



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-8000

ASSISTANT SECRETARY FOR HOUSING-
FEDERAL HOUSING COMMISSIONER

NOV - 4 2005

Mr. Kevin I. MacKenzie
Vice President and Deputy General Counsel -
Securities
Freddie Mac
8200 Jones Branch Drive
McLean, VA 22102-3110

Dear Mr. MacKenzie:

This letter is in response to Freddie Mac's letter of September 23, 2005, to the U.S. Department of Housing and Urban Development ("HUD" or "Department") regarding Freddie Mac's interest in expanding its use of whole loan REMIC ("WLR") mortgage securitization transactions from a pilot phase into a regular part of its securitization activities. In its letter, Freddie Mac indicated that it did not believe the WLR initiative was a "new program" within the meaning of Sections 1303(13) and 1322 of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 ("FHEFSSA"), 12 U.S.C. §§ 4502 and 4542, respectively, thereby requiring HUD's review and approval. However, Freddie Mac stated in its letter that if HUD determined that the WLR initiative was a program that met the definition of a "new program," Freddie Mac was "submitting a request for new program approval to the Department for its review." Freddie Mac provided information related to that request, including an explanation of the program, supporting documentation and a legal opinion. Freddie Mac submitted some of the information with its September 23, 2005, letter and the remaining material on September 26, 2005.

Freddie Mac describes WLR transactions as involving Freddie Mac's purchase of whole loan conforming residential mortgages that are deposited into a statutory trust that issues "Freddie Mac Senior Certificates" and "Freddie Mac Subordinate Certificates" collateralized by these mortgages. These certificates are then sold to investors. Freddie Mac guarantees the timely payment of principal and interest relating to the "Freddie Mac Senior Certificates," which are sold to investors through a public underwriting in the same manner as Freddie Mac has traditionally sold its guaranteed classes. Freddie Mac does not guarantee timely payment of principal and interest relating to the "Freddie Mac Subordinate Certificates," which are sold through private placement agents to qualified institutional buyers. The August WLR pilot transaction marked the first time that Freddie Mac has sold unguaranteed securities. However, Freddie Mac stated in its letter of September 23, 2005, that it does not believe "that the sale of unguaranteed securities should be regarded as sufficiently different from the characteristics of Freddie Mac's other securitization activities to warrant that the WLR initiative be considered a new program."

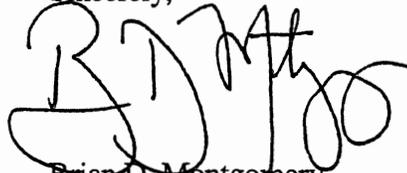
The Department has reviewed the information provided by Freddie Mac and has determined that the WLR initiative does not meet the definition of "new program" under FHEFSSA. WLR transactions are not "significantly different" from other Freddie Mac securitization activities, such

as issuing collateralized mortgage obligations or REMIC securities, both of which Freddie Mac engaged in prior to the enactment of FHEFSSA. In making this determination, the Department has specifically concluded that the absence of a Freddie Mac guarantee on the “Freddie Mac Subordinate Certificates” does not make the WLR transactions “significantly different” within the meaning of FHEFSSA.

The Department has confined its review to the new program implications of WLRs. However, in order to determine whether the WLR initiative represents any safety and soundness concerns, I strongly recommend that Freddie Mac consult with the Office of Federal Housing Enterprise Oversight (“OFHEO”) on the financial implications of its WLR activities, if it has not already done so. I am providing a copy of this letter to Stephen Blumenthal, Acting Director of OFHEO, for his use in pursuing additional information about Freddie Mac’s WLR activities should he wish to do so.

If you have any questions about the Department’s determination, please do not hesitate to contact either me or Sandra L. Fostek, Director, Office of Government Sponsored Enterprises Oversight.

Sincerely,

A handwritten signature in black ink, appearing to read "BDM", with a large, stylized flourish extending from the end of the signature.

Brian D. Montgomery
Assistant Secretary for Housing-
Federal Housing Commissioner

cc: Stephen A. Blumenthal
Acting Director
Office of Federal Housing Enterprise Oversight

Wendell Chambliss,
Associate General Counsel, Freddie Mac