverted from regular business concerns by reorganizations and the need to operate under this new framework. In addition, the success of our business strategy depends on the continuing service of our employees. The conservatorship and the actions taken by Treasury and the conservator to date, or that may be taken by them or other government agencies in the future, may have an adverse effect on the retention and recruitment of employees and others in management. For example, pursuant to the senior preferred stock purchase agreement, we may not enter into any new compensation arrangements or increase amounts or benefits payable under existing compensation arrangements of any named executive officer (as defined by SEC rules) without the consent of the Director of FHFA, in consultation with the Secretary of the Treasury. If we lose a significant number of employees and are not able to quickly recruit and train new employees, it could negatively affect customer relationships and goodwill, and could have a material adverse effect on our ability to do business and our results of operations. We are subject to pending government investigations and civil litigation. If it is determined that we engaged in wrongdoing, or if any material litigation is decided against us, we could be required to pay substantial judgments, settlements or other penalties. We are subject to investigations and inquiries by the Department of Justice and the SEC, and are a party to a number of lawsuits. We are unable at this time to estimate our potential liability in these matters, but may be required to pay substantial judgments, settlements or other penalties and incur significant expenses in connection with these investigations and lawsuits, which could have a material adverse effect on our business, results of operations, financial condition, liquidity position and net worth. In addition, responding to requests for information in these investigations and lawsuits may divert significant internal resources away from managing our business. More information regarding these investigations and lawsuits is included in "Item 1--Legal Proceedings" and "Notes to Consolidated Financial Statements--Note 19, Commitments and Contingencies." As a result of the conservatorship, our Board of Directors has no power or duty to manage, direct or oversee our business, which has adversely affected our governance, disclosure controls and procedures, and internal control over financial reporting. Upon the appointment of FHFA as conservator, FHFA succeeded to all rights, titles, powers and privileges of our Board of Directors. As a result, our Board of Directors no longer has the power or duty to manage, direct or oversee our business and affairs, unless FHFA chooses to delegate some or all of these powers. Moreover, ten of our directors who were on our Board immediately prior to the conservatorship have resigned. Of the 13 directorships authorized by our charter, we have 9 vacancies. We currently have no functioning Board committees, including the Audit Committee, Nominating and Corporate Governance Committee and Compensation Committee. In addition, we have not updated the design of our policies and procedures to account for the conservatorship and provide appropriate mechanisms for communication of information. Due to these circumstances, our Chief Executive Officer and Chief Financial Officer have determined that, as of September 30, 2008, we had ineffective disclosure controls and procedures, as well as material weaknesses in our internal control over financial reporting. This could result in errors in our reported results and have a material adverse effect on our business, operations, investor confidence in our business and the trading prices of our securities. Noncompliance with the rules of the NYSE could result in the delisting of our common and preferred stock from the NYSE. We have been in discussions with the staff of the NYSE regarding the effect of the conservatorship on our on-going compliance with the rules of the NYSE and the continued listing of our common and preferred stock on the NYSE in light of the unique circumstances of the conservatorship. While we have not been informed of any non-compliance by the NYSE, the matter has not been resolved. If the NYSE were to delist our common and preferred stock, it likely would result in a significant decline in the trading price, trading volume and liquidity of our common stock and on the classes of our preferred stock listed on the NYSE. We also expect that the suspension and delisting of our common stock would lead to decreases in analyst coverage and market-making activity relating to our common stock, as well as reduced information about trading prices and volume. As a result, it could become significantly more difficult for our shareholders to sell their shares at prices comparable to those in effect prior to delisting or at all. We may experience further write-downs and losses relating to our investment securities, which could materially adversely affect our business, results of operations, financial condition, liquidity and net worth. We have experienced a significant increase in losses and write-downs relating to our investment securities for the first nine months of 2008, as well as credit rating downgrades relating to these securities. A substantial portion of these losses and write-downs relate to our investments in private-label mortgage-related securities backed by Alt-A and subprime mortgage loans. Due to the continued deterioration in home prices and continued increases in mortgage loan delinquencies, default and credit losses in the subprime and Alt-A sectors, we expect to incur further losses on our investments in private-label mortgage-related securities, including on those that continue to be AAA-rated. See "Part I--Item 2--MD&A--Consolidated Balance Sheet Analysis--Trading and Available-for-Sale Investment Securities--Investments in Private-Label Mortgage-Related Securities" for detailed information on our investments in private-label securities backed by Alt-A and subprime loans. We also incurred significant losses during the third quarter of 2008 relating to the non-mortgage investment securities in our cash and other investments portfolio, primarily as a result of a substantial decline in the market value of these assets due to the financial market crisis. The fair value of the investment securities we hold may be further adversely affected by continued deterioration in the housing and financial markets, additional ratings downgrades or other events. Further losses and write-downs relating to our investment securities could materially adversely affect our business, results of operations, financial condition, liquidity position and net worth. Market illiquidity also has increased the amount of management judgment required to value certain of our securities. If we were to sell any of these securities, the price we ultimately realize will depend on the demand and liquidity in the market at that time and may be materially lower than the value at which we carry these securities on our balance sheet. Any of these factors could require us to take further write-downs in the value of our investment portfolio and incur material impairment of assets, which would have an adverse effect on our business, results of operations, financial condition, liquidity and net worth. Our business with many of our institutional counterparties is critical and heavily concentrated. If one or more of our institutional counterparties defaults on its obligations to us or becomes insolvent, we could experience substantial losses and it could materially adversely affect our business, results of operations, financial condition, liquidity and net worth. We face the risk that one or more of our institutional counterparties may fail to fulfill their contractual obligations to us. That risk has escalated significantly during 2008 as a result of the current financial market crisis. Our primary exposures to institutional counterparty risk are with: mortgage servicers that service the loans we hold in our mortgage portfolio or that back our Fannie Mae MBS; third-party providers of credit

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enhancement on the mortgage assets that we hold in our mortgage portfolio or that back our Fannie Mae MBS, including mortgage insurers, lenders with risk sharing arrangements, and financial guarantors; issuers of securities held in our cash and other investments portfolio; and derivatives counterparties. The challenging mortgage and credit market conditions have adversely affected, and will likely continue to adversely affect, the liquidity and financial condition of our institutional counterparties. One or more of these institutions may default in its obligations to us for a number of reasons, such as changes in financial condition that affect their credit ratings, a reduction in liquidity, operational failures or insolvency. The financial difficulties that a number of our institutional counterparties are currently experiencing may negatively affect the ability of these counterparties to meet their obligations to us and the amount or quality of the products or services they provide to us. A default by a counterparty with significant obligations to us could result in significant financial losses to us and could materially adversely affect our ability to conduct our operations, which would adversely affect our business, results of operations, financial condition, liquidity and net worth. For example, we incurred significant losses during the third quarter of 2008 in connection with Lehman Brothers entry into bankruptcy. For a description of these losses, refer to "Part I--Item 2--MD&A--Risk Management--Credit Risk Management--Institutional Counterparty Credit Risk Management." In addition, we routinely execute a high volume of transactions with counterparties in the financial services industry. Many of these transactions expose us to credit risk relating to the possibility of a default by our counterparties. In addition, to the extent these transactions are secured, our credit risk may be exacerbated to the extent that the collateral held by us cannot be realized upon or is liquidated at prices not sufficient to recover the full amount of the loan or derivative exposure due to it. We have exposure to these financial institutions in the form of unsecured debt instruments, derivative transactions and equity investments. As a result, we could incur losses relating to defaults under these instruments or relating to impairments to the carrying value of our assets represented by these instruments. These losses could materially and adversely affect our business, results of operations, financial condition, liquidity and net worth. Moreover, many of our counterparties provide several types of services to us. Many of our lender customers or their affiliates also act as mortgage servicers, custodial depository institutions and document custodians for us. Accordingly, if one of these counterparties were to become insolvent or otherwise default on its obligations to us, it could harm our business and financial results in a variety of ways. Refer to "Part I--Item 2--MD&A--Risk Management--Credit Risk Management--Institutional Counterparty Credit Risk Management" and "Part II--Item 7--MD&A--Risk Management--Credit Risk Management--Institutional Counterparty Credit Risk Management" of our 2007 Form 10-K for a detailed description of the business concentration and risk posed by each type of counterparty. We depend on our mortgage insurer counterparties to provide services that are critical to our business. If one or more of these counterparties defaults on its obligations to us or becomes insolvent, it could materially adversely affect our business, results of operations, financial condition, liquidity and net worth. Increases in mortgage insurance claims due to higher credit losses in recent periods have adversely affected the financial results and condition of many mortgage insurers. The insurer financial strength ratings of almost all of our major mortgage insurer counterparties have been downgraded to reflect their weakened financial condition. This condition creates an increased risk that these counterparties will fail to fulfill their obligations to reimburse us for claims under insurance policies. If the financial condition of one or more of these mortgage insurer counterparties deteriorates further, it could result in an increase in our loss reserves and the fair value of our guaranty obligations if we determine it is probable that we would not collect all of our claims from the affected mortgage insurer, which could adversely affect our business, results of operations, financial condition, liquidity position and net worth. In addition, if a mortgage insurer implements a run-off plan in which the insurer no longer enters into new business or is placed into receivership by its regulator, the quality and speed of their claims processing could deteriorate. Following Triad Guaranty Insurance Corporation's announced run-off of its business, we suspended Triad as a qualified provider of mortgage insurance. As a result, we experienced an additional increase in our concentration risk with our remaining mortgage insurer counterparties.

If another of our mortgage insurer counterparties stopped entering into new business with us or became insolvent, or if we were no longer willing to conduct business with one or more of our existing mortgage insurer counterparties, it is likely we would further increase our concentration risk with the remaining mortgage insurers in the industry. In addition, we are required pursuant to our charter to obtain credit enhancement on conventional single-family mortgage loans that we purchase or securitize with loan-to-value ratios over 80% at the time of purchase. Accordingly, if we are no longer able or willing to conduct business with some of our primary mortgage insurer counterparties, or these counterparties restrict their eligibility requirements for high loan-to-value ratio loans, and we do not find suitable alternative methods of obtaining credit enhancement for these loans, we may be restricted in our ability to purchase loans with loan-to-value ratios over 80% at the time of purchase. This restriction could negatively impact our ability to pursue new business opportunities relating to high loan-to-value ratio loans and therefore harm our competitive position and our earnings. We have several key lender customers, and the loss of business volume from any one of these customers could adversely affect our business and result in a decrease in our market share and earnings. Our ability to generate revenue from the purchase and securitization of mortgage loans depends on our ability to acquire a steady flow of mortgage loans from the originators of those loans. We acquire a significant portion of our mortgage loans from several large mortgage lenders. During the third quarter of 2008, our top five lender customers accounted for approximately 60% of our single-family business volume, and three of our customers each accounted for greater than 10% of our single-family business volume. Accordingly, maintaining our current business relationships and business volumes with our top lender customers is critical to our business. We enter into mortgage purchase volume commitments with many of our lender customers that are negotiated annually to provide for a minimum level of mortgage volume that these customers will deliver to us. In July 2008, Bank of America Corporation completed its acquisition of Countrywide Financial Corporation. As a result, Bank of America Corporation and its affiliates accounted for approximately 20% of our single-family business volume in third quarter of 2008. Because the transaction has only recently been completed, it is uncertain how the transaction will affect our future business volume. The mortgage industry has been consolidating and a decreasing number of large lenders originate most single-family mortgages. The loss of business from any one of our major lender customers could adversely affect our market share, our revenues and the liquidity of Fannie Mae MBS, which in turn could have an adverse effect on their market value. In addition, as we become more reliant on a smaller number of lender customers, our negotiating leverage with these customers decreases, which could diminish our ability to price our products profitably. In addition, many of our lender customers are experiencing, or may experience in the future, financial and liquidity problems that may affect the volume of business they are able to generate. If any of our key lender customers significantly reduces the volume or quality of mortgage loans that the lender delivers to us or that we are willing to buy from them, we could lose significant business volume that we might be unable to replace, which could adversely affect our business and result in a decrease in our market share and revenues. In addition, a significant reduction in the volume of mortgage loans that we securitize could reduce the liquidity of Fannie Mae MBS, which in turn could have an adverse effect on their market value. We rely on internal models to manage risk and to make business decisions. Our business could be adversely affected if those models fail to produce reliable results. We make significant use of business and financial models to measure and monitor our risk exposures and to manage our business. For example, we use models to measure and monitor our exposures to interest rate, credit and other market risks, and to forecast credit losses. The information provided by these models is used in making business decisions relating to strategies, initiatives, transactions, pricing and products.

