EMPLOYEE COMPENSATION POLICIES AND PRACTICES AT FREDDIE MAC FOR CALENDAR YEAR 2011

To

Committee on Financial Services
United States House of Representatives

and

Committee on Banking, Housing and Urban Affairs
United States Senate

June 30, 2012

I. INTRODUCTION

The Federal Home Loan Mortgage Corporation ("Freddie Mac," "the Company," "we" or "us") submits an annual report by June 30 of each year on compensation pursuant to Section 303(h)(1) of the Federal Home Loan Mortgage Corporation Act of 1970 (the "Freddie Mac Act"). 12 U.S.C. § 1452(h)(1).

We have prepared this report to meet the following guidelines provided in the Freddie Mac Act:

- The comparability of our compensation policies with those of other similar businesses;
- In the aggregate, the percentage of total cash compensation and payments under employee benefit plans earned by our Executive Officers [1] during the previous year that was based on the corporation's performance; [2]
- The comparability of our financial performance with that of other similar businesses; and
- A copy of our proxy statement. [3]

History and Impact of Regulatory Oversight and Conservatorship

Federal statutes have provided for regulatory oversight of our executive compensation for many years. In 1992, the Office of Federal Housing Enterprise Oversight ("OFHEO") was established as our safety and soundness regulator and was granted authority to prohibit executive compensation that was not reasonable or comparable with practices at similar companies. In July 2008, the Federal Housing Finance Regulatory Reform Act of 2008 created OFHEO's successor, the Federal Housing Finance Agency ("FHFA"), and provided it with additional authorities with respect to executive compensation.

On September 6, 2008, the Director of FHFA appointed FHFA as the Conservator of Freddie Mac. Upon its appointment as Conservator, FHFA not only retained all of the regulatory

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[1] For the purposes of this report, an "Executive Officer" is defined according to Section 16a-1(f) of the Securities Exchange Act of 1934 and includes Freddie Mac positions of Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, the Principal Accounting Officer, and any executive or senior vice president in charge of a principal business unit, division, or function, regardless of title, or any other officer who performs a significant policy-making function. As of December 31, 2011, the end of the period covered by this report, Freddie Mac had 11 Executive Officers.

[2] For the purposes of this report, this calculation includes only compensation earned by Executive Officers employed by us on December 31, 2011.

[3] Since entering conservatorship, Freddie Mac has not prepared a proxy statement. In lieu of including a proxy statement with this report, we have included Part III of our 2011 Form 10-K, which contains the executive compensation disclosures that ordinarily would be included in a proxy statement. Additionally, we have included Item 9B of our 2011 Form 10-K, which contains other relevant executive compensation information.

authority provided by statute, but immediately assumed 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, including, without limitation, the right of holders of Freddie Mac common stock to vote with respect to the election of directors and any other matter for which stockholder approval is required or deemed advisable. Further, FHFA directed that our Board consult with and obtain FHFA's approval before taking any action involving hiring, compensation, or termination benefits for specific Executive Officers.[4] Because the Conservator has succeeded to all of the voting power of Freddie Mac's stockholders, stockholders no longer have the ability to recommend director nominees or vote for the election of the directors of Freddie Mac. Accordingly, Freddie Mac does not currently solicit proxies, distribute a proxy statement to stockholders, or hold an annual meeting of stockholders. Instead, the Conservator elects directors by a written consent in lieu of an annual meeting. Further information regarding conservatorship and its impact on our executive compensation programs is located on pages 330-332 of the attached Form 10-K, in the sections entitled "Executive Summary" and "Executive Management Compensation Program – Overview of Program Structure."

II. FREDDIE MAC'S COMPENSATION POLICIES

Our ability to fulfill our public purpose of ensuring the continuous availability of funds for home mortgages depends greatly on our ability to attract and retain qualified professionals in a variety of disciplines. Our compensation policies are crucial to achieving this recruitment and retention objective.

The following paragraphs in this section describe compensation policies that are generally applicable to all employees, as well as those specific to Executive Officers. Detailed information regarding executive compensation matters can be found in Sections III and IV of this report and in the Compensation Discussion and Analysis section of our Form 10-K.

