



OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT
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Office of Director

January 28, 2004

Richard F. Syron
Chairman and Chief Executive Officer
Freddie Mac
8200 Jones Branch Drive
McLean, Virginia 22102

Dear Mr. Syron:

By this letter, OFHEO directs Freddie Mac to maintain a mandatory target capital surplus as a prudential action as the company undertakes remedial steps to improve financial reporting and controls, including addressing elements of the Consent Order entered into by OFHEO and Freddie Mac on December 9, 2003. Freddie Mac should maintain a mandatory target capital surplus of thirty percent (subject to conditions and variations described below) over its minimum capital requirement. In addition, Freddie Mac must seek pre-approval for certain corporate transactions (as defined below). This supervisory framework shall apply until OFHEO determines in writing otherwise.

Mandatory Target Capital Surplus

OFHEO has reviewed Freddie Mac's proposed methodology for maintaining the mandatory target surplus and determined it is reasonable. The methodology takes into account such factors as the potential impacts that market volatility and growth can have on capital levels and capital requirements, as well as a prudential margin for operational considerations. OFHEO recognizes that such a market and risk sensitive methodology may result in some variability in the amount of the surplus. As a result of this variability, both the methodology for calculating the mandatory target capital surplus and the ongoing level of the actual surplus will be reviewed by OFHEO as part of its ongoing monitoring. Wide fluctuations in the surplus may result in OFHEO directed changes to the methodology.

Reporting

On a weekly basis, Freddie Mac will submit to OFHEO its most current analysis and calculation of the mandatory target capital surplus, including Freddie Mac's projected capital position as well as notice of any proposed changes in calculation methodology. Freddie Mac will continue to submit month-end minimum capital reports, doing so 30 days after the end of each month. These shall be reconciled to the general ledger and continue to include the official declaration that is currently part of these reports. OFHEO will verify and assess both weekly and monthly reports for accuracy and request such additional information it determines necessary.

Freddie Mac will begin to submit the weekly report on February 6, 2004 for the week ending January 30, 2004.

Remedies

If OFHEO determines that Freddie Mac unreasonably deviated from the methodology for setting the mandatory target capital surplus or failed to act reasonably to align its projected capital surpluses with its mandatory target capital surplus or that the monthly minimum capital surplus varies unreasonably from the mandatory target capital surplus and the projected capital surplus levels, OFHEO will require Freddie Mac to submit a plan for remediation or take other remedial steps.

Prior Approval for Certain Corporate Actions

To ensure Freddie Mac's continued compliance with all regulatory capital requirements, Freddie Mac shall obtain the Director's prior written approval before engaging in any of the following: any payment made to repurchase, redeem, retire or otherwise acquire any of its shares, including share repurchases; the calling of any issuance of preferred stock, or the payment of preferred stock dividends above stated contractual rates; and any other action that is likely to impair the ability of Freddie Mac to manage to the target capital surplus.

In addition to the above, pursuant to 12 U.S.C. 4514(b), Freddie Mac shall submit a written report to the Director after the declaration of any common stock capital dividends and before making the capital distribution. The report shall contain specific information on the amount of the dividend, the rationale for the payment, and the impact on the capital surplus.

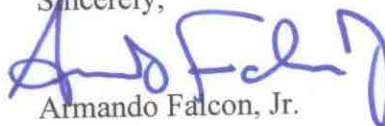
Effective Date

The requirements of this letter are effective immediately and will remain in effect until such time as the Director determines they should be modified or expire, considering such factors as: Freddie Mac's compliance with Article VII of OFHEO Consent Order No. 2003-02 (Dec. 9, 2003) ("Public Disclosures and Regulatory Reporting"); Freddie Mac's submission of timely capital reports prepared in compliance with generally accepted accounting principles (GAAP); Freddie Mac's resubmission of any amended capital reports that may be required by OFHEO; and, the completion of the independent audit made of Freddie Mac's financial statements for the most-recent year by an independent public accountant in accordance with GAAP.

OFHEO will continue its regulatory oversight, including this supervisory framework for capital. In regards to this matter, I have designated OFHEO Associate Director Leonard Reid, Office of Capital Supervision, to oversee Freddie Mac's compliance with this supervisory letter and he will work with your staff regarding implementation.

I appreciate your continued cooperation in this matter.

Sincerely,



Armando Falcon, Jr.
Director