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Models are inherently imperfect predictors of actual results because they are based on historical data available to us and our assumptions about factors such as future loan demand, prepayment speeds, default rates, severity rates, home price trends and other factors that may overstate or understate future experience. Our models could produce unreliable results for a number of reasons, including invalid or incorrect assumptions underlying the models, the need for manual adjustments in response to rapid changes in economic conditions, incorrect coding of the models, incorrect data being used by the models or inappropriate application of a model to products or events outside of the model's intended use. In particular, models are less dependable when the economic environment is outside of historical experience, as has been the case in recent months. The dramatic changes in the housing, credit and capital markets have required frequent adjustments to our models and the application of greater management judgment in the interpretation and adjustment of the results produced by our models. This application of greater management judgment reflects the need to take into account updated information while continuing to maintain controlled processes for model updates, including model development, testing, independent validation, and implementation. As a result of the time and resources, including technical and human resources, that are required to perform these processes effectively, it may not be possible to replace existing models quickly enough to ensure that they will always properly account for the impacts of recent information and actions. If our models fail to produce reliable results on an ongoing basis, we may not make appropriate risk management or business decisions, including decisions affecting loan purchases, management of credit losses and risk, guaranty fee pricing, asset and liability management and the management of our stockholders' equity, and any of those decisions could adversely affect our earnings, liquidity, stockholders' equity and financial condition. Furthermore, any strategies we employ to attempt to manage the risks associated with our use of models may not be effective. Finally, FHFA may direct us to make changes to our models or to the assumptions used in the models, which may result in similar adverse effects. In many cases, our accounting policies and methods, which are fundamental to how we report our financial condition and results of operations, require management to make judgments and estimates about matters that are inherently uncertain. Management also may rely on the use of models in making estimates about these matters. Our accounting policies and methods are fundamental to how we record and report our financial condition and results of operations. Our management must exercise judgment in applying many of these accounting policies and methods so that these policies and methods comply with GAAP and reflect management's judgment of the most appropriate manner to report our financial condition and results of operations. In some cases, management must select the appropriate accounting policy or method from two or more alternatives, any of which might be reasonable under the circumstances but might affect the amounts of assets, liabilities, revenues and expenses that we report. See "Notes to Consolidated Financial Statements--Note 2, Summary of Significant Accounting Policies" for a description of our significant accounting policies. We have identified four accounting policies as critical to the presentation of our financial condition and results of operations. These accounting policies are described in "Part I--Item 2--MD&A--Critical Accounting Policies and Estimates." We believe these policies are critical because they require management to make particularly subjective or complex judgments about matters that are inherently uncertain and because of the likelihood that materially different amounts would be reported under different conditions or using different assumptions. Due to the complexity of these critical accounting policies, our accounting methods relating to these policies involve substantial use of models. Models are inherently imperfect predictors of actual results because they are based on assumptions, including assumptions about future events. Our models may not include assumptions that reflect very positive or very negative market conditions and, accordingly, our actual results could differ significantly from those generated by our models. As a result, the estimates that we use to prepare our financial statements, as well as our estimates of our future results of operations, may be inaccurate, potentially significantly.

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Future amendments and guidance from the FASB regarding the treatment of QSPEs may impact our accounting treatment, which could materially adversely affect our business, results of operations, financial condition, liquidity position and net worth. On September 15, 2008, the FASB issued an exposure draft of a proposed statement of financial accounting standards, Amendments to FASB Interpretation No. 46(R), and an exposure draft of a proposed statement of financial accounting standards, Accounting for Transfer of Financial Assets-an amendment of FASB Statement No. 140. The proposed amendments to SFAS 140 would eliminate the QSPE concept. Additionally, the amendments to FIN 46R would replace the current consolidation model with a different model. The FASB's proposed amendments are not final and are subject to public comment period and may be revised before final rules are issued. The proposed amendments would be effective for new transfers of financial assets and to all variable interest entities on or after January 1, 2010. If the QSPE concept is eliminated from SFAS 140, all of our securitization structures that are currently QSPEs will have to be evaluated under FIN 46R for consolidation. Currently, we evaluate the MBS trusts used in our securitizations to determine whether they are QSPEs. If they are QSPEs, we do not consolidate them if we do not have the unilateral ability to dissolve them. In addition to potentially requiring consolidation of the loans and debt of our MBS trusts onto our balance sheet, FASB's proposal would also require that we initially recognize these consolidated assets and liabilities at fair value. As of September 30, 2008, we had issued over $2 trillion of Fannie Mae MBS. Although we cannot at this time predict the content of the final amendments, we may be required to consolidate the assets and liabilities of some or all of these MBS trusts. If we are required to consolidate a significant portion of the assets and liabilities of our MBS trusts, and if the fair value of those assets is substantially less than the fair value of the corresponding liabilities, the amount of our stockholders' equity would be materially reduced and Treasury's $100 billion funding commitment may not be sufficient to prevent our mandatory receivership. In addition, under our existing regulatory capital standards, which are currently suspended while we are in conservatorship, the amount of capital that we are required to hold for obligations reported on our balance sheet is significantly higher than the amount of capital that we are required to hold for the guarantees that we provide to the MBS trusts. Accordingly, if we are required to consolidate the assets and liabilities of our MBS trusts, we would be required to increase capital to satisfy regulatory capital requirements unless legislation is passed or FHFA adopts new capital standards that alters this requirement. If we do not have enough capital to meet these higher regulatory capital requirements, we could incur penalties and also could be subject to further restrictions on our activities and operations, or to investigation and enforcement actions by the FHFA. Under the Regulatory Reform Act, the FHFA may place us into receivership if it classifies us as critically undercapitalized. Moreover, changes to the accounting treatment for securitizations may impact the market for securitizations, which could weaken demand for, and reduce the liquidity of, our Fannie Mae MBS. We cannot predict what the final amendments to SFAS 140 and FIN 46R will be, nor can we predict whether we will be required to consolidate all, some or none of the assets and liabilities of our MBS trusts, or the effect of a consolidation of those assets and liabilities on our securitization activities, results of operations or stockholders' equity. Further, we cannot predict the impact that these or other amendments or guidance of the FASB that may be adopted in the future may have on our accounting policies and methods, which are fundamental to how we report our financial condition and results of operations. Our ability to maintain a positive net worth may be adversely affected by market conditions and other factors. Under the Regulatory Reform Act, FHFA must place us into receivership if we have a negative net worth (which means that our assets are less than our obligations) for a period of 60 days. Our ability to maintain a positive net worth may be adversely affected by market conditions and volatility. We expect the market conditions that contributed to our net loss for first nine months of 2008 to continue and possibly worsen, and therefore to continue to adversely affect our net worth. Factors that could adversely affect our net worth for future periods include: additional net losses; continued declines in home prices; increases in our credit and interest rate risk profiles; adverse changes in interest rates or implied volatility; the ineffectiveness of hedge

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accounting; adverse changes in option-adjusted spreads; impairments of private-label mortgage-related securities; counterparty downgrades; downgrades of private-label mortgage-related securities; changes in GAAP; actions we may take to help homeowners, such as increasing our purchases of loans out of MBS trusts in order to modify them and modifying loans to lower the interest rate or to reduce the amount of principal owed by the borrower; and actions taken by FHFA, Treasury or Congress relating to our business, the mortgage industry or the financial services industry. In addition, approximately 50% of our net worth as of September 30, 2008 consisted of our remaining deferred tax assets, which could be subject to a further valuation allowance in the future. If current trends in the housing and financial markets continue or worsen, and we have a significant net loss in the fourth quarter of 2008, we may have a negative net worth as of December 31, 2008. If this were to occur, we would be required to obtain funding from Treasury pursuant to its commitment under the senior preferred stock purchase agreement in order to avoid a mandatory trigger of receivership under the Regulatory Reform Act. We may be required to establish an additional valuation allowance against our deferred tax assets, which could materially adversely affect our results of operations, financial condition and net worth. As of September 30, 2008, we had approximately $4.6 billion in net deferred tax assets on our consolidated balance sheet. Deferred tax assets refer to assets on our consolidated balance sheets that are attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and to tax credits. The realization of our deferred tax assets is dependent upon the generation of sufficient future taxable income. We are in a cumulative book taxable loss position as of the three-year period ended September 30, 2008. For purposes of establishing a deferred tax valuation allowance, this cumulative book taxable loss position is considered significant, objective evidence that we may not be able to realize some portion of our deferred tax assets in the future. As described in "Part I--MD&A--Critical Accounting Policies and Estimates--Deferred Tax Assets," we established a partial deferred tax valuation allowance of $21.4 billion during the third quarter based on our consideration of the available evidence. We did not establish a valuation allowance with respect to $4.6 billion in deferred tax assets related to unrealized losses recorded through AOCI on our available-for-sale securities;

we currently believe these deferred tax assets are recoverable because we have the intent and ability to hold these securities until recovery of the carrying value. We will continue to monitor all available evidence related to our ability to utilize our remaining deferred tax assets. If in a future period we determine that we no longer have the intent or the ability to hold our available-for-sale securities until recovery of the carrying value, we would record an additional valuation allowance against these deferred tax assets, which could have a material adverse effect on our results of operations, financial condition and net worth. Changes in option-adjusted spreads or interest rates, or our inability to manage interest rate risk successfully, could have a material adverse effect on our business, results of operations, financial condition, liquidity position and net worth. We fund our operations primarily through the issuance of debt and invest our funds primarily in mortgage-related assets that permit the mortgage borrowers to prepay the mortgages at any time. These business activities expose us to market risk, which is the risk of loss from adverse changes in market conditions. Our most significant market risks are interest rate risk and option-adjusted spread risk. We describe these risks in more detail in "Part I--Item 2--MD&A--Risk Management--Interest Rate Risk Management and Other Market Risks." Changes in interest rates affect both the value of our mortgage assets and prepayment rates on our mortgage loans. Changes in interest rates could have a material adverse effect on our business, results of operations, financial condition, liquidity position and net worth. Our ability to manage interest rate risk depends on our ability to issue debt instruments with a range of maturities and other features, including call features, at attractive rates and to engage in derivative transactions. We must exercise judgment in selecting the amount, type and mix of