Setting Compensation for All Employees – We are authorized by statute to compensate our employees in a manner that is reasonable and comparable to the compensation paid by other

[4] Specific "Executive Officers" include those at the executive vice president level and above, and, regardless of title, those who hold positions of chief operating officer, chief financial officer, general counsel, chief business officer, chief investment officer, treasurer, chief compliance officer, chief risk officer, and chief/general/internal auditor.

similar businesses. 12 U.S.C. § 1452(c). In exercising this authority, we gather information on market levels of compensation. For vice presidents and non-officers, we use compensation data from a variety of widely utilized survey sources for companies in both financial services and other industries. The specific survey or surveys used for each position are selected based on a determination of the relevant labor market for the position. For both executive and senior vice presidents, we use compensation data for a group of companies referred to as the "Comparator Group" that we have identified as being either in a similar line of business or otherwise relevant for purposes of recruiting and retaining individuals with the requisite skills and capabilities.

For officer and non-officer employees, for which no survey identifies positions comparable to Freddie Mac positions, or when survey data is incomplete, we set target compensation based on our best estimate of the relative scope and responsibilities of the position as compared to the scope and responsibilities of comparable positions within Freddie Mac for which survey data exists.

Setting Executive Compensation – The Executive Management Compensation Program ("EMCP") applicable during 2011 covered the compensation of all Executive Officers, plus all other senior vice presidents who were not classified as Executive Officers. The EMCP reflected the principles established by the United States Department of the Treasury's ("Treasury") executive compensation guidelines for companies receiving federal assistance, as well as several key principles that were specific to Freddie Mac. First, the EMCP was designed to align a portion of executive pay with corporate performance, to be measured primarily by the Company's achievement of annual goals approved by our Board and Conservator. Second, the EMCP established strict recapture provisions that protect the interests of the Company and taxpayers. Third, the EMCP was designed to position Freddie Mac to retain critical executives and attract new executive talent as we continue to support the nation's housing recovery, especially given the uncertainties regarding the Company's future status resulting from conservatorship and related developments. One key difference between the EMCP and programs at other companies that have received federal assistance is that Freddie Mac cannot provide equity-based compensation to its employees under the terms of the Company's Preferred Stock Purchase Agreement with Treasury, unless such grants are approved by Treasury. Accordingly, compensation paid under the EMCP was delivered entirely in cash.

Section IV of this report contains information regarding target and actual compensation for 2011 as well as a brief overview of the new compensation structure approved by FHFA for 2012.

III. EXECUTIVE OFFICER COMPENSATION [5]

Subject to approval by FHFA, Executive Officer compensation is reviewed and approved by the Compensation Committee ("Committee"), which was composed of four directors as of December 31, 2011, each of whom was independent under the listing standards of the New York Stock Exchange and the independence criteria of Freddie Mac's Corporate Governance Guidelines.

IV. EXECUTIVE MANAGEMENT COMPENSATION PROGRAM (EMCP)

Overview of EMCP Program Structure and Objectives in Place for 2011

Under the EMCP in place for 2011, a participant's target total direct compensation, or "Target TDC," consisted of three elements – Semi-Monthly Base Salary, Deferred Base Salary, and Target Incentive Opportunity. The Target TDC was established for 2011, and the amount of TDC actually received with respect to 2011 is referred to as "Actual TDC." Under the EMCP in place for 2011, two-thirds of a participant's Target TDC consisted of Semi-Monthly Base Salary and Deferred Base Salary, and one-third consisted of Target Incentive Opportunity. The components of the Target TDC are explained below.

1. <u>Semi-Monthly Base Salary</u> was paid in cash on a semi-monthly basis during 2011 and provided a fixed level of compensation designed to fairly compensate the participant for the responsibility level of his or her position. Semi-Monthly Base Salary could not exceed $500,000, except for the CEO, COO, and CFO, unless otherwise approved by FHFA.

2. <u>Deferred Base Salary ("DBS")</u> earned during 2011 will be paid in 2012. DBS earned in 2011 was provided to a participant in two portions: 1) the <u>fixed</u> portion (which is not subject to increase or decrease on the basis of corporate performance); and 2) the <u>performance-based</u> portion (which varies in amount to provide executives with incentives to achieve specific company performance measures). DBS earned in one quarter will be paid on the last business day of the corresponding quarter in 2012, provided the participant is actively employed by the Company on such payment date. The adjustment to the amount of

[5] The discussion in this section is based substantially on the Compensation Discussion and Analysis section found in Part III, Item 11 of our Form 10-K, filed March 9, 2012.

performance-based DBS is based solely on corporate performance; individual differentiation is not provided for under the EMCP for performance-based DBS. As a result, each payment of performance-based DBS is equal to an officer's target multiplied by the funding level approved by the Committee and FHFA, which is further discussed on page 332 of our Form 10-K.

