

ANNUAL HOUSING ACTIVITIES REPORT FOR 2004
FEDERAL HOME LOAN MORTGAGE CORPORATION

MARCH 16, 2005

Introduction

Pursuant to §307(f) of the Federal Home Loan Mortgage Corporation Act, as amended, 12 U.S.C. §1456(f), the Federal Home Loan Mortgage Corporation (“Freddie Mac”) must annually submit a report on its activities to the Committee on Banking, Housing, and Urban Affairs of the Senate, the Committee on Financial Services of the House of Representatives and the Secretary of the U.S. Department of Housing and Urban Development (“HUD”).

The following constitutes Freddie Mac’s 2004 Annual Housing Activities Report to the Congress and the Secretary of HUD under §307(f) and HUD’s regulation 81.63, 24 C.F.R. §81.63 (2004).

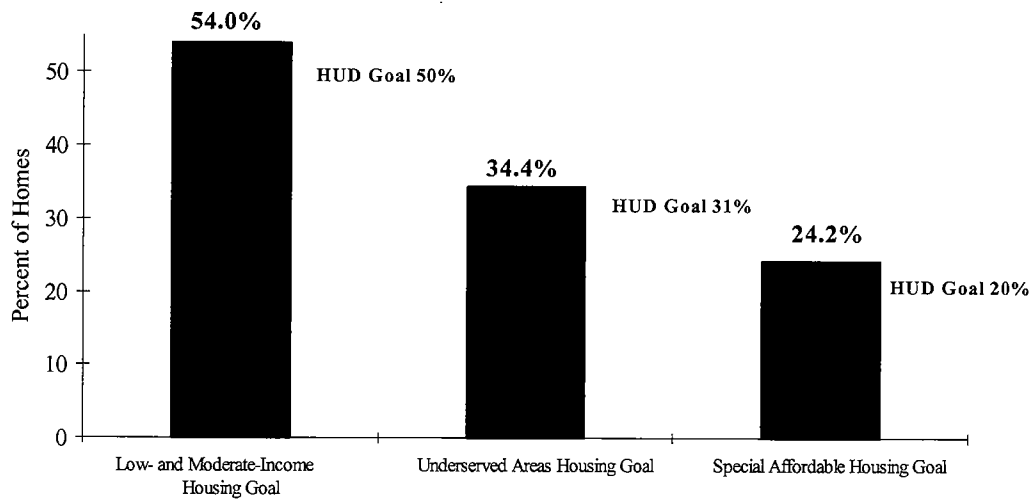
Information Required under §307(f)(2)

(A) include, in aggregate form and by appropriate category, statements of the dollar volume and number of mortgages on owner-occupied and rental properties purchased which relate to each of the annual housing goals established under such subpart;

Our continued efforts to extend the benefits of the mortgage market to very-low-, low- and moderate-income families and people living in underserved areas enabled Freddie Mac to exceed all three of the housing goals established by HUD:

- 54.0 percent of the homes Freddie Mac financed were affordable to low- and moderate-income families. These purchases totaled \$174 billion and financed housing for 1.8 million families. The low- and moderate-income housing goal for 2004 was 50 percent of the total number of homes financed by our mortgage purchases.
- 34.4 percent of the homes Freddie Mac financed were located in underserved areas. These purchases totaled \$127 billion and financed housing for about 1.2 million families. The underserved areas goal for 2004 was 31 percent of the total number of homes financed.
- 24.2 percent of the homes Freddie Mac financed were affordable to low-income families in low-income areas or to very-low-income families. These purchases totaled \$58 billion and financed housing for nearly 795,000 families. The special affordable housing goal for 2004 was 20 percent of the total number of homes financed. In addition, \$9.8 billion of Freddie Mac's purchases eligible for the special affordable goal were multifamily mortgages. The multifamily housing target within the special affordable goal was \$2.11 billion.