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debt and derivative instruments that will most effectively manage our interest rate risk. In addition, as described in a risk factor above, our ability to issue debt instruments with a range of maturities and call features has been impaired. In recent months, our ability to issue callable debt has been substantially reduced, and we therefore have been required to increase our use of derivatives to manage interest rate risk. The amount, type and mix of financial instruments that are available to us may not offset possible future changes in the spread between our borrowing costs and the interest we earn on our mortgage assets. As described in "Part I--Item 2--MD&A--Risk Management--Interest Rate Risk Management and Other Market Risks," the volatility and disruption in the credit markets during the past year, which reached unprecedented levels during the third quarter of 2008 and in October 2008, have created a number of challenges for us in managing our market-related risks. As a result of our extremely limited ability to issue callable debt or long-term debt in recent months, we have relied primarily on a combination of short-term debt, interest rate swaps and swaptions to fund mortgage purchases and to manage our interest rate risk. The extreme levels of market volatility have resulted in a higher level of volatility in the interest rate risk profile of our net portfolio and led us to take more frequent rebalancing actions. At the same time, we have experienced an increase in the cost to enter into new derivative transactions due to a reduction in the liquidity of derivatives, an increase during the third quarter of 2008 in the bid-ask spreads on derivatives and a much higher cost of option-based derivative contracts. Our business is subject to laws and regulations that restrict our activities and operations, which may adversely affect our business, results of operations, financial condition, liquidity and net worth. As a federally chartered corporation, we are subject to the limitations imposed by the Charter Act, extensive regulation, supervision and examination by FHFA, and regulation by other federal agencies, including Treasury, HUD and the SEC. We are also subject to many laws and regulations that affect our business, including those regarding taxation and privacy. In addition, the policy, approach or regulatory philosophy of these agencies can materially affect our business. Additionally, the Charter Act defines our permissible business activities. For example, we may not purchase single-family loans in excess of the conforming loan limits. In addition, under the Charter Act, our business is limited to the U.S. housing finance sector. As a result of these limitations on our ability to diversify our operations, our financial condition and earnings depend almost entirely on conditions in a single sector of the U.S. economy, specifically, the U.S. housing market. Our substantial reliance on conditions in the U.S. housing market may adversely affect the investment returns we are able to generate. The current housing goals and subgoals for our business require that a specified portion of our mortgage purchases during each calendar year relate to the purchase or securitization of mortgage loans that finance housing for low- and moderate-income households, housing in underserved areas and qualified housing under the definition of special affordable housing. Many of these goals and subgoals have increased in 2008 over 2007 levels. These increases in goal levels and recent housing and mortgage market conditions, particularly the significant changes in the housing market that began in the third quarter of 2007, have made it increasingly challenging to meet our housing goals and subgoals. Our business faces significant operational risks and an operational failure could materially adversely affect our business, results of operations, financial condition, liquidity and net worth. Shortcomings or failures in our internal processes, people or systems could have a material adverse effect on our risk management, liquidity, financial condition and results of operations; disrupt our business; and result in legislative or regulatory intervention, damage to our reputation and liability to customers. For example, our business is dependent on our ability to manage and process, on a daily basis, a large number of transactions across numerous and diverse markets. These transactions are subject to various legal and regulatory standards. We rely on the ability of our employees and our internal financial, accounting, cash management, data processing and other operating systems, as well as technological systems operated by third parties, to process these transactions and to manage our business. The steps we have taken and are taking to enhance our

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technology and operational controls and organizational structure may not be effective to manage these risks and may create additional operational risk as we execute these enhancements. Due to events relating to the conservatorship, including changes in management, employees and business practices, our operational risk may increase and could result in business interruptions and financial losses. In addition, due to events that are wholly or partially beyond our control, these employees or third parties could engage in improper or unauthorized actions, or these systems could fail to operate properly, which could lead to financial losses, business disruptions, legal and regulatory sanctions, and reputational damage. If we are unable to develop, enhance and implement strategies to adapt to changing conditions in the mortgage industry and capital markets, our business, results of operations, financial condition, liquidity and net worth will be adversely affected. The manner in which we compete and the products for which we compete are affected by changing conditions in the mortgage industry and capital markets. If we do not effectively respond to these changes, or if our strategies to respond to these changes are not as successful as our prior business strategies, our business, results of operations, financial condition, liquidity and net worth will be adversely affected. Additionally, we may not be able to develop or execute any new or enhanced strategies that we adopt to address changing conditions and, even if fully implemented, these strategies may not increase our earnings due to factors beyond our control. Mortgage fraud could result in significant financial losses and harm to our reputation. Because we use a process of delegated underwriting in which lenders make specific representations and warranties about the characteristics of the single-family mortgage loans we purchase and securitize, we do not independently verify most borrower information that is provided to us. This exposes us to the risk that one or more of the parties involved in a transaction (the borrower, seller, broker, appraiser, title agent, lender or servicer) will engage in fraud by misrepresenting facts about a mortgage loan. We have experienced financial losses resulting from mortgage fraud. In the future, we may experience significant financial losses and reputational damage as a result of mortgage fraud. Risks Relating to Our Industry A continuing, or broader, decline in U.S. home prices or activity in the U.S. housing market could negatively impact our business, results of operations, financial condition, liquidity and net worth. The continued deterioration of the U.S. housing market and national decline in home prices in 2008 has resulted in increased delinquencies or defaults on the mortgage assets we own and that back our guaranteed Fannie Mae MBS. Further, the features of a significant portion of mortgage loans made in recent years, including loans with adjustable interest rates that may reset to higher payments either once or throughout their term, and loans that were made based on limited or no credit or income documentation, also increase the likelihood of future increases in delinquencies or defaults on mortgage loans. An increase in delinquencies or defaults will result in a higher level of credit losses and credit-related expenses, which in turn will reduce our earnings and adversely affect our net worth. Higher credit losses and credit-related expenses also could adversely affect our financial condition. Our business volume is affected by the rate of growth in total U.S. residential mortgage debt outstanding and the size of the U.S. residential mortgage market. The rate of growth in total U.S. residential mortgage debt outstanding has declined substantially in response to the reduced activity in the housing market and national declines in home prices, and we expect that it will continue to decline to a growth rate of about 0% in 2009. A decline in the rate of growth in mortgage debt outstanding reduces the number of mortgage loans available for us to purchase or securitize, which in turn could lead to a reduction in our net interest income and guaranty fee income. Even if we are able to increase our share of the secondary mortgage market, it may not be sufficient to make up for the decline in the rate of growth in mortgage originations, which could adversely affect our results of operations and financial condition.

Changes in general market and economic conditions in the United States and abroad have materially adversely affected, and may continue to materially adversely affect, our business, results of operations, financial condition, liquidity and net worth. Our earnings and financial condition may continue to be materially adversely affected by unfavorable market and economic conditions in the United States and abroad. These conditions include the disruption of the international credit markets, weakness in the U.S. financial markets and national economy and local economies in the United States and economies of other countries with investors that hold our debt, short-term and long-term interest rates, the value of the U.S. dollar compared with the value of foreign currencies, the rate of inflation, fluctuations in both the debt and equity capital markets, high unemployment rates and the lack of economic recovery from the credit crisis. These conditions are beyond our control and may change suddenly and dramatically. Changes in market and economic conditions could continue to adversely affect us in many ways, including the following:

ù slow or negative economic growth and rising unemployment in the United States, either as a whole or in specific regions of the country, has decreased homeowner demand for mortgage loans and increased the number of homeowners who become delinquent or default on their mortgage loans. The increase in delinquencies or defaults has resulted in a higher level of credit losses and credit-related expenses and reduced our earnings. In addition, the credit crisis has reduced the amount of mortgage loans being originated. Decreased homeowner demand for mortgage loans and reduced mortgage originations could reduce our guaranty fee income, net interest income and the fair value of our mortgage assets;

ù the credit crisis has increased the risk that our counterparties will default on their obligations to us or become insolvent, resulting in a reduction in our earnings and thereby adversely affecting our net worth and financial condition;

ù the credit crisis has reduced international demand for debt securities issued by U.S. financial institutions; and

ù fluctuations in the global debt and equity capital markets, including sudden changes in short-term or long-term interest rates, could decrease the fair value of our mortgage assets, derivatives positions and other investments, negatively affect our ability to issue debt at reasonable rates, and reduce our net interest income.

Our business is subject to uncertainty as a result of the current disruption in the housing and mortgage markets. The mortgage credit markets continue to experience difficult conditions and volatility. The disruption has adversely affected the U.S. economy in general and the housing and mortgage markets in particular and likely will continue to do so. These deteriorating conditions in the mortgage market resulted in a decrease in availability of corporate credit and liquidity within the mortgage industry and have caused disruptions to normal operations of major mortgage originators, including some of our largest customers. These conditions resulted in less liquidity, greater volatility, widening of credit spreads and a lack of price transparency. We operate in these markets and are subject to potential adverse effects on our results of operations and financial condition due to our activities involving securities, mortgages, derivatives and other mortgage commitments with our customers. In addition, a variety of legislative, regulatory and other proposals have been introduced or adopted in an effort to address the disruption, which could adversely affect our business, results of operations, financial condition, liquidity position and net worth. Further, the actions taken by the U.S. government to address the disruption may not effectively bring about the intended economic recovery.

