June 30, 2020

EMPLOYEE COMPENSATION POLICIES AND PRACTICES AT FREDDIE MAC FOR CALENDAR YEAR 2019

To

Committee on Financial Services
United States House of Representatives

and

Committee on Banking, Housing and Urban Affairs
United States Senate

June 30, 2020

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 by providing:

- 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[1] 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;[2]
- 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.[3]

Freddie Mac is fully aware of the capital support we receive from the federal government and taxpayers under conservatorship, and throughout the past decade we have strived to be good stewards of this support. Working under FHFA's supervision, we have made significant reforms to our business model, strengthened our management, and improved our business practices, while providing liquidity and support to the housing finance system. While our work to improve and strengthen Freddie Mac continues, we are no longer the company that existed before conservatorship. We are a better company, under better management, helping to build a better housing finance system.

Critical to our past and future progress is our ability to attract and retain qualified executives and

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[1] For purposes of this report, "Executive Officers" are the individuals who are listed as executive officers on pages 274-275 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. As of December 31, 2019, the end of the period covered by this report, Freddie Mac had nine Executive Officers.

[2] For the purposes of this report, this calculation includes compensation earned only by those Executive Officers employed by us on December 31, 2019.

[3] 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 the Federal Housing Finance Agency ("FHFA" or "Conservator") 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 or issue proxy statements. Instead, the Conservator elects directors via a written consent in lieu of an annual meeting.

employees.

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, FHFA, and provided it with additional regulatory 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 described on pages 268-271 of the attached Form 10-K.

Further information regarding conservatorship and its impact on our executive compensation programs is located on page 288-289 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 in a safe and sound manner depends critically 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. In addition, Freddie Mac is fully aware of the capital support we receive from the federal government and taxpayers under conservatorship, and throughout the past decade we have strived to always be good stewards of this support, including in the design and deployment of competitive compensation and benefit programs that are necessary to compete in the marketplace for qualified professionals with the necessary skills and capabilities.

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. Additional information regarding executive compensation matters can be found in Sections III and IV of this report and beginning on page 276 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 determining the compensation required for recruiting and retaining individuals with the requisite skills and capabilities. These are the kinds of companies with whom we compete for the talented executives and employees we need to fulfill our mission of increasing liquidity, providing stability, and supporting affordability in a safe and sound manner.

If there is either no reasonable match or insufficient Comparator Group data for a position, or if the compensation consultant retained by the Compensation Committee of the Board of Directors (the "Committee") 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 – Executive Officer compensation is reviewed and approved by the Committee, which was composed of four directors as of December 31, 2019, 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.[4] FHFA's authorities include ensuring that compensation paid to executives is reasonable and comparable with compensation paid at institutions of similar size and function for similar duties and responsibilities.

[4] Compensation matters related to Executive Officers other than the CEO are discussed on pages 276-277 of the attached Form 10-K.

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 (the "CEO")[5]. The EMCP addresses our need to retain executives and attract new executive talent while promoting the goals of conservatorship and the interests of taxpayers. As discussed below, our executive compensation program follows best practices, including clawback provisions in employment agreements, using an independent compensation consultant, and performing an annual compensation risk review. Best practices also include not making agreements guaranteeing specific compensation amounts for a specified term of employment. A complete overview of the EMCP can be found on pages 276-277 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. 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 2019 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. While we are in conservatorship, each EMCP participant's base salary cannot exceed $600,000 without FHFA approval.

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 FHFA's assessment of the Company's performance against goals established by FHFA and half is subject to reduction based on a combination of

[5] Compensation arrangements for the CEO are discussed on page 277 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.

individual performance and the Company's performance against goals established by the Board for the performance year. In August 2019, FHFA, acting as Conservator, directed us to increase the mandatory deferral period for At-Risk Deferred Salary from one year to two years. For EMCP participants hired before January 1, 2020, this change was effective for At-Risk Deferred Salary earned beginning January 1, 2022. For EMCP participants hired on or after January 1, 2020, the change was effective immediately. Accordingly, At-Risk Deferred Salary earned by our then-current EMCP participants beginning January 1, 2022 will be paid in quarterly installments in the second year following the performance year. Because our CEO does not receive deferred salary, his compensation will not be affected by this change.

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 on the last business day of the corresponding quarter in the following year. Deferred Salary earned during 2019 will be paid, with interest, in 2020. This and other details regarding both elements of Target TDC are provided on pages 276-277 of the attached Form 10-K.

Process Used to Determine 2019 Target TDC for Executive Officers

<u>Compensation Consultant</u> – As part of the annual process to determine Target TDC for our Executive Officers, the Committee receives guidance from its independent compensation consultant, which is retained by the Compensation Committee and does not provide any services to management.

<u>Setting Target TDC</u> – In determining and setting Target TDC for Executive Officers for 2019, the Committee reviewed the compensation of executives in comparable positions at companies in our Comparator Group or, as appropriate, in other survey sources. The list of companies included in our 2019 Comparator Group and the process used by the Compensation Committee to review survey data are discussed in greater detail on pages 277-278 of the attached Form 10-K.

