

**EMPLOYEE COMPENSATION POLICIES AND  
PRACTICES AT FREDDIE MAC  
FOR CALENDAR YEAR 2016**

To

Committee on Financial Services  
United States House of Representatives

and

Committee on Banking, Housing and Urban Affairs  
United States Senate

June 30, 2017

## I. INTRODUCTION

The Federal Home Loan Mortgage Corporation (“Freddie Mac,” “the Company,” “we” or “us”) is required to submit by June 30 of each year an annual report 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).

Freddie Mac has prepared this report to satisfy the following requirements set forth 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 earned by our Executive Officers<sup>1</sup> and payments made to those officers under our employee compensation and benefit plans during the previous year that were based on the Company’s performance;<sup>2</sup>
- The comparability of our financial performance with that of other similar businesses; and
- A copy of the executive compensation disclosures included in our proxy statement.<sup>3</sup>

### 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.

When Freddie Mac was placed in conservatorship in September 2008, FHFA 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. Specific authorities of the Board and its Committees are provided on pages 354-357 of the attached Form 10-K.

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<sup>1</sup> For purposes of this report, “Executive Officers” are the individuals who are listed as executive officers on pages 360-362 of the attached Form 10-K. This list was prepared in accordance with the disclosure requirements of SEC Regulation S-K, and includes all Freddie Mac employees who fall within the definition of “executive officer” in Section 1303 of the Federal Housing Enterprises Safety and Soundness Act of 1992. The non-executive Chairman of Freddie Mac’s Board of Directors is not an employee and is not included as an executive officer in this report. Freddie Mac does not have a vice chairman or a president. As of December 31, 2016, the end of the period covered by this report, Freddie Mac had nine Executive Officers.

<sup>2</sup> For the purposes of this report, this calculation includes compensation earned only by those Executive Officers employed by us on December 31, 2016.

<sup>3</sup> Since entering conservatorship, Freddie Mac has reported the executive compensation disclosures that ordinarily would be included in a proxy statement in Part III of the attached Form 10-K which contains other relevant executive compensation information.

Because FHFA has succeeded to all of the voting power of Freddie Mac's stockholders, those stockholders no longer have the ability to recommend director nominees or vote for the election of directors. Accordingly, we do not currently conduct an annual meeting of stockholders. Instead, the Conservator elects directors via a written consent in lieu of an annual meeting. Further information regarding conservatorship and its impact on our executive compensation programs is located on page 378 of the attached Form 10-K.

## **II. FREDDIE MAC'S COMPENSATION POLICIES**

Freddie Mac's 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. The compensation policies of Freddie Mac are crucial to achieving this recruitment and retention objective.

Our executive compensation program was developed in collaboration with, and has been approved by, FHFA. It provides for all compensation to be paid exclusively in cash because we cannot provide equity-based compensation to our employees under the terms of our Senior Preferred Stock Purchase Agreement with Treasury ("SPSPA"), unless approved by Treasury. The following information describes 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 beginning on page 363 of the attached Form 10-K.

*Setting Compensation for All Employees* – Freddie Mac is authorized by statute to provide compensation to its employees that is reasonable and comparable to the compensation paid by other 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 compensation surveys. The specific surveys used are selected based on a determination of the relevant labor market for each position. For both executive and senior vice presidents, we use compensation data from a group of peer 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. If there is either no reasonable match or insufficient Comparator Group data for a position, or if the Committee's compensation consultant believes that additional data sources would strengthen the analysis of competitive market compensation levels, the Committee uses alternative survey data.

For any position for which there is no reasonable match to the Freddie Mac role, or when survey data is incomplete, we set target compensation after comparing the scope and breadth of responsibilities of the position to the scope and breadth of responsibilities of comparable internal positions.

Setting Executive Compensation – The Executive Management Compensation Program (the “EMCP”) covers the compensation of officers at the level of senior vice president and above, other than the Chief Executive Officer (CEO)<sup>4</sup>. The EMCP addresses our need to retain executives and attract new executive talent while promoting the goals of conservatorship and the interests of taxpayers. A complete overview of the EMCP can be found on pages 363-364 of the attached Form 10-K. One key difference between the EMCP and similar programs at other companies that have received federal assistance is that we cannot provide equity compensation to our employees under the terms of the SPSPA, unless such grants are approved by Treasury. Accordingly, compensation paid under the EMCP is delivered entirely in cash.