Defaults by large financial institutions and insurance companies under agreements or instruments with other financial institutions and insurance companies could materially and adversely affect our business, results of operations, financial condition, liquidity and net worth. The financial soundness of many large financial institutions, including insurance companies, is interrelated with the credit, trading or other relationships among and between these financial institutions. As a result, concerns about, or a default or threatened default by, one financial institution could lead to significant market-wide liquidity problems, losses or defaults by other financial institutions. During the third quarter of 2008 and continuing through October, investor confidence in financial institutions fell dramatically. In September and October 2008, we and Freddie Mac were placed into conservatorship, Lehman Brothers declared bankruptcy, and other major U.S. financial institutions were acquired or required assistance from the U.S. government. There can be no assurance that the actions being taken by the U.S. government to improve the financial markets will improve the liquidity in the credit markets or result in lower credit spreads, and the current illiquidity and wide credit spreads may worsen. Continued turbulence in the U.S. and international markets and economy may adversely affect our liquidity and financial condition and the willingness of certain counterparties and customers to do business with us or each other. If these or similar conditions continue or worsen, financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges, with which we interact on a daily basis, may be adversely affected, which could have a material adverse effect our business, results of operations, financial condition, liquidity and net worth. The financial services industry is undergoing significant structural changes, and is subject to significant and changing regulation. We do not know how these changes will affect our business. The financial services industry is undergoing significant structural changes. From March through September 2008, all of the major independent investment banks were either acquired, declared bankruptcy, or changed their status to bank holding companies. In September 2008, we and Freddie Mac were placed into conservatorship, which effectively placed us under the control of the U.S. government. On October 14, 2008, Treasury announced a capital purchase program in which eligible financial institutions would sell preferred shares to the U.S. government. As of November 1, 2008, Treasury had invested $125 billion in nine large financial institutions under this program. Also on October 14, 2008, the FDIC announced a temporary liquidity guarantee program pursuant to which it will temporarily guarantee the senior debt of all FDIC-insured institutions and their holding companies. In light of current conditions in the U.S. financial markets and economy, regulators and legislatures have increased their focus on the regulation of the financial services industry. Proposals for legislation regulating the financial services industry are continually being introduced in Congress and in state legislatures and may increase. We are unable to predict whether any of these proposals will be implemented or in what form, or whether any additional or similar changes to statutes or regulations, including the interpretation or implementation thereof, will occur in the future. The actions of Treasury, the FDIC, the Federal Reserve and international central banking authorities directly impact financial institutions' cost of funds for lending, capital raising and investment activities, which could increase our borrowing costs or make borrowing more difficult for us. For example, as described in a risk factor above, the FDIC's temporary liquidity guarantee program has reduced demand for our debt securities. Changes in monetary policy are beyond our control and difficult to predict. The financial market crisis has also resulted in several mergers or announced mergers of a number of our most significant institutional counterparties. The increasing consolidation of the financial services industry will increase our concentration risk to counterparties in this industry, and we will become more reliant on a smaller number of institutional counterparties, which both increases our risk exposure to any individual counterparty and decreases our negotiating leverage with these counterparties. The structural changes in the financial services industry and any legislative or regulatory changes could affect us in substantial and unforeseeable ways and could have a material adverse effect on our business, results of operations, financial condition, liquidity and net worth. In particular, these changes could affect our ability to issue debt, may reduce our customer base, and could result in increased competition for our business.

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The occurrence of a major natural or other disaster in the United States could increase our delinquency rates and credit losses or disrupt our business operations and lead to financial losses. The occurrence of a major natural disaster, terrorist attack or health epidemic in the United States could increase our delinquency rates and credit losses in the affected region or regions, which could have a material adverse effect on our business, results of operations, financial condition, liquidity position and net worth. The contingency plans and facilities that we have in place may be insufficient to prevent a disruption in the infrastructure that supports our business and the communities in which we are located from having an adverse effect on our ability to conduct business. Substantially all of our senior management and investment personnel work out of our offices in the Washington, DC metropolitan area. If a disruption occurs and our senior management or other employees are unable to occupy our offices, communicate with other personnel or travel to other locations, our ability to interact with each other and with our customers may suffer, and we may not be successful in implementing contingency plans that depend on communication or travel.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(a) Unregistered Sales of Equity Securities Recent Sales of Unregistered Securities Under the Fannie Mae Stock Compensation Plan of 1993 and the Fannie Mae Stock Compensation Plan of 2003 (the "Plans"), we have provided stock compensation to employees and members of the Board of Directors to attract, motivate and retain these individuals and promote an identity of interests with shareholders. During the quarter ended September 30, 2008, we did not issue restricted stock in consideration of services rendered or to be rendered. Under the terms of the senior preferred stock purchase agreement we entered into with Treasury on September 7, 2008, we are prohibited from selling or issuing our equity interests other than as required by (and pursuant to) the terms of a binding agreement in effect on September 7, 2008 without the prior written consent of Treasury. During the quarter ended September 30, 2008, 14,126 restricted stock units vested, as a result of which 9,582 shares of common stock were issued and 4,544 shares of common stock that otherwise would have been issued were withheld by us in lieu of requiring the recipients to pay us the withholding taxes due upon vesting. All of these restricted stock units were granted prior to September 7, 2008. Restricted stock units granted under the Plans typically vest in equal annual installments over three or four years beginning on the first anniversary of the date of grant. Each restricted stock unit represents the right to receive a share of common stock at the time of vesting. As a result, restricted stock units are generally similar to restricted stock, except that restricted stock units do not confer voting rights on their holders. All restricted stock units were granted to persons who were employees of Fannie Mae. As reported in a current report on Form 8-K filed with SEC on September 11, 2008, Fannie Mae, through FHFA, in its capacity as conservator, issued to Treasury: (1) on September 8, 2008, one million shares of senior preferred stock with an initial liquidation preference equal to $1,000 per share; and (2) on September 7, 2008, a warrant to purchase shares of Fannie Mae common stock equal to 79.9% of the total number of shares of Fannie Mae common stock outstanding on a fully diluted basis on the date of exercise. The senior preferred stock and warrant were issued to Treasury as an initial commitment fee in consideration of the commitment from Treasury to provide funds to Fannie Mae under the terms and conditions set forth in the senior preferred stock purchase agreement. Accordingly, we did not receive any cash proceeds as a result of issuing the senior preferred stock or the warrant. See "Part I--Item 2--MD&AW22; Conservatorship and Treasury Agreements--Treasury Agreements--Senior Preferred Stock Purchase Agreement and Related Issuance of Senior Preferred Stock and Common Stock Warrant" for a description of the terms of the senior preferred stock and warrant. The securities we issue are "exempted securities" under laws administered by the SEC to the same extent as securities that are obligations of, or are guaranteed as to principal and interest by, the United States, except that, under the Regulatory Reform Act, our equity securities are not treated as exempted securities for

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purposes of Section 12, 13, 14 or 16 of the Exchange Act. As a result, we do not file registration statements or prospectuses with the SEC under the Securities Act with respect to certain securities offerings. Information about Certain Securities Issuances by Fannie Mae Pursuant to SEC regulations, public companies are required to disclose certain information when they incur a material direct financial obligation or become directly or contingently liable for a material obligation under an off-balance sheet arrangement. The disclosure must be made in a current report on Form 8-K under Item 2.03 or, if the obligation is incurred in connection with certain types of securities offerings, in prospectuses for that offering that are filed with the SEC. Fannie Mae's securities offerings are exempted from SEC registration requirements, except that, under the Regulatory Reform Act, our equity securities are not treated as exempted securities for purposes of Section 12, 13, 14 or 16 of the Exchange Act. As a result, we are not required to and do not file registration statements or prospectuses with the SEC under the Securities Act with respect to certain securities offerings. To comply with the disclosure requirements of Form 8-K relating to the incurrence of material financial obligations, we report our incurrence of these types of obligations either in offering circulars or prospectuses (or supplements thereto) that we post on our Web site or in a current report on Form 8-K, in accordance with a "no-action" letter we received from the SEC staff. In cases where the information is disclosed in a prospectus or offering circular posted on our Web site, the document will be posted on our Web site within the same time period that a prospectus for a non-exempt securities offering would be required to be filed with the SEC. The Web site address for disclosure about our debt securities is www.fanniemae.com/debtsearch. From this address, investors can access the offering circular and related supplements for debt securities offerings under Fannie Mae's universal debt facility, including pricing supplements for individual issuances of debt securities. Disclosure about our off-balance sheet obligations pursuant to some of the MBS we issue can be found at www.fanniemae.com/mbsdisclosure. From this address, investors can access information and documents about our MBS, including prospectuses and related prospectus supplements. We are providing our Web site address solely for your information. Information appearing on our Web site is not incorporated into this quarterly report on Form 10-Q. (b) None. (c) Share Repurchases Issuer Purchases of Equity Securities The following table shows shares of our common stock we repurchased during the third quarter of 2008.

Period	Total Number of Shares Purchased(1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program(2)	Maximum Number of Shares that May Yet be Purchased Under the Program(3)
	(Shares in thousands)			
2008				
July 1-31	2,738	$ 12.11		56,807
August 1-31	10,662	8.11		56,717
September 1-30	9,023	2.64		56,027
Total	22,423			

(1) Consists of shares of common stock reacquired from employees to pay an aggregate of approximately $0.1 million in withholding taxes due upon the vesting of previously issued restricted stock.

(2) On January 21, 2003, we publicly announced that the Board of Directors had approved a share repurchase program (the "General Repurchase Authority") under which we could purchase in open market transactions the sum of (a) up to 5% of the shares of common stock outstanding as of December 31, 2002 (49.4 million shares) and (b) additional shares to offset stock issued or expected to be issued under our employee benefit plans. No shares were repurchased during the third quarter of 2008 pursuant to the General

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Repurchase Authority. The General Repurchase Authority has no specified expiration date. Under the terms of the senior preferred stock purchase agreement we entered into with Treasury on September 7, 2008, we are prohibited from purchasing Fannie Mae common stock without the prior written consent of Treasury. As a result of this prohibition, we do not intend to make further purchases under the General Repurchase Authority at this time.

(3) Consists of the total number of shares that may yet be purchased under the General Repurchase Authority as of the end of the month, including the number of shares that may be repurchased to offset stock that may be issued pursuant to awards outstanding under our employee benefit plans. Repurchased shares are first offset against any issuances of stock under our employee benefit plans. To the extent that we repurchase more shares in a given month than have been issued under our plans, the excess number of shares is deducted from the 49.4 million shares approved for repurchase under the General Repurchase Authority. See "Notes to Consolidated Financial Statements--Note 13, Stock-Based Compensation Plans" in our 2007 Form 10-K, for information about shares issued, shares expected to be issued, and shares remaining available for grant under our employee benefit plans. Shares that remain available for grant under our employee benefit plans are not included in the amount of shares that may yet be purchased reflected in the table above.

Dividend Restrictions Our payment of dividends is subject to the following restrictions: Restrictions Relating to Conservatorship. As described above in "Part I--Item 2--MD&A--Conservatorship and Treasury Agreements," we are currently under conservatorship. As conservator, FHFA announced on September 7, 2008 that we would not pay any dividends on the common stock or on any series of preferred stock (other than the senior preferred stock). Restrictions Under Senior Preferred Stock Purchase Agreement. The senior preferred stock purchase agreement prohibits us from declaring or paying any dividends on Fannie Mae equity securities without the prior written consent of Treasury. Restrictions Under Regulatory Reform Act. Under the Regulatory Reform Act, FHFA has authority to prohibit capital distributions, including payment of dividends, if we fail to meet our capital requirements. If FHFA classifies us as significantly undercapitalized, approval of the Director of FHFA is required for any dividend payment. Under the Regulatory Reform Act, we are not permitted to make a capital distribution if, after making the distribution, we would be undercapitalized, except the Director of FHFA may permit us to repurchase shares if the repurchase is made in connection with the issuance of additional shares or obligations in at least an equivalent amount and will reduce our financial obligations or otherwise improve our financial condition. Restrictions Relating to Subordinated Debt. During any period in which we defer payment of interest on qualifying subordinated debt, we may not declare or pay dividends on, or redeem, purchase or acquire, our common stock or preferred stock. Our qualifying subordinated debt provides for the deferral of the payment of interest for up to five years if either: (i) our core capital is below 125% of our critical capital requirement; or (ii) our core capital is below our statutory minimum capital requirement, and the U.S. Secretary of the Treasury, acting on our request, exercises his or her discretionary authority pursuant to Section 304(c) of the Charter Act to purchase our debt obligations. As of September 30, 2008, our core capital was below 125% of our critical capital requirement; however, we have been directed by FHFA to continue paying principal and interest on our outstanding subordinated debt during the conservatorship and thereafter until directed otherwise, regardless of our existing capital levels. Restrictions Relating to Preferred Stock. Payment of dividends on our common stock is also subject to the prior payment of dividends on our 17 series of preferred stock and one series of senior preferred stock, representing an aggregate of 607,125,000 shares and 1,000,000 shares, respectively, outstanding as of September 30, 2008. Payment of dividends on all outstanding preferred stock, other than the senior preferred stock, is also subject to the prior payment of dividends on the senior preferred stock. Quarterly dividends declared on the shares of our preferred stock outstanding totaled $413 million for the quarter ended September 30, 2008. For a description of our capital requirements, refer to "Notes to Condensed Consolidated Financial Statements--Note 16, Regulatory Capital Requirements."