3. Target Incentive Opportunity ("TIO") is equal to one-third of a participant's annual Target TDC. The award is granted annually, with half of each award earned in the year granted and the other half earned in the following year. The funding level is approved by the Committee and FHFA and payment will occur no later than March 15 of the year following the year to which the annual performance measures are applicable. Individual differentiation of TIO payments is provided for under the EMCP and is further discussed on page 332 of our Form 10-K.

Process Used to Determine 2011 Target TDC for Executive Officers

Compensation Consultant – As part of the annual process to determine Target TDC for our Executive Officers, the Committee receives guidance from its independent compensation consultant, who was selected by the Committee without any recommendation by management.

Comparative Market Compensation Data – In determining Target TDC for 2011, the Committee reviewed the compensation of executives in comparable positions at companies in our Comparator Group. The Committee, in conjunction with its consultant, determined that the following companies should comprise our 2011 Comparator Group:

2011 Comparator Group		
Allstate	The Hartford	Prudential
American Express	JPMorgan Chase*	State Street
Bank of America*	MasterCard	SunTrust
Bank of New York Mellon	MetLife	U.S. Bancorp
BlackRock	Northern Trust	Visa
Citigroup*	PNC	Wells Fargo*
Fannie Mae		
* Compensation data to be used from these diversified banking firms is taken only from their mortgage or real estate divisions		

In the event that there is insufficient data from the Comparator Group for any executive officer position, or if the Committee's compensation consultant believed that additional data sources would strengthen the analysis of competitive market compensation levels, the Committee could use alternative survey sources, such as those described on page 334 of our Form 10-K.

Setting Target TDC – In setting Target TDC levels for Executive Officers, the Committee used as a guideline the market median, or 50th percentile, of the total direct compensation paid to incumbents in comparable positions at Comparator Group companies, or in the alternative survey sources selected by the Committee.

The Committee's authority was limited to setting 2011 Target TDC at a level that was either the same as or lower than the Executive Officer's 2010 Target TDC, based on FHFA's directive that the Company maintain individual salaries and wage rates for 2011 at 2010 levels, absent a promotion or a significant change in responsibilities.

Determination of Actual 2011 Compensation for Executive Officers

As discussed in the section of the Form 10-K entitled, "Overview of EMCP Program Structure and Objectives," the EMCP in place for 2011 provided three elements of pay for Executive Officers. While the Semi-Monthly Base Salary was not performance-based, the other two elements of compensation did have performance components, which are discussed in further detail below.

2011 Performance Assessment – The performance-based portion of DBS and TIO, which represented a significant amount of 2011 target and actual TDC for Executive Officers, was funded primarily based upon performance against objectives that were established by the Board, reviewed and approved by FHFA, and reflected our priorities during conservatorship. The performance objectives, management's assessment of performance against these objectives, the Committee's recommended funding levels for the performance-based elements of compensation, and the approved funding levels are discussed in greater detail on pages 335-342 of our Form 10-K.

In summary, the following funding levels were determined for 2011:

	2011 DBS (performance-based element)	TIO [6] 2011 First Installment	TIO [6] 2010 Second Installment
Funding Level Percent	87%	78%	83%

New Program Structure for 2012

On March 8, 2012, FHFA approved a new compensation structure applicable to all EMCP participants. The 2012 EMCP is effective January 1, 2012, and consists solely of two cash components - Base Salary and Deferred Salary - which are described in further detail beginning on page 319 of our Form 10-K (Item 9B – Other Information). The 2012 EMCP has been structured so that no portion of the program includes a bonus component.

V. EMPLOYEE BENEFIT PLANS AND PROGRAMS

We offer a competitive package of employee benefits. Under our flexible benefits, or "cafeteria" program, each eligible employee may structure his or her own individual benefits package, including medical coverage, dental coverage, vision coverage, vacation, group term life insurance, accidental death and personal loss insurance, and participation in a health care spending account and/or a dependent care spending account. In addition, we offer employees a tax-qualified, defined benefit pension plan[7], a thrift/401(k) savings plan, group universal life insurance, short- and long-term disability benefits, business travel accident insurance, severance, educational assistance, various work-life programs, holidays, sick leave and other paid time away from work benefits.