### **III. EXECUTIVE OFFICER COMPENSATION<sup>5</sup>**

Executive Officer compensation is reviewed and approved by the Compensation Committee of the Board of Directors (the “Committee”), which was composed of six directors as of December 31, 2016, 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. All Executive Officer compensation actions taken by the Committee are subject to approval by FHFA.

### **IV. EMCP OVERVIEW**

Under the EMCP, a participant’s target total direct compensation (“Target TDC”) consists solely of salary with two components – Base Salary and Deferred Salary. The amount of TDC received with respect to 2016 is referred to as “Actual TDC.” The two components of Target TDC are explained below.

1. Base Salary is paid in cash on a bi-weekly basis and provides a fixed level of compensation designed to fairly compensate an EMCP participant for the responsibility level of his or her position. Base Salary cannot exceed \$500,000 unless otherwise approved by FHFA.

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<sup>4</sup> Compensation arrangements for the CEO are discussed on page 365 of the attached Form 10-K. The CEO’s compensation consists solely of an annual Base Salary at a level established by FHFA pursuant to the Equity in Government Act of 2015.

<sup>5</sup> Compensation matters related to Executive Officers other than the CEO are discussed on page 363 of the attached Form 10-K.

2. Deferred Salary under the EMCP consists of two elements, as follows:
- a. *At-Risk Deferred Salary* is equal to 30% of Target TDC. Half of At-Risk Deferred Salary is subject to reduction based on the Company's performance against goals established by FHFA and half is subject to reduction based on a combination of individual performance and the Company's performance against goals established by management for the performance year.
  - b. *Fixed Deferred Salary* is equal to Target TDC less Base Salary and At-Risk Deferred Salary.

Deferred Salary earned in one quarter is paid no later than the last business day of the corresponding quarter in the following year. Deferred Salary earned during 2016 will be paid in 2017. This and other details regarding both elements of Target TDC are provided on page 364 of the attached Form 10-K.

### **Process Used to Determine 2016 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.

Setting Target TDC – In determining and setting Target TDC for Executive Officers for 2016, the Committee reviewed the compensation of executives in comparable positions at companies in our Comparator Group. The list of companies included in our 2016 Comparator Group and the process used by the Compensation Committee to review survey data are discussed in greater detail on pages 365-366 of the attached Form 10-K.

### **Determination of Actual 2016 Compensation for Executive Officers**

While Base Salary and Fixed Deferred Salary are not performance-based, At-Risk Deferred Salary is subject to reduction based on both corporate and individual performance. Performance and payment decisions associated with 2016 At-Risk Deferred Salary were determined in accordance with the processes and procedures outlined on pages 366-372 of the attached Form 10-K.

## **V. EMPLOYEE BENEFIT PLANS AND PROGRAMS**

Freddie Mac offers a competitive employee benefits package. Under our flexible benefits program, each eligible employee was able to structure his or her own individual benefits package for 2016, including medical coverage, dental coverage, vision coverage, vacation, group term life insurance, accidental death and personal loss insurance, long-term disability insurance, and flexible spending accounts for both health and dependent care. In addition, we offer eligible employees a tax-qualified 401(k) savings plan as well as a transitional plan for those employees who were eligible for the terminated tax-qualified defined pension

plan.

We also offer two unfunded, non-qualified supplemental executive retirement plans to eligible officers which provide the full amount of benefits to which they would have been entitled under the 401(k) and transitional plans if those plans were not subject to certain dollar limits under the Internal Revenue Code.

## **VI. OTHER EXECUTIVE COMPENSATION CONSIDERATIONS**

Perquisites – Freddie Mac offered a single perquisite to Executive Officers in 2016: reimbursement for assistance with personal financial planning, tax planning, and/or estate planning. This perquisite had an annual maximum benefit of \$4,500, with an additional \$2,500 allowance provided in the first year in which an Executive Officer became eligible for the benefit. Total annual perquisites for any Executive Officer cannot exceed \$25,000 without FHFA approval and we do not gross-up this perquisite.