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Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Other Information

(a) Items Not Reported Under Form 8-K Not applicable. (b) Changes to Procedures for Recommending Nominees to Board of Directors On September 6, 2008, the Director of FHFA appointed FHFA as conservator of Fannie Mae in accordance with the Regulatory Reform Act and the Federal Housing Enterprises Financial Safety and Soundness Act of 1992. During the conservatorship, the conservator has all powers of the shareholders and Board of Directors of Fannie Mae. As a result, Fannie Mae's common shareholders no longer have the ability to nominate or elect the directors of Fannie Mae pursuant to the procedures outlined in our bylaws. For more information on the conservatorship, refer to "Part I--Item 2--MD&A--Conservatorship and Treasury Agreements--Conservatorship."

Item 6. Exhibits

An index to exhibits has been filed as part of this report beginning on page E-1 and is incorporated herein by reference.

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SIGNATURES Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized. Federal National Mortgage Association

By: /s/ Herbert M. Allison, Jr.

Herbert M. Allison, Jr. President and Chief Executive Officer Date: November 10, 2008

By: /s/ David C. Hisey

David C. Hisey Executive Vice President and Chief Financial Officer Date: November 10, 2008

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INDEX TO EXHIBITS

Item	Description
3 .1	Fannie Mae Charter Act (12 U.S.C. (s) 1716 et seq.) as amended through July 30, 2008 (Incorporated by reference to Exhibit 3.1 to Fannie Mae's Quarterly Report on Form 10-Q, filed August 8, 2008.)
3 .2	Fannie Mae Bylaws, as amended through February 29, 2008 (Incorporated by reference to Exhibit 3.1 to Fannie Mae's Quarterly Report on Form 10-Q, filed March 6, 2008.)
4 .1	Certificate of Designation of Terms of Fannie Mae Preferred Stock, Series D (Incorporated by reference to Exhibit 4.1 to Fannie Mae's registration statement on Form 10, filed March 31, 2003.)
4 .2	Certificate of Designation of Terms of Fannie Mae Preferred Stock, Series E (Incorporated by reference to Exhibit 4.2 to Fannie Mae's registration statement on Form 10, filed March 31, 2003.)
4 .3	Certificate of Designation of Terms of Fannie Mae Preferred Stock, Series F (Incorporated by reference to Exhibit 4.3 to Fannie Mae's registration statement on Form 10, filed March 31, 2003.)
4 .4	Certificate of Designation of Terms of Fannie Mae Preferred Stock, Series G (Incorporated by reference to Exhibit 4.4 to Fannie Mae's registration statement on Form 10, filed March 31, 2003.)
4 .5	Certificate of Designation of Terms of Fannie Mae Preferred Stock, Series H (Incorporated by reference to Exhibit 4.5 to Fannie Mae's registration statement on Form 10, filed March 31, 2003.)
4 .6	Certificate of Designation of Terms of Fannie Mae Preferred Stock, Series I (Incorporated by reference to Exhibit 4.6 to Fannie Mae's registration statement on Form 10, filed March 31, 2003.)
4 .7	Certificate of Designation of Terms of Fannie Mae Preferred Stock, Series L (Incorporated by reference to Exhibit 4.7 to Fannie Mae's Quarterly Report on Form 10-Q dated August 8, 2008.)
4 .8	Certificate of Designation of Terms of Fannie Mae Preferred Stock, Series M (Incorporated by reference to Exhibit 4.8 to Fannie Mae's Quarterly Report on Form 10-Q dated August 8, 2008.)
4 .9	Certificate of Designation of Terms of Fannie Mae Preferred Stock, Series N (Incorporated by reference to Exhibit 4.9 to Fannie Mae's Quarterly Report on Form 10-Q dated August 8, 2008.)
4 .10	Certificate of Designation of Terms of Fannie Mae Non-Cumulative Convertible Preferred Stock, Series 2004-1 (Incorporated by reference to Exhibit 4.1 to Fannie Mae's Current Report on Form 8-K, filed January 4, 2005.)
4 .11	Certificate of Designation of Terms of Fannie Mae Preferred Stock, Series O (Incorporated by reference to Exhibit 4.2 to Fannie Mae's Current Report

on Form 8-K, filed January 4, 2005.)
4 .12 Certificate of Designation of Terms of Fannie Mae Preferred Stock, Series P (Incorporated by reference to Exhibit 4.1 to Fannie Mae's Current Report on Form 8-K, filed September 28, 2007.)
4 .13 Certificate of Designation of Terms of Fannie Mae Preferred Stock, Series Q (Incorporated by reference to Exhibit 4.1 to Fannie Mae's Current Report on Form 8-K, filed October 5, 2007.)
4 .14 Certificate of Designation of Terms of Fannie Mae Preferred Stock, Series R (Incorporated by reference to Exhibit 4.1 to Fannie Mae's Current Report on Form 8-K, filed November 21, 2007.)
4 .15 Certificate of Designation of Terms of Fannie Mae Preferred Stock, Series S (Incorporated by reference to Exhibit 4.1 to Fannie Mae's Current Report on Form 8-K, filed December 11, 2007.)
4 .16 Certificate of Designation of Terms of Fannie Mae Non-Cumulative Mandatory Convertible Preferred Stock, Series 2008-1 (Incorporated by reference to Exhibit 4.1 to Fannie Mae's Current Report on Form 8-K, filed May 14, 2008.)
4 .17 Certificate of Designation of Terms of Fannie Mae Preferred Stock, Series T (Incorporated by reference to Exhibit 4.1 to Fannie Mae's Current Report on Form 8-K, filed May 19, 2008.)
4 .18 Certificate of Designation of Terms of Variable Liquidation Preference Senior Preferred Stock, Series 2008-2 (Incorporated by reference to Exhibit 4.2 to Fannie Mae's Current Report on Form 8-K, filed September 11, 2008.)
4 .19 Warrant to Purchase Common Stock, dated September 7, 2008 conservator (Incorporated by reference to Exhibit 4.3 to Fannie Mae's Current Report on Form 8-K, filed September 11, 2008.)
4 .20 Amended and Restated Senior Preferred Stock Purchase Agreement, dated as of September 26, 2008, between the United States Department of the Treasury and Federal National Mortgage Association, acting through the Federal Housing Finance Agency as its duly appointed conservator (Incorporated by reference to Exhibit 4.1 to Fannie Mae's Current Report on Form 8-K, filed October 2, 2008.)

Item Description
10 .1 Senior Preferred Stock Purchase Agreement, dated as of September 7, 2008, between the United States Department of the Treasury and Federal National Mortgage Association, acting through the Federal Housing Finance Agency as its duly appointed conservator (Incorporated by reference to Exhibit 4.1 to Fannie Mae's Current Report on Form 8-K, filed September 11, 2008. This agreement was amended and restated on September 26, 2008 and, as so amended and restated, is filed as Exhibit 4.20 to this Quarterly Report on Form 10-Q.)
10 .2 Description of amendment to the employment agreement of Daniel H. Mudd (Incorporated by reference to information under the heading "Conservator's Amendment of Employment Agreement of Former President and Chief Executive Officer" in Item 5.02 of Fannie Mae's Current Report on Form 8-K, filed September 18, 2008.)†
10 .3 Description of retention plan and 2009 annual compensation plan (Incorporated by reference to "Conservator's Determination Relating to Retention Plan and 2009 Annual Compensation Plan" in Item 5.02 of Fannie Mae's Current Report on Form 8-K, filed September 19, 2008.)†
10 .4 Lending Agreement, dated September 19, 2008, between the U.S. Treasury and Fannie Mae
31 .1 Certification of Chief Executive Officer pursuant to Securities Exchange Act Rule 13a-14(a)

31 .2 Certification of Chief Financial Officer pursuant to Securities Exchange Act Rule 13a-14(a)
32 .1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350
32 .2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350

† This exhibit is a management contract or compensatory plan or arrangement.

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Exhibit 10.4UNITED STATES DEPARTMENT OF THE TREASURY LENDING AGREEMENT CREDIT AND SECURITY TERMS 1.0 SCOPE 1.1 This Agreement sets forth the terms under which an entity may, in accordance with the Housing and Economic Recovery Act of 2008, borrow from and pledge Collateral to the United States Department of the Treasury (Treasury).2.0 DEFINED TERMSAccount means the account described in section 3.2 of this Agreement. Adverse Claim has the meaning set forth in Section 9.1(d). Application Package means the Application Package, substantially in the form of Appendix I, which the Borrower submitted in connection with its agreement to this Agreement. Borrower means an entity that incurs an Obligation to the Treasury. Borrower-in-Custody or BIC Arrangement means an arrangement whereby the Treasury authorizes a Borrower, or an affiliate of the Borrower, to retain possession of the Collateral, as described in Section 7 of this Agreement. Business Day means any day the Federal Reserve Bank of New York is open for conducting all or substantially all its banking functions. Certificate means the certificate, substantially in the form set forth in the appropriate Application Package, provided to the Treasury by the Borrower. Collateral means:(i) all the Borrower's rights, title, and interest in property as described in section 7.0 (and any other property agreed to by Treasury) that is (a) identified on a Collateral Schedule, (b) identified on the books or records of a Reserve Bank as pledged to, or subject to a security interest in favor of, the Treasury or (c) in the possession or control of, or maintained with, the Treasury including;(ii) all documents, books and records, including programs, tapes, and related electronic data processing software, evidencing or relating to any or all of the foregoing; and(iii) to the extent not otherwise included, all proceeds and products of any and all of the foregoing and all supporting obligations given by any person with respect to any of the foregoing, including but not limited to interest, dividends, insurance, rents and refunds.Collateral Schedule means the written, electronic or other statement(s) listing Collateral in effect at any time. Each statement of Collateral shall be in the form required by the Treasury and shall identify the items of Collateral with the specificity required by the Treasury. The removal of an item from a statement of Collateral will not be effective and will not affect the Treasury's security interest in the item unless such removal is made in accordance with this Agreement and the Treasury's procedures, including prior Treasury approval or authorization. Event of Default means any of the following:

(i) the Borrower fails to repay or satisfy any Obligation when due; (ii) the Borrower fails to perform or observe any of its obligations or agreements under the Lending Agreement or under any other instrument or agreement delivered or executed in connection with the Lending Agreement;(iii) any representation or warranty made or deemed to be made by the Borrower under or in connection with the Lending Agreement, or that is contained in any certificate, document, or financial or other statement delivered by it or in connection with the Lending Agreement, is inaccurate in any material respect on or as of the date made or deemed made;(iv) the Insolvency of the Borrower;(v) the Lending Agreement or any other agreement delivered or executed in connection with the Lending Agreement ceases, for any reason, to be in full force and effect, or the Borrower so asserts or any security interest or lien created hereby ceases to be enforceable or have the same effect and priority purported to be created hereby;(vi) the creation of an encumbrance upon Collateral, or placement of a levy, judicial seizure of, or an attachment upon Collateral;(vii) whenever the Secretary of the Treasury determines that Treasury's position is insecure with respect to the financial condition of the Borrower or the Borrower's ability to perform its Obligations.Federal Reserve Bank means any one of the Federal Reserve Banks.Insolvency means: (i) the condition of insolvency; (ii) that a proceeding relating to bankruptcy, insolvency, reorganization or relief of debtors, seeking to adjudicate an entity bankrupt or insolvent or seeking reorganization, adjustment, dissolution, liquidation or other relief with respect to the Borrower or the Borrower's debt is commenced;(iii) that an assignment for the benefit of the Borrower's creditors occurs;(iv) that a receiver is appointed for the Borrower or for any of its United States or foreign branches or agencies;(v) that the Borrower has been closed by order of its supervisory authorities, or a public officer has been appointed to take over such entity;(vi) that the Borrower ceases or refuses to make payments in the ordinary course of business, or admits in a record its inability to pay its debt as they become due;(vii) the Borrower's business is suspended, or any party has presented or filed a petition for winding-up or liquidating the Borrower; or(viii) any other circumstances that evince the Borrower's inability to pay its debts when due.Lending Agreement means this Agreement, any Collateral Schedule, each document in the Application Package executed or furnished to the Treasury by the Borrower, and any other agreement or document executed by the Borrower in connection with this Agreement, in each case as the same may be amended, supplemented or otherwise modified from time to time. Lending Documents has the meaning set forth in Section 8 of this AgreementLetter of Agreement means the Letter of Agreement, substantially in the form found in Appendix I pursuant to which the Borrower agrees to be bound by the terms of this Agreement.

Loan means an extension of credit to the Borrower. Loan Repayment Amount means the amount of a Loan, plus all accrued and unpaid interest thereon. Obligation, whether now existing or hereafter incurred, means:(i) Loan Repayment Amounts;(ii) any other liabilities of the Borrower to the Treasury; and(iv) any expense the Treasury or its designee(s) may incur to:a. obtain, preserve and/or enforce the Lending Agreement or the Treasury's security interest in Collateral and the Borrower's Obligations under the Lending Agreement,b. collect any or all of the foregoing, orc. assemble, transport, maintain or preserve Collateral (including, without limitation, taxes, assessments, insurance premiums, repairs, reasonable attorneys' fees, rent, transportation, storage costs, and expenses of sale).Treasury means the United States Department of the Treasury. For operational purposes, the term "Treasury" includes a Federal Reserve Bank acting as fiscal agent to the Treasury. UCC means the Uniform Commercial Code. 3.0 LOANS 3.1 A request for a Loan shall be made to the Treasury in a form and time acceptable to the Treasury. A Loan must be secured by Collateral acceptable to the Treasury. Upon Treasury's request, the Borrower shall submit a written application for a Loan. 3.2 The Treasury's approval of a request for a Loan shall be evidenced by, and the Loan shall be deemed made at the time of, the Treasury's record of the credit of the amount of the Loan to an Account agreed upon by the Borrower and the Treasury. 3.3 Loans to the Federal Home Loan Banks (FHLBs) or any FHLB under this Agreement shall be joint and several obligations of all the FHLBs, issued under Section 11(a) of the Federal Home Loan Bank Act, 12 U.S.C. (s) 1431(a), through the Office of Finance as agent of the FHLBs, and therefore are consolidated obligations issued pursuant to part 966 of the rules of the Federal Housing Finance Board, in continuing force and effect under Section 1312 of the Housing and Economic Recovery Act of 2008, and any successor rule of the Federal Housing Finance Agency. 4.0 INTEREST4.1 The interest rate applicable to a Loan shall be the rate, as from time to time established by the Treasury. Interest on a Loan shall accrue from the day the Loan is credited to the Account and shall be payable at the applicable rate in effect on that day, except that if the interest rate changes while a Loan is outstanding, the new rate shall apply as of the day on which the rate change is effective. Interest shall be computed on the basis of 365 days in a year. 4.2 If all or any portion of a Loan Repayment Amount is not paid when due (whether by acceleration or otherwise), interest on the unpaid portion of the Loan Repayment Amount shall be calculated at a rate 500 basis points higher than the applicable rate

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then in effect until the unpaid Loan Repayment Amount is paid in full. 5.0 REPAYMENT OF LOAN5.1 The Borrower promises to pay a Loan Repayment Amount when due in actually and finally collected funds. A Loan Repayment Amount is immediately due and payable (a) on demand; (b) without any demand, notice or other action on the due date and time specified by the Treasury in writing (provided that if such date falls on a day that is not a Business Day, the due date shall be extended to the next Business Day) or upon the occurrence of any Event of Default described in clause (iv), (v) or (vii) of the definition of such term. 5.2 The Borrower waives any right to presentment, notice of dishonor, protest, and any other notice of any kind except as expressly provided for herein. 5.3 Upon notice to the Treasury at least 2 days in advance, the Borrower may prepay a Loan Repayment Amount, in whole or in part, without penalty. 5.4 The appropriate Federal Reserve Bank, acting on behalf of the Treasury, will debit the Borrower's Account for the Loan Repayment Amount and all other Obligations when due. 6.0 GRANT OF SECURITY INTERESTFor value received and in consideration of the Treasury permitting the Borrower to obtain Loans, the Borrower hereby transfers and assigns to the Treasury and grants to the Treasury a continuing security interest in and lien on the Collateral as collateral security for the timely and complete payment and performance when due (whether at stated maturity, by acceleration or otherwise) of all Obligations. 7.0 COLLATERAL7.1 The Borrower shall ensure that the Collateral meets the requirements set forth in this section or as the Treasury may otherwise from time to time prescribe. 7.2 Acceptable Collateral consists of Federal Home Loan Bank advances to member financial institutions that have been collateralized in accordance with Federal Home Loan Bank standards (FHLB advances) and mortgage backed securities issued by the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation. 7.3 Acceptable FHLB advances shall be valued with a 13% haircut applied to the outstanding principal amount of the asset on the balance sheet of the Federal Home Loan Bank. Haircuts may also be applied to the value of mortgage backed securities as determined by Treasury. 7.4 FHLB advances pledged as Collateral under this Agreement may be held under a BIC Arrangement subject to section 7.10 herein. FHLB advances must be prepositioned, in an amount acceptable to the Treasury, before a Federal Home Loan Bank is eligible to receive a Loan under this Agreement. MBS pledged as Collateral under this Agreement must be held in a custodial National Book Entry System account established though the Federal Reserve Bank of New York. MBS pledged hereunder may be repositioned from an investment account into the custodial account on a same-day basis.

7.5 On a weekly basis, Borrower must submit to the Federal Reserve Bank of New York acting as fiscal agent of the Treasury, a Collateral Schedule listing the Collateral pledged to Treasury under this Agreement, including the outstanding principal amount of any FHLB advances. 7.6 The Treasury may at any time request the Borrower to replace any item of Collateral or to grant a lien and security interest in additional assets of a type and in an amount acceptable to the Treasury, and the Borrower shall promptly do so. 7.7 Unless otherwise specified by the Treasury in writing, the Borrower shall promptly withdraw from the Collateral Schedule: (a) any Collateral that has a payment of principal or interest past due, in whole or in part, for more than 30 days; (b) any Collateral that has been paid in full by the obligor; or (c) any Collateral if the obligor on such Collateral becomes insolvent, or if a receiver, custodian, or the like is appointed for the obligor. Prior to such withdrawal, however, the Borrower shall update any relevant Collateral Schedule and pledge substitute Collateral acceptable to the Treasury by submitting an updated Collateral Schedule or otherwise pledging such Collateral to the Treasury. 7.8 The Treasury has no duty to collect any income accruing on Collateral or to preserve any rights relating to Collateral. 7.9 The Borrower hereby: (a) authorizes the Treasury at any time to file or record in any filing office in any jurisdiction which the Treasury determines appropriate to perfect the security interests set forth hereunder, financing statements, and any amendments or continuation statements related thereto without the signature of the Borrower therein that describes the Collateral and the Borrower shall, promptly at the Treasury's request, provide any additional information required by Article 9 of the UCC, as in effect in any relevant jurisdiction, for the sufficiency or acceptability of any financing statement;(b) ratifies its authorization for the Treasury to have filed any financing statement, including any amendment or continuation statement related thereto, in any jurisdiction, where the same has been filed prior to the date on which the Letter of Agreement is signed by the Borrower;(c) authorizes the Treasury at any time, to take any and all other actions that may be necessary or, in the Treasury's sole discretion, desirable to obtain, preserve, perfect or enforce the Treasury's security interest in the Collateral;(d) authorizes the Treasury to endorse or assign as the Borrower's agent any item of Collateral, to inspect Collateral held by the Borrower, and copy any relevant records and/or documents.7.10 Treasury will keep all information regarding the identity of borrowers identified in any collateral documentation confidential and such information will not be disclosed except to as authorized or necessary to effectuate the terms of this Agreement. 7.11 If the Treasury approves, the Borrower may hold certain Collateral in a BIC Arrangement ("BIC-held Collateral") subject to the following: (a) BIC-held Collateral shall be prominently identified as Pledged to the Treasury and subject exclusively to the Treasury's written instructions. At the Treasury's request, the

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Borrower shall, without delay, prominently and conspicuously affix a legend to items of BIC-held Collateral indicating that such items are subject to a security interest in favor of the Treasury. (b) The Borrower shall mark its records to show that BIC-held Collateral has been pledged to the Treasury and is subject exclusively to the Treasury's written instructions. Any computer generated list or report containing BIC-held Collateral must incorporate a legend indicating that such Collateral is pledged to the Treasury.(c) Upon the Treasury's request, the Borrower shall at all times segregate BIC-held Collateral from its own assets or the assets of any other party and shall hold Collateral in such location(s) approved by the Treasury. BIC-held Collateral shall not be removed from such location(s) without the prior written approval of the Treasury.(d) The Borrower may withdraw or replace BIC-held Collateral only with the approval of the Treasury and on terms acceptable to the Treasury.(e) The Treasury may from time to time notify Borrower of additional requirements on BIC-held Collateral. The Borrower's failure to comply with such requirements may disqualify the Borrower from participation in the BIC Arrangement.7.12 With respect to any item of Collateral not delivered or transferred to the Treasury or its agent or custodian, including BIC-held Collateral, the Borrower shall hold such item of Collateral in trust for the Treasury until the Collateral is delivered or transferred in accordance with the Treasury's instructions. The Borrower bears the risk of loss for any Collateral held in the Borrower's possession, at any custodian, maintained in an account at a securities intermediary other than a Reserve Bank, or in transit to or from the Reserve Bank. The Borrower also bears the risk of any accidental loss or damage to Collateral in the possession of the Treasury or its agent to the extent the Treasury exercised reasonable care. 7.13 Unless an Event of Default occurs or the Treasury expressly directs otherwise, any proceeds, dividend, interest, rent, proceeds of redemption, and/or any other payment received by the Borrower regarding any Collateral may be retained by the Borrower. If the Treasury directs that any of the foregoing be paid to the Treasury, the Borrower shall remit those payments, or cause such payments to be remitted, promptly to the Treasury and, until receipt by the Treasury, such payments are deemed to be held in trust for the Treasury. 7.14 The Treasury is under no obligation to allow for the withdrawal of any item of Collateral from the pledge to the Treasury, or to allow the removal of any item of Collateral from the Collateral Schedule or otherwise release its security interest in any item of Collateral unless:(a) the Borrower has provided substitute Collateral acceptable to the Treasury; or(b) the Treasury has verified, in accordance with its normal customs and procedures, that all Obligations have been unconditionally repaid in full and that the Borrower is not currently in default under another agreement with the Treasury. 7.15 Borrower shall submit a written certification to Treasury including the following information and attestations: (i) the location of all supporting documentation or records; (ii) a statement that all supporting documentation or records are complete, controlled, and protected; (iii) a description of the Borrower's asset valuation criteria; (iv) a description of the Borrower's internal loan-rating system; (v) a description of how Collateral is marked as pledged to the Treasury; and (vi) where applicable, a statement that Borrower's Financial Statement including its portfolio of FHLB advances is audited

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in accordance with applicable auditing standards. This certification is only required on a one-time basis, however, Borrower shall notify Treasury if any of the information contained in the certification changes or is no longer accurate. 8.0 MAINTENANCE OF LENDING DOCUMENTSThe documents specified below must be maintained continuously as official records of the Borrower. The documents listed in subparagraph (a) shall at all times be kept together in one place, while the document listed in subparagraph (b) may be kept in any accessible and secure location on the Borrower's premises. (a) a copy of the Lending Agreement; and (b) a current statement of outstanding Loans. 9.0 REPRESENTATIONS AND WARRANTIES9.1 The Borrower represents and warrants that: (a) (i) the Borrower has the power and authority, and the legal right, to make, deliver and perform the Lending Agreement and to obtain a Loan; (ii) the Borrower has taken all necessary organizational action to authorize the execution, delivery and performance of the Lending Agreement and to authorize the obtaining of a Loan on the terms and conditions of the Lending Agreement; (iii) no consent or authorization of, filing with, notice to or other act by or in respect of, any governmental authority or any other person is required in connection with the obtaining of Loans hereunder or with the execution, delivery, performance, validity or enforceability of the Lending Agreement; and (iv) the Lending Agreement has been duly executed and delivered on behalf of the Borrower; (b) the Borrower is duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization and is not in violation of any laws or regulations in any respect which could have any adverse effect whatsoever upon the validity, performance or enforceability of any of the terms of the Lending Agreement; (c) the Lending Agreement constitutes a legal, valid and binding obligation of the Borrower, enforceable against the Borrower in accordance with its terms; (d) the Borrower has rights in Collateral sufficient to grant an enforceable security interest to the Treasury and its rights in Collateral are free of any assertion of a property right that would adversely affect the Treasury's right to Collateral, including but not limited to any claim, lien, security interest, encumbrance, preference or priority arrangement or restriction on the transfer or pledge of Collateral (an "Adverse Claim"), except as created by, or otherwise permitted under, the Lending Agreement or by the Treasury; (e) all information set forth on the Certificate is accurate and complete and there has been no change in such information since the date of the Certificate; (f) (i) the Lending Agreement is effective to create in favor of the Treasury a legal, valid, and enforceable security interest in the Collateral described in the Lending Agreement and proceeds thereof; (ii) when financing statements are filed in the state filing offices located in the jurisdictions specified on the Certificate, those security interests shall constitute a fully and validly perfected lien on, and security interest in, all rights, title and interest of the Borrower in such Collateral as to which perfection can be obtained by filing, as security for the Obligations, in each case prior and superior in right to any other person (except for liens that arise by operation of law); and (iii) no financing statement or other public notice with respect to all or any part of the Collateral is on file or of record in any public office, except such as have been filed in favor of the Treasury pursuant to the Lending Agreement, are permitted by the Lending Agreement, or are otherwise permitted by the Treasury;

9.2 Each time the Borrower requests a Loan or grants a security interest in any

Collateral to Treasury, the Borrower is deemed to make all of the foregoing representations and warranties on and as of the date such Loan is incurred or security granted. Such representations and warranties shall be true on and as of such date and shall remain true and correct so long as the Lending Agreement remains in effect, any Obligation remains outstanding, or any other amount is owing to the Treasury. 10.0 COVENANTSThe Borrower covenants that so long as the Lending Agreement remains in effect or any Obligation remains outstanding or any other amount is owing to the Treasury: (a) except for the security interest herein granted or otherwise permitted hereunder or by the Treasury, the Borrower shall have rights in the Collateral free from any Adverse Claim, and shall maintain the security interest created hereby with the priority set forth in Section 9.1(f) and shall take all actions necessary or prudent to defend against Adverse Claims; (b) except as otherwise permitted hereunder or by the Treasury, the Borrower shall not (i) sell or otherwise dispose of, or offer to sell or otherwise dispose of, the Collateral or any interest therein, or (ii) pledge, mortgage, or create, or permit the existence of any right of any person in or claim to, the Collateral other than the security interest granted herein; (c) the Borrower shall not perform any act with respect to any Collateral that would impair the Treasury's rights or interests therein, nor will the Borrower fail to perform any act that would reasonably be expected to prevent such impairment or that is necessary to preserve the Treasury's rights; (d) the Borrower shall promptly notify the Treasury if the Borrower fails or is about to fail to meet the capital requirements required by regulations applicable to the Borrower. (e) the Borrower shall renew or keep in full force and effect its organizational existence or take all reasonable action to maintain all rights, privileges, licenses and franchises necessary or desirable in the normal conduct of its business; (f) in any BIC Arrangement, the Borrower shall provide for periodic audits of BIC-held Collateral pledged to the Treasury, shall notify the Treasury immediately of any irregularities discovered during any audits, and shall certify periodically, as determined by the Treasury, that it is complying with the requirements of the BIC Arrangement; (g) without providing at least 30 days' prior written notice to the Treasury and submitting an updated Certificate to the Treasury, the Borrower shall not cause or permit any of the information provided in the Certificate, including its jurisdiction of organization, to become untrue; (h) the Borrower shall promptly notify the Treasury of the occurrence or impending occurrence of any Event of Default; and (i) the Borrower shall promptly notify the Treasury of any change in applicable law, the regulations or policies of its chartering and/or licensing authority, or its charter, bylaws, or other governing documents, or any legal or regulatory process asserted against the Borrower, that materially affects or may materially affect the Borrower's authority or ability to lawfully perform its obligations under the Lending Agreement. 11.0 WAIVER OF IMMUNITY; SUBMISSION TO JURISDICTION11.1 If the Borrower or its property is now, or in the future becomes, entitled to any immunity, whether characterized as sovereign or otherwise (including, without limitation, immunity from set-off, from service of process, from jurisdiction of any court or tribunal, from attachment in aid of execution, from attachment prior to the entry of a judgment, or from execution upon a judgment) in any legal proceeding in Federal or State court then

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the Borrower expressly and irrevocably waives, to the maximum extent permitted by law, any such immunity. To the extent the Borrower receives any such entitlement in the future, the Borrower shall promptly notify the Treasury of such entitlement. 11.2 The Borrower submits in any legal action or proceeding relating to or arising out of the Lending Agreement, or the conduct of any party with respect therefor or for recognition and enforcement of any judgment in respect thereof, to the nonexclusive general jurisdiction of the Federal District Court for the District of Columbia and any appellate court thereof. The Borrower agrees that service of process in any such action or proceeding may be effected by mailing a copy thereof by registered or certified mail (or any substantially similar form of mail), postage prepaid, to the address provided in the Letter of Agreement; and agrees that nothing herein shall affect the right to effect service of process in any other manner permitted by law or shall limit the right to sue in any other jurisdiction. The Borrower irrevocably waives, to the fullest extent permitted by law, any objection which it may now or hereafter have to the venue of any such suit, action, or proceeding brought in any such court and any claim that any such suit, action or proceeding brought in such a court has been brought in an inconvenient forum. The Borrower also agrees that a final judgment in any such suit, action, or proceeding brought in such court shall be conclusive and binding upon the Borrower. The foregoing does not diminish or otherwise affect any rights the Treasury may have under law. 12.0 REMEDIES UPON DEFAULT12.1 Upon the occurrence of, and at any time during the continuance of, an Event of Default, the Treasury may pursue any of the following remedies, separately, successively, or concurrently: (a) cause the Borrower's Account to be debited in an amount up to the Borrower's unpaid Obligations; (b) set off any Obligation against any amount owed by the Treasury to the Borrower, whether or not such amount owed is then due and payable; (c) exercise any right of set-off or banker's lien provided by applicable law against the Borrower's property in the possession or control of, or maintained with, the Treasury, including but not limited to items in process of collection and their proceeds and any balance to the credit of the Borrower with the Treasury; (d) take possession of any Collateral not already in Treasury's possession, without demand and without legal process. Upon the Treasury's demand, the Borrower shall assemble and make Collateral available to the Treasury as the Treasury directs. The Borrower grants to the Treasury the right, for this purpose to enter into or on any premises where Collateral may be located; and (e) pursue any other remedy available to collect, enforce, or satisfy any Obligation, including exercising its rights as a secured creditor to collect income on the Collateral, or to sell, assign, transfer, lease or otherwise dispose of Collateral whether or not Collateral is in the Treasury's possession, or to take action against any other property or assets of the Borrower whether or not pledged to Treasury as Collateral. Where the Borrower is a FHLB, pursue any and all remedies available to collect, enforce, or satisfy any Loan Repayment Amount against any other FHLB on the basis that the Loan Repayment Amount is a consolidated obligation as described in section 3.3.. In the event that a FHLB other than the Borrower satisfies a Loan Repayment Amount owed by the Borrower pursuant to this subsection, Treasury will release any collateral remaining upon satisfaction of all Obligations of the Borrower in accordance with instructions provided by the Office of Finance. 12.2 If the Treasury exercises its rights in Collateral upon an Event of Default:

(a) the Treasury may sell, assign, transfer, and deliver, at the Treasury's option, all or any part of Collateral at private or public sale, at such prices as the Treasury may, in good faith, deem best, without advertisement, and the Borrower waives notice of the time and place of the sale, except any notice that is required by law and may not be waived; (b) the Treasury has no obligation to prepare Collateral for sale, and the Treasury may sell Collateral and disclaim any warranties without adversely affecting the commercial reasonableness of the sale; (c) the Treasury has no obligation to collect from any third party or to marshal any assets in favor of the Borrower to satisfy any Obligation; and (d) the Treasury may purchase any or all of Collateral and pay for it by applying the purchase price to reduce amounts owed by the Borrower to the Treasury. 12.3 The Borrower appoints the Treasury with full power of substitution, as its true and lawful attorney-in-fact with full irrevocable power and authority in the place and stead of the Borrower, to endorse, assign, transfer, and deliver Collateral to any party, and to take any action deemed necessary or advisable by the Treasury either to protect the Treasury's interests or exercise its rights under the Lending Agreement, including taking any action to perfect or maintain the Treasury's security interest (including but not limited to recording an assignment of a mortgage or filing a financing statement). This power of attorney is coupled with an interest and as such is irrevocable and full power of substitution is granted to the assignee or holder. As attorney-in-fact, the Treasury may take any lawful action to collect all sums due in connection with Collateral, the Treasury may release any Collateral, instruments or agreements securing or evidencing the Obligations as fully as the Borrower could do if acting for itself, and the Treasury may take any action set forth in Section 7.9, but the Treasury has no obligation to take any such actions or any other action in respect of the Collateral. 12.4 The proceeds realized by the Treasury upon selling or disposing of Collateral, to the extent actually received in cash by the Treasury will be applied toward satisfaction of the Obligations. The Treasury shall apply such proceeds first to any fees, other charges, penalties, indemnities, and costs and expenses of, collection, or realizing on interests in Collateral (including reasonable attorneys' fees), next to accrued but unpaid interest, and last to the unpaid principal balance. The Treasury will account to the Borrower for any surplus amount realized upon such sale or other disposition, and the Borrower shall remain liable for any deficiency. 12.5 No delay or failure by the Treasury to exercise any right or remedy accruing upon an Event of Default shall impair any right or remedy, waive any default or operate as an acquiescence to the Event of Default, or affect any subsequent Event of Default of the same or of a different nature. 12.6 On complying with the provisions of the Lending Agreement and applicable law, the Treasury is fully discharged from any liability or responsibility to any person regarding Collateral. 13.0 INDEMNIFICATION13.1 The Borrower shall indemnify the Treasury and its officers, directors, employees and agents (each, an "Indemnified Party") for any loss, claim, damage, liability, and expense (including, without limitation, reasonable attorneys' fees, court costs and expenses of litigation) incurred by an Indemnified Party in the course of or arising out of

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the performance of the Lending Agreement, any action related to Collateral, or any action to which an Indemnified Party may become subject in connection with the Treasury's exercise, enforcement or preservation of any right or remedy granted to it under the Lending Agreement, except to the extent that such loss, claim, damage, liability, or expense results, as determined by a court, from the Treasury's gross negligence or willful misconduct. 13.2 The Treasury will give the Borrower written notice of any claim that the Treasury or any other person may have under this indemnity. The Borrower is not liable for any claim that is compromised or settled by the Treasury or such persons without the Borrower's prior written consent, provided that the Borrower responded promptly and in the Treasury's judgment, adequately, to the Treasury's notice of such claim. This indemnity remains an obligation of the Borrower notwithstanding termination of the Lending Agreement, and is binding on the Borrower's successors and assigns. Upon written demand from the Treasury, the Borrower shall pay promptly amounts owed under this indemnity, free and clear of any right of offset, counterclaim or other deduction, and the Treasury's reasonable determination of amounts owing hereunder is binding. If not promptly paid by the Borrower, such obligation becomes an Obligation secured under the Lending Agreement. 14.0 MISCELLANEOUS14.1 The Treasury is not obligated by the Lending Agreement or otherwise to make, increase, renew, or extend any Loan to the Borrower. 14.2 The Borrower's obligations under the Lending Agreement shall be performed by it at its own cost and expense. 14.3 Unless expressly agreed otherwise by the Treasury, Eastern Time shall be used to determine any deadline hereunder, including the time a Loan Repayment Amount is due and payable. 14.4 The Treasury or a Federal Reserve Bank acting on behalf of the Treasury may record telephone communications with the Borrower and such recordings may be submitted in evidence to any court or in any proceeding for the purpose of establishing any matters pertinent to the Lending Agreement. 14.5 The Treasury's rights and remedies under the Lending Agreement are in addition to any others agreed to by the Borrower or that may exist at law or in equity. 14.6 Any provision of the Lending Agreement that is unenforceable or invalid under any law in any jurisdiction is ineffective to the extent of such unenforceability or invalidity without affecting the enforceability or validity of any other provision, and any such unenforceability or invalidity shall not invalidate or render unenforceable such provision in any other jurisdiction. 14.7 The Lending Agreement is binding on the receivers, administrators, permitted assignees and successors, and legal representatives of the Borrower and inures to the benefit of the Treasury, its assignees and successors. 14.8 The Borrower may not assign its rights or obligations hereunder.

14.9 The Treasury is not required to provide a written advice to the Borrower for any Loan or Loan Repayment Amount. 14.10 The Treasury has no liability for acting in reliance upon any communication (including a fax, telex, electronic communication, or similar communication) reasonably believed by the Treasury to be genuine or to be sent by an individual acting on behalf of the Borrower. 14.11 The Section headings used herein are for convenience only and are not to affect the construction hereof or be taken into consideration in the construction hereof. 15.0 AMENDMENTThe Treasury, in its sole discretion, may amend the Lending Agreement without prior notice at any time. The Treasury shall notify the Borrower of any such amendment and, thereafter, any pledge of Collateral, request for any Loan or incurrence of any other Obligation shall constitute the Borrower's agreement to such amendment as of the effective date of such amendment. An amendment does not modify the terms of an outstanding Loan. 16.0 NOTICE16.1 Any and all notices, statements, demands or other communications hereunder may be given by a party to the other by mail, facsimile, telegraph, messenger or otherwise to the address specified in Appendix I hereto, or so sent to such party at any other place specified in a notice of change of address hereafter received by the other. All notices, demands and requests hereunder may be made orally, to be confirmed promptly in writing, or by other communication as specified in the preceding sentence. 16.2 If sent to the Treasury, the notice must be addressed as specified by the Treasury. 17.0 TERMINATION17.1 The Lending Agreement shall terminate on December 31, 2009 but shall remain in effect as to any Loan outstanding on that date. Notwithstanding any other provision of this Agreement, the Borrower may terminate its consent to be bound by the Lending Agreement prior to that time by giving written notice to the Treasury in the manner specified by Treasury, so long as no Loan is then outstanding. Termination does not release the Borrower or affect the Treasury's rights, remedies, powers, security interests or liens against Collateral in existence prior to the termination or to Treasury's receipt of the notice of termination, nor does termination affect any provision of the Lending Agreement which by its terms survives termination of the Lending Agreement. 17.2 Upon termination, the Treasury may retain Collateral until the Treasury has had a reasonable opportunity to verify, in accordance with its normal customs and procedures, that all of the Borrower's Obligations, contingent or otherwise, to the Treasury have been fully satisfied and discharged. 18.0 GOVERNING LAWThe Lending Agreement, including any Loan or any other transaction entered into pursuant thereto, is governed by federal law or to the extent no applicable federal law exists by the laws of the State of New York. The Lending Agreement is a security agreement for purposes of the UCC, as in effect in any relevant jurisdiction, and other applicable law.

19.0 WAIVER OF JURY TRIALTHE BORROWER AND THE TREASURY EACH HEREBY UNCONDITIONALLY AND IRREVOCABLY WAIVE ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY ACTION, SUIT, COUNTERCLAIM, OR CROSS CLAIM ARISING IN CONNECTION WITH, OUT OF, OR OTHERWISE RELATING TO THE LENDING AGREEMENT, THE COLLATERAL, OR ANY TRANSACTION OR AGREEMENT ARISING THEREFROM OR RELATED THERETO.

{Appendix Omitted}

September 18, 2008 Gary Grippo
Deputy Assistant Secretary for Fiscal Operations and Policy
U.S. Department of the Treasury

Domestic Finance
Room 2112,1500 Pennsylvania Avenue NW
Washington, DC 20220 In consideration of being able to request Loans from you and in consideration of your making Loans to us we agree to the provisions of your Lending Agreement, as amended and supplemented from time to time (capitalized terms used but not defined herein shall have the meaning specified in the Lending Agreement). Enclosed are (1) certified copies of the Certificate, (2) the original authorization, and (3) documents containing the name, title, and signature of those persons authorized to request Loans from and to pledge our assets to you. Any notices required under the Lending Agreement may be directed to the following departments: Federal National Mortgage Association
c/o Federal Housing Finance Authority
1700 G Street, NW
Washington, DC 20552
Attention: General Counsel with a copy to each of the following: Federal National Mortgage Association
4000 Wisconsin Avenue, NW
Washington, DC 20016
Attention: Trading Desk Federal National Mortgage Association
4000 Wisconsin Avenue, NW
Washington, DC 20016
Attention: Vice President for Capital Markets Operations {Signature Page Follows}

FEDERAL NATIONAL MORTGAGE ASSOCIATION

By: /s/ Herb M. Allison, Jr.
Name: Herb M. Allison, Jr.
Title: Chief Executive Officer and President

Exhibit 31.1 CERTIFICATION PURSUANT TO SECURITIES EXCHANGE ACT RULE 13a-14(a)

I, Herbert M. Allison, Jr., certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended September 30, 2008 of Fannie Mae (formally, the Federal National Mortgage Association);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 10, 2008

/s/ Herbert M. Allison, Jr.

Herbert M. Allison, Jr. President and Chief Executive Officer

Exhibit 31.2 CERTIFICATION PURSUANT TO SECURITIES EXCHANGE ACT RULE 13a-14(a)

I, David C. Hisey, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended September 30, 2008 of Fannie Mae (formally, the Federal National Mortgage Association);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 10, 2008

/s/ David C. Hisey

David C. Hisey Executive Vice President and Chief Financial Officer

Exhibit 32.1 CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ENACTED BY SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002 In connection with the Quarterly Report on Form 10-Q for the quarter ended September 30, 2008 of Fannie Mae (the "Company"), as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Herbert M. Allison, Jr., President and Chief Executive Officer of Fannie Mae, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge: The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Fannie Mae.
Date: November 10, 2008 /s/ Herbert M. Allison, Jr.Herbert M. Allison, Jr.
President and Chief Executive Officer

Exhibit 32.2 CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ENACTED BY SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002 In connection with the Quarterly Report on Form 10-Q for the quarter ended September 30, 2008 of Fannie Mae (the "Company"), as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David C. Hisey, Executive Vice President and Chief Financial Officer of Fannie Mae, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge: The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Fannie Mae. Date: November 10, 2008 /s/ David C. HiseyDavid C. Hisey Executive Vice President and Chief Financial Officer

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{graphic omitted}

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