In addition, Executive Officers are eligible to participate in the Supplemental Executive Retirement Plan (SERP), [8] [9] which has traditionally been made available to all officers of the Company and includes the full amount of benefits to which they would have been entitled to under our tax-qualified defined benefit pension plan and our tax-qualified thrift/401(k) savings

[6] Funding levels reflect management's re-allocation of funds to provide cash awards to approximately 500 administrative and professional employees not generally eligible for incentive compensation.
[7] Participation in the defined benefit pension plan is closed to anyone hired or rehired by Freddie Mac on or after January 1, 2012.
[8] The maximum covered compensation for the purposes of the SERP and EMCP participants may not exceed two times the Executive Officer's Semi-Monthly Base Salary.
[9] Participation in the pension benefit portion of the SERP is closed to anyone hired or rehired by Freddie Mac on or after January 1, 2012.

plan if those plans were not subject to certain limits under the Internal Revenue Code and did not exclude from compensation amounts deferred under our Executive Deferred Compensation Plan and Deferred Base Salary.

VI. OTHER EXECUTIVE COMPENSATION CONSIDERATIONS

Perquisites – Subsequent to our conservatorship and a review of competitive market practices, Freddie Mac eliminated a number of previously offered perquisites for Executive Officers. Total annual perquisites for any Executive Officer cannot exceed $25,000 without FHFA approval. Gross-ups were not provided for any perquisite or other benefit.

Post-Termination Compensation – The EMCP in place for 2011 addressed the treatment of each component of an Executive Officer's TDC upon various termination events as described on pages 353-356 of the Form 10-K.[10]

Recapture Policy – All Executive Officers must agree to the terms of the Company's Recapture Policy. Pages 344 and 345 of the Form 10-K describe events that can trigger a recapture and the compensation subject to recapture.

Stock Ownership Guidelines – Since entering conservatorship, FHFA approved the suspension of our stock ownership guidelines. The suspension of stock ownership requirements is expected to continue throughout conservatorship.

VIII. AMOUNT OF COMPENSATION BASED ON CORPORATE PERFORMANCE

All compensation for 2011 was delivered exclusively in cash. Of the total aggregate cash compensation paid to the 11 Executive Officers employed by the Company on December 31, 2011, 43% was based on corporate performance.

The percentage of cash compensation based on corporate performance is derived by dividing the sum of (a) the Executive Officers' performance-based cash compensation (which includes the first installment of the 2011 TIO, the second installment of the 2010 TIO, the performance-based portion

[10] Potential payments upon the death or disability of certain Executive Officers are illustrated in Table 91 on page 355 of the Form 10-K and are based upon an assumed termination date of December 31, 2011, as required by SEC rules.

of 2011 DBS, and the second installments of a 2010 long-term incentive award received by four Executive Officers for their service as vice presidents) by the sum of (b) the Executive Officers' performance-based cash compensation, 2011 Semi-Monthly and Deferred Base Salaries, plus any other bonus and "All Other Compensation"[11] for 2011.

The following chart provides aggregate direct compensation for Freddie Mac's 2011 Executive Officers, who were employed by the Company on December 31, 2011. Since conservatorship, aggregate direct compensation for Executive Officers has decreased significantly. For more specific information regarding compensation of certain Executive Officers, please see Table 85 – *Summary Compensation Table – 2011* on page 347 of the attached Form 10-K.

[11] "All Other Compensation" is further described in footnote 6 of the *Summary Compensation Table -- 2011*.

Direct Compensation Summary Table for 2011

Executive Officers	Semi-Monthly Base Salary [1]	Deferred Base Salary [2]	Bonus [3]	Non-Equity Incentive Plan Compensation [4]	Change in Pension Value and Nonqualified Deferred Compensation Earnings [5]	All Other Compensation [6]	TOTAL
Total for 11 Officers	$4,710,102	$8,556,967	$143,319	$3,631,442	$1,472,756	$518,801	$19,033,387

(1) The amount reported represents actual payments received by Executive Officers in 2011, in accordance with the EMCP applicable to 2011.

(2) The amount reported represents Deferred Base Salary (a performance-based portion equal to $3,981,048 and a non-performance-based portion equal to $4,575,919) earned during each quarter of 2011 in accordance with the EMCP. All amounts will be paid in cash on the last business day of the corresponding quarter in 2012, provided the Executive Officer is actively employed by the Company on such payment dates.

(3) The amount reported reflects a 2011 short-term incentive award provided to one Executive Officer during service as a vice president.