Determination of Actual 2019 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. One-half of At-Risk Deferred Salary subject to reduction (in other words, 15% of Target TDC) is based upon FHFA's assessment of Freddie Mac's performance against the objectives set in the 2019 Conservatorship Scorecard. The other half of At-Risk Deferred Salary subject to reduction, also equal to 15% of Target TDC, is based upon Freddie Mac's performance against the Corporate Scorecard goals, as assessed by the Board of Directors and subject to FHFA review, and each executive's individual performance. Performance and payment decisions associated with 2019 At-Risk Deferred Salary were determined in accordance with the processes and procedures outlined on pages 279-285 of the attached Form 10-K.

IV. 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 2019, 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.

We also offer an unfunded, non-qualified supplemental executive retirement plan to eligible officers which provides the full amount of benefits to which they would have been entitled under the 401(k) plan if that plan was not subject to certain dollar limits under the Internal Revenue Code.

V. OTHER EXECUTIVE COMPENSATION CONSIDERATIONS

Perquisites – Freddie Mac offered a single perquisite to Executive Officers in 2019: 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 (for example, death, long-term disability, retirement, voluntary departure, or involuntary departure), as described on pages 299-301 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 286-287 of the attached Form 10-K. Grounds for forfeiture or recapture include compensation paid based on materially inaccurate information, termination for felony conviction or willful misconduct, gross neglect or gross misconduct, or violation of a post-termination, non-competition covenant.

VI. AMOUNT OF COMPENSATION BASED ON CORPORATE PERFORMANCE

Because of the prohibition on equity compensation discussed above, all compensation for 2019 was delivered in cash. Of the total aggregate cash compensation paid to the nine Executive Officers employed by the Company on December 31, 2019, 26% 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' total compensation as determined in the Summary Compensation Table.

For further information regarding compensation of certain Executive Officers, please refer to the Summary Compensation Table on page 295 of the attached Form 10-K.

VII. COMPARABILITY OF FREDDIE MAC'S FINANCIAL PERFORMANCE

The Freddie Mac Act requires that this report address the comparability of Freddie Mac's financial performance with that of other similar businesses. The table below provides information on Freddie Mac's annual net income since 2015, with comparable information for Fannie Mae and for two indices, the S&P 500 index and the S&P Financial Sector Index. In the case of the two indices, net income amounts represent the average amounts for companies included in the index.

Net Income (in millions)				
Year	Freddie Mac [1]	Fannie Mae	S&P 500	S&P Financials
2015	6,376	10,955	1,783	2,631
2016	7,815	12,313	1,900	3,252
2017	5,625	2,463	2,072	3,178
2018	9,235	15,959	2,349	3,698
2019	7,214	14,160	2,389	5,067

[1]. Freddie Mac's 2017 net income includes net deferred tax assets (DTA) write-down of $5.4 billion.

Source for Freddie Mac and Fannie Mae: Form 10-K Financials.
Source for S&P 500 and S&P Financials: Bloomberg.
Methodology: For each respective year, average net income is calculated by summing the annual net income of all members in the index and dividing that by the number of members in the index. Index members and figures are as of the end of each year. The list of members varies each year.

VIII. ATTRACTING QUALITY EXECUTIVES AND EMPLOYEES REMAINS CRUCIAL TO REFORMING OUR COMPANY

As noted above, Freddie Mac has strived to be a good steward of the capital support we have received from the US Treasury and taxpayers. The dedication and hard work of our executives and employees have improved and reformed Freddie Mac over the past decade, providing value to taxpayers, the housing finance system, and homeowners and renters. Working under FHFA's supervision, we have made significant reforms to our business model, strengthened our management, and improved our business practices.

Specifically, we have addressed critical weaknesses in Freddie Mac's pre-conservatorship business model by creating a new business model. This includes downsizing our retained portfolio and repurposing it to support our mission, levelling the playing field for small lenders, and protecting taxpayers and stabilizing the housing finance system by creating entirely new markets to transfer most mortgage credit risk away from us and to private investors.

Throughout conservatorship, we also have provided critical liquidity to the primary mortgage market, helped stabilize the housing market and communities, saved more than one million borrowers from foreclosure, and responsibly supported low- and moderate-income homeownership and rental housing while greatly improving the credit quality of our single-family mortgage guarantee portfolio.

Additionally, as of June 30, 2020, Freddie Mac has paid taxpayers $119.7 billion in dividends – $47 billion more than we have received in US Treasury capital support.

While our work to improve and strengthen Freddie Mac continues, we are no longer the company that existed before conservatorship. We are a better company, helping to build a better housing finance system. In order to continue this progress and ultimately create a world-class financial institution that will operate safely and soundly while fulfilling our mission, we need to continue to attract and retain quality professionals through offering competitive compensation.