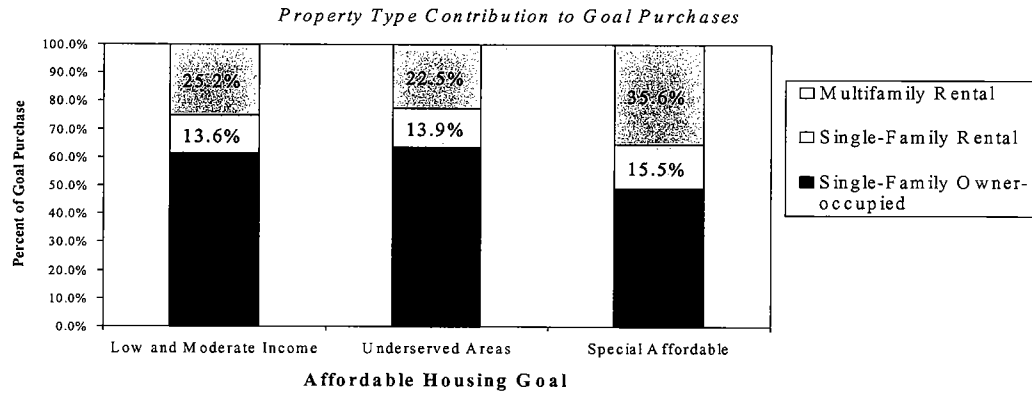
Exhibit 1
Freddie Mac Met All of the 2003 Housing Goals



Source: Table 1

Freddie Mac's 2004 purchases supported a range of affordable housing opportunities for America's families. As can be seen from Exhibit 2, a substantial portion of Freddie Mac's affordable purchases supported rental units. More than 38 percent of the units meeting the Low- and Moderate-Income goal were rental units. Of those rental units, multifamily units (properties with more than 5 units) contributed 25.2 percent to that goal while rental units in single-family properties contributed 13.6 percent. Rental properties (both single-family rental and multifamily rental) contributed 36.4 percent to the underserved areas goal and 51.1 percent to the special affordable goal accomplishments.

Exhibit 2 Freddie Mac's Affordable Purchases Support Rental Housing



Source: Table 1

Exhibit 3 shows the dollar volume and number of homes that we financed for owner-occupied and rental properties related to each of the goals.

Exhibit 3
Freddie Mac's 2004 Mortgage Purchases
That Met the Affordable Housing Goals

	<u>Low and Moderate- Income Housing Goal</u>		<u>Underserved Areas Housing Goal</u>		<u>Special Affordable Housing Goal</u>	
	<u>Volume (\$ billions)</u>	<u>Homes Financed</u>	<u>Volume (\$ billions)</u>	<u>Homes Financed</u>	<u>Volume (\$ billions)</u>	<u>Homes Financed</u>
Single-family						
Owner-occupied	\$134.7	1,085,657	\$103.2	739,473	\$39.7	388,352
Rental	\$20.8	241,856	\$14.4	162,103	\$8.6	123,389
Multi family	<u>\$18.6</u>	<u>447,758</u>	<u>\$9.8</u>	<u>262,185</u>	<u>\$9.8</u>	<u>282,833</u>
Total	\$174.1	1,775,271	\$127.4	1,163,761	\$58.1	794,574

Note: Single-family rental consists of rental units in investor-owned 1-4 unit properties and owner-occupied 2-4 unit properties. Dollar volumes and homes financed may not sum to the total due to rounding.

Source: Table 1

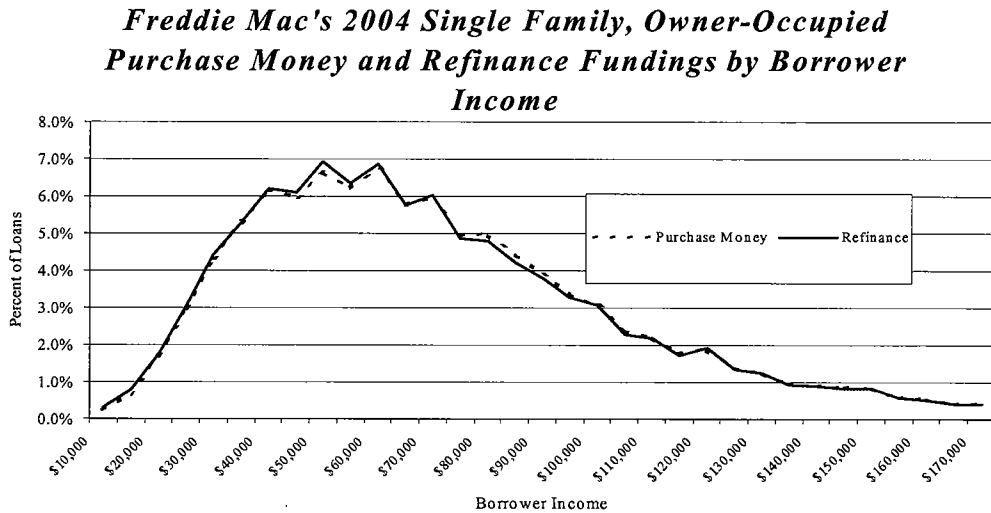
For more detail, please see Table 1.

(B) include, in aggregate form and by appropriate category, statements of the number of families served by the Corporation, the income class, race, and gender of homebuyers served, the income class of tenants of rental housing (to the extent such information is available), the characteristics of the census tracts, and the geographic distribution of the housing financed;

Serving Homeowners With Low and Moderate Income

Freddie Mac's mortgage fundings serve families from across the income spectrum. As shown in Exhibit 4, the income distribution of families whose single-family home purchases or refinances Freddie Mac financed was broadly distributed across the full range of household incomes. Household incomes for families whose homes were financed through Freddie Mac's purchases in 2004 generally ranged between \$10,000 and \$170,000. One-half of the families whose home purchases we financed earned less than \$65,004 while our typical re-finance borrower had an income of \$64,320.

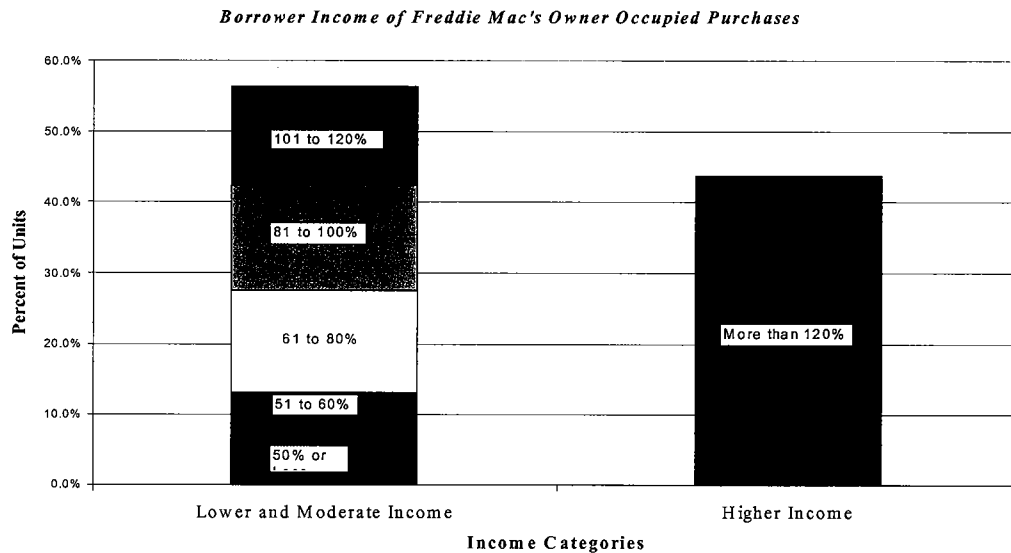
Exhibit 4
Freddie Mac Serves Borrowers of All Incomes



Note: Includes ARS Purchases

More specifically, during 2004 Freddie Mac purchased single-family mortgages supporting over 2.7 million owner-occupied units of housing, 1.1 million units (41.1 percent) of which were affordable to low- and moderate-income families. As can be seen from exhibit 5, 189,000 units (7.1 percent) were affordable to families whose incomes were 50 percent or less of the local area median, 710,000 units (26.5 percent) were affordable to families at 80 percent or less of the area median, and 1.1 million units (41.1 percent) were affordable to families making 100 percent or less of the local median.

Exhibit 5 Freddie Mac Supports Affordable Homeownership



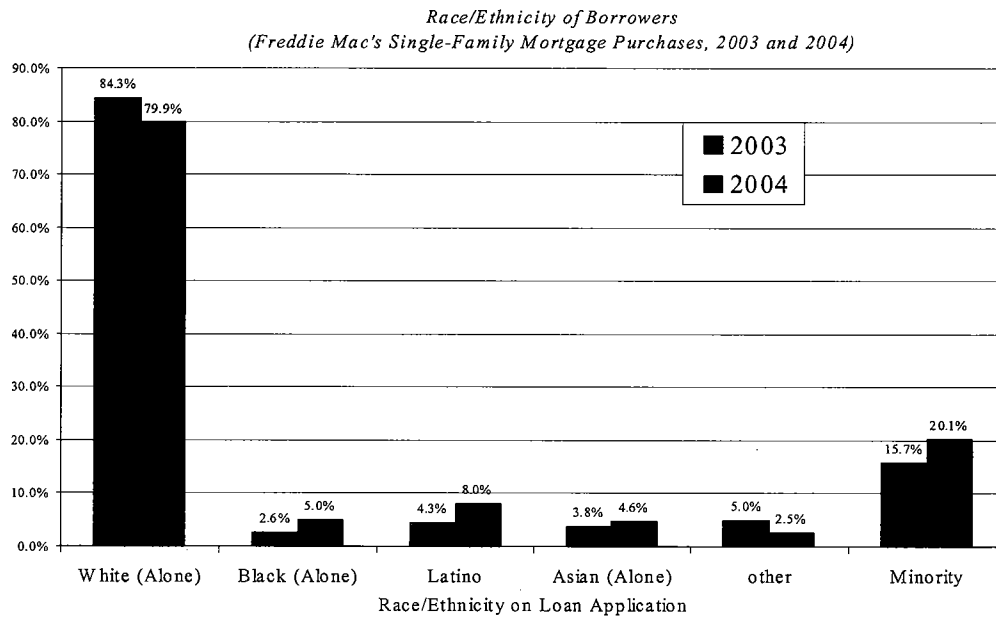
Note: Does not include insignificant information
Source: Fannie Mae

Serving Families With Racial And Ethnic Diversity

In 2004, Freddie Mac's single-family owner-occupied mortgage purchases financed homes for over 470,000 minority families, including mortgages for about 118,000 African-American families, 186,000 Hispanic families, 108,000 Asian families, and 60,000 families from other minority groups (American Indians, Pacific Islanders and two or more races). Freddie Mac's purchases of mortgages to minority families during 2004 comprised 20.1 percent of our single-family, owner-occupied mortgage purchases for which the race and/or ethnicity of the borrower was known. As illustrated in Exhibit 6,

this was about a 4.5 percentage point increase over the minority purchase rate in 2003.¹ Some of this increase was due to the improved minority flow mix, but the primary cause was a significant increase in Asset Backed Securities purchases, which include a high proportion of mortgages made to minorities, from 2003 to 2004.

Exhibit 6 Freddie Mac Increases Minority Purchase Rate



Note: Missing Race/Ethnicity excluded from calculations.
Source: Table 7

Serving Different Family and Household Types

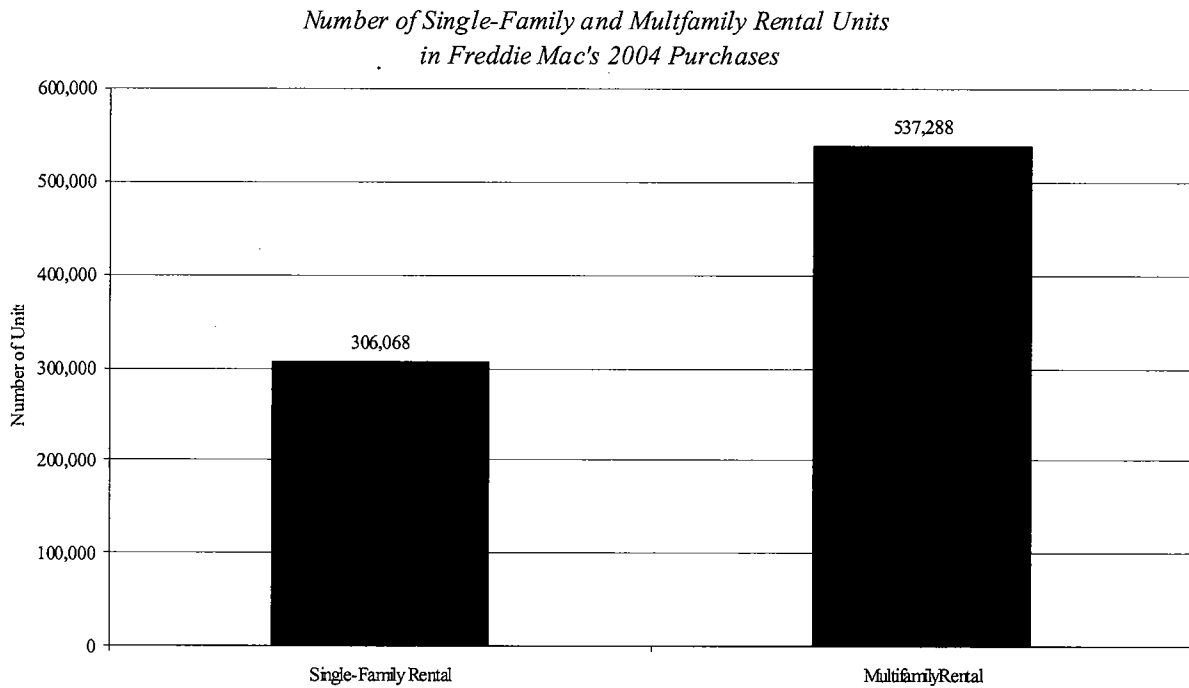
Freddie Mac purchased loans made to many different types of households. In 2004, 43.3 percent of the units we supported were made to couples, 19.6 percent were made to all male households and 15.2 percent were made to all female households. We did not have information on the household composition of 22.0 percent of our borrowers.

¹ These figures are based on the tables accompanying the 2003 and 2004 Annual Mortgage Reports.

Providing Affordable Rental Opportunities

Freddie Mac's mortgage purchases in 2004 supported more than 843,000 units of rental housing in both single-family and multifamily properties. Exhibit 7 shows that about 306,000 (36.3 percent) of the rental units were contained in single-family structures while more than 537,000 units (63.7 percent) were contained in multifamily properties.

Exhibit 7
Freddie Mac Purchases Support Both Single-Family and Multifamily Rental Opportunities

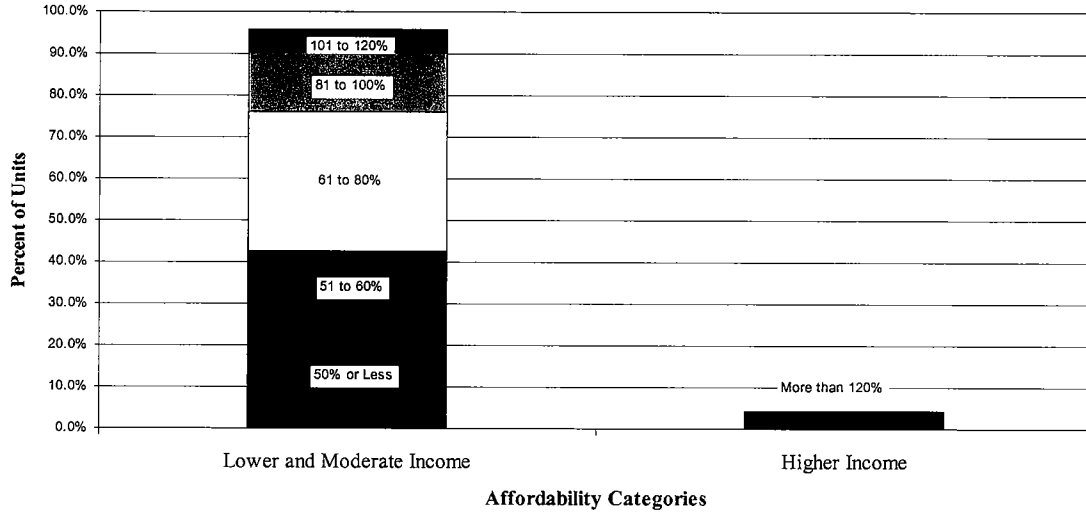


Source: Tables 3 and Table 4

As demonstrated in Exhibit 8, 90.2 percent or more than 691,000 of the rental units in our single-family and multifamily purchases on which we had income information were affordable to low- and moderate-income families. Over 19.6 percent were affordable to families making 50 percent or less of the local area median income, and 76.1 percent were affordable to families making 80 percent or less of the local area median income.

Exhibit 8 Freddie Mac Supports Affordable Rental Housing

Affordability of Rental Units Financed by Freddie Mac 2004 Purchases

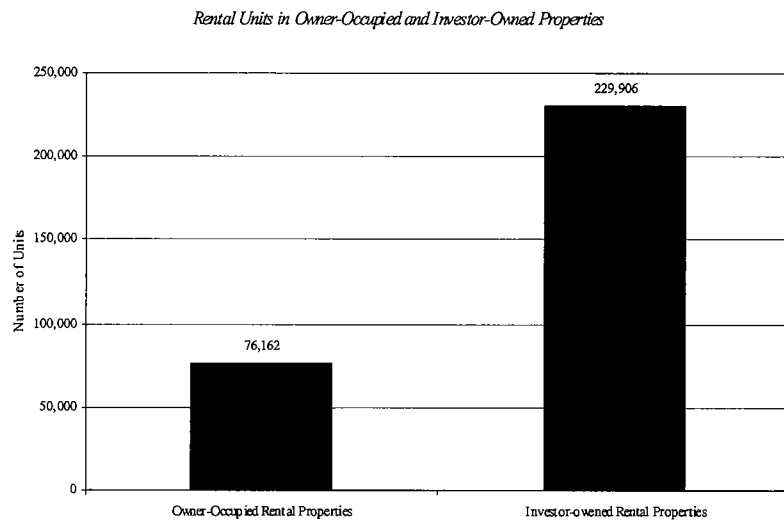


Note: Does not include missing income information
Source: Tables 3 and Table 4

Freddie Mac purchased \$30.0 billion in single-family rental properties of which \$6.9 billion were owner-occupied (2-4 units) and \$23.1 billion were investor-owned. As indicated in Exhibit 9, these single-family rental types provided about 76,000 and 230,000 units, respectively.

Exhibit 9

Freddie Mac Supports Single-Family Rental Properties



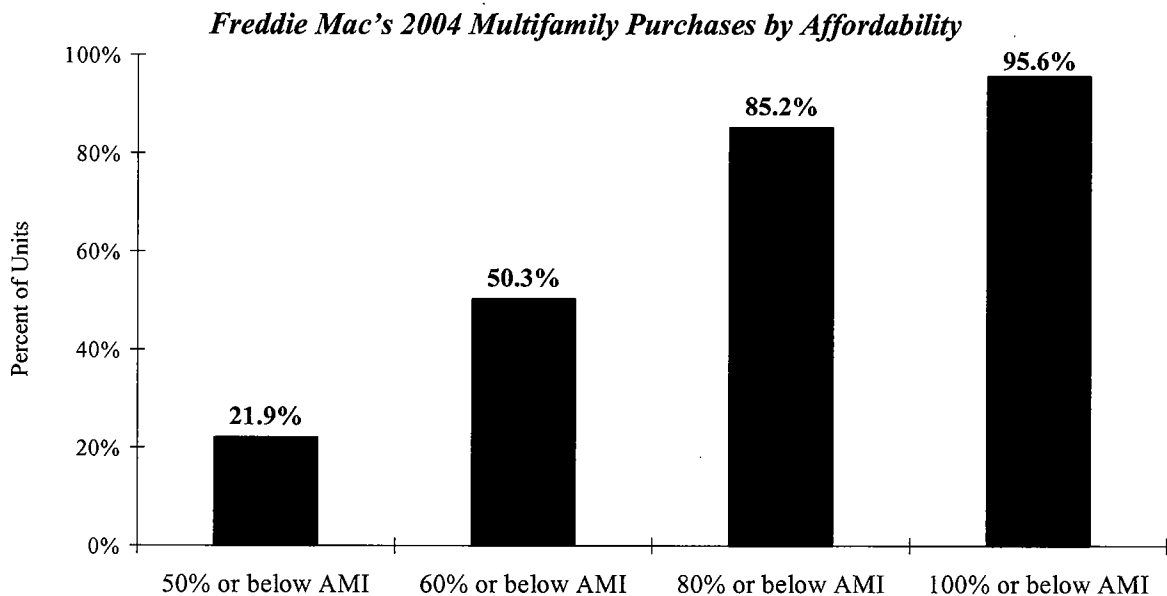
Source: Table 1A(Freddie Mac Internal)

In 2004, Freddie Mac's multifamily mortgage purchases (involving properties with 5 or more rental units) totaled a record \$21.8 billion (\$11.2 billion of mortgage purchases and \$10.6 billion in credit enhancements, risk sharing, and securities purchases). Through multifamily mortgage purchases and related activities, Freddie Mac helps make rental housing affordable to all segments of the low- and moderate-income markets, including very-low-income households.

Our multifamily activities financed rental housing for more than 537,000 families in 2004. Of the units on which we have rental information, over 95.6 percent of these apartment units were affordable to renters at or below the median income for their residential area.

Freddie Mac's multifamily products play a vital role in our service to very-low-, low- and moderate-income families. As illustrated in Exhibit 10 below, on units for which we have rental information, 50.3 percent of the multifamily units we financed in 2004 were affordable to very-low-income families, 85.2 percent to low-income families, and 95.6 percent to moderate-income families. Our multifamily financing activities included \$9.8 billion in mortgages meeting the criteria for the special affordable housing target (loans serving very-low-income families or low-income families living in low-income neighborhoods).

Exhibit 10
Nearly All of Freddie Mac's Multifamily Housing