(4) The amount reported reflects the total of payments to Executive Officers for i) the second installment of the 2010 Target Incentive Opportunity earned in 2011 and paid in February 2012; ii) the first installment of the 2011 Target Incentive Opportunity earned in 2011 and paid in February 2012; and iii) the second installment of long-term incentive awards provided to four Executive Officers, who were vice presidents when the awards were made.

(5) The amount reported reflects the actuarial increase in the present value of each Executive Officer's accrued benefits under our Defined Benefit Pension Plan and the SERP, effective December 31, 2011. Values were determined using the time periods and assumptions applied in our consolidated financial statements for the year ended December 31, 2011, and the normal retirement age of 65, as specified in the Defined Benefit Pension Plan. Present values are determined based on generational mortality tables developed by the Society of Actuaries' Retirement Plans Experience Committee. Effective December 31, 2011, no Executive Officer had an outstanding balance in the Executive Deferred Compensation Program.

(6) The amount reported is the sum of the following: i) basic and matching contributions we made to our tax-qualified Thrift/401(k) Savings Plan in fiscal 2011; ii) accruals we made pursuant to the Thrift/401(k) SERP Benefit; iii) Flex Dollars; iv) other personal benefits received; and v) perquisites, to the extent that an Executive Officer's aggregate value exceeds $10,000, which did not occur for any of the 11 Executive Officers in 2011.

IX. COMPARABILITY OF FREDDIE MAC'S FINANCIAL PERFORMANCE

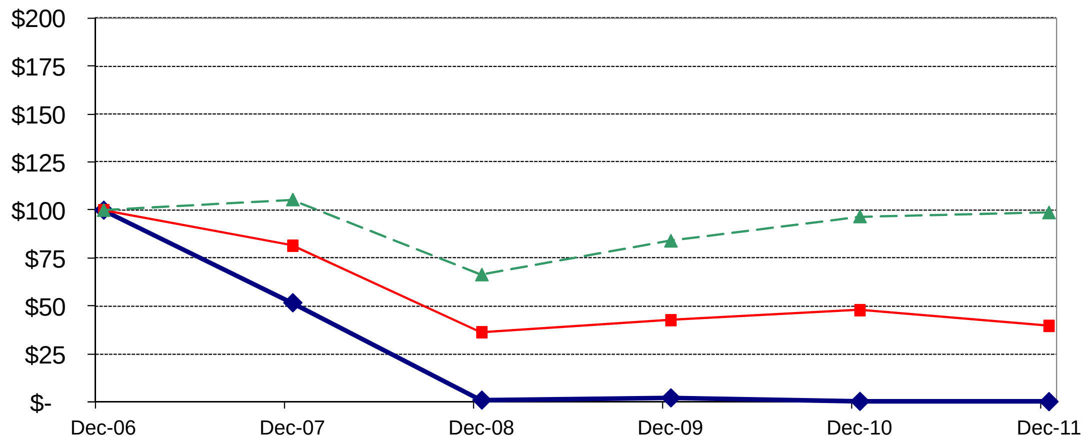
The SEC has determined that the most appropriate method by which to judge the financial performance of companies is to compare their cumulative total shareholder returns over a period of several years. The SEC requires disclosure of such a comparison in the annual report of each publicly traded corporation that is registered under the Securities Exchange Act of 1934.

Freddie Mac is providing such an analysis in the chart below entitled, "Comparative Cumulative Total Stockholder Returns." The graph compares the five-year cumulative total shareholder return on Freddie Mac common stock with that of the S&P 500 Financial Sector Index and the

S&P 500 Index. The table assumes $100 invested in each of Freddie Mac common stock, the S&P Financial Sector Index, and the S&P 500 Index on December 31, 2006. Total return calculations assume annual dividend reinvestment.

Comparative Cumulative Total Stockholder Returns (in dollars)

Since entering conservatorship in September 2008, Freddie Mac has received substantial financial assistance from the federal government and is prohibited from paying dividends on its common stock. Consequently, during this same period, cumulative total shareholder returns have been negative, and the assumed $100 investment referenced above would now be valued at less than one dollar.



	12/31/2006	12/31/2007	12/31/2008	12/31/2009	12/31/2010	12/31/2011
Freddie Mac	$100	$52	$1	$2	$0.5	$0.3
S&P 500 Financials	100	81	36	43	48	40
S&P 500	100	105	66	84	97	99