Post-Termination Compensation – The EMCP addresses the treatment of each component of an Executive Officer's TDC upon various termination events, as described on pages 384-386 of the attached Form 10-K.

Recapture Agreement – All Executive Officers must agree to the terms of a Recapture and Forfeiture Agreement. Events that can trigger a recapture or forfeiture of compensation and the compensation subject to recapture are described on pages 375-376 of the attached Form 10-K.

## **VII. AMOUNT OF COMPENSATION BASED ON CORPORATE PERFORMANCE**

All compensation for 2016 was delivered exclusively in cash. Of the total aggregate cash compensation paid to the nine Executive Officers employed by the Company on December 31, 2016, 27% was based on corporate performance. The percentage of total cash compensation based on corporate performance is derived by dividing the sum of At-Risk Deferred Salary by the sum of the Executive Officers' Base Salary, Fixed Deferred Salary and At-Risk Deferred Salary, other payments (such as sign-on awards), and All Other Compensation as defined by the SEC for 2016.

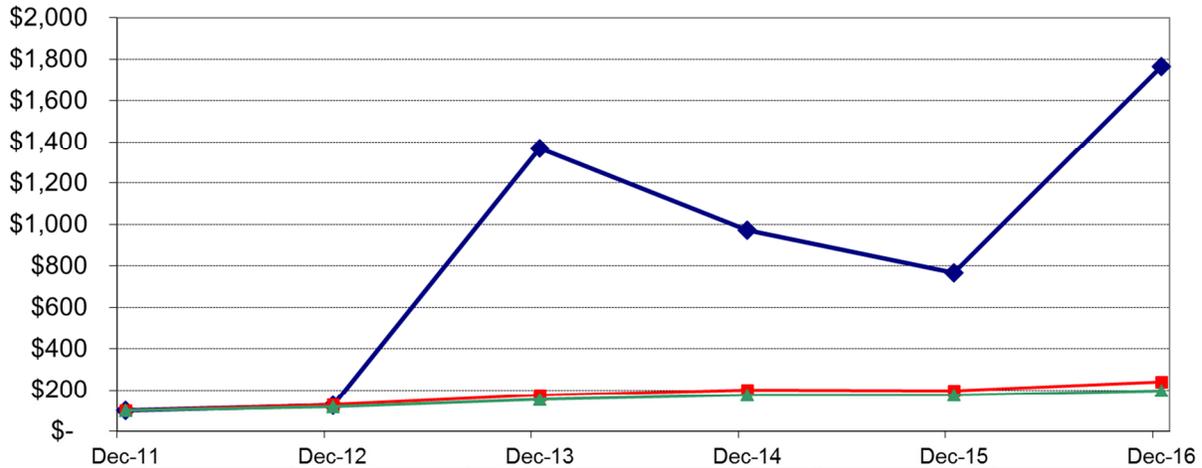
For further information regarding compensation of certain Executive Officers, please refer to the Summary Compensation Table on page 381 of the attached Form 10-K.

## **XIII. COMPARABILITY OF FREDDIE MAC'S FINANCIAL PERFORMANCE**

In previous years, Freddie Mac has reported on the comparability of its financial performance by comparing its cumulative total shareholder return over a period of several years with relevant stock indexes. Freddie Mac is providing such an analysis in the graph below. 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 a \$100 investment in Freddie

Mac common stock, the S&P Financial Sector Index, and the S&P 500 Index on December 31, 2011. All total return calculations assume reinvestment of dividends. Freddie Mac's common stock was delisted from the New York Stock Exchange in 2010 and is now traded in the OTCQB Marketplace under the ticker symbol FMCC.

**Comparative Cumulative Total Stockholder Returns (in dollars)**



	Dec-11	Dec-12	Dec-13	Dec-14	Dec-15	Dec-16
	12/31/2011	12/31/2012	12/31/2013	12/31/2014	12/31/2015	12/31/2016
◆ Freddie Mac	\$100	\$124	\$1,368	\$972	\$764	\$1,764
■ S&P 500 Financials	\$100	\$129	\$174	\$200	\$197	\$241
▲ S&P 500	\$100	\$116	\$153	\$174	\$176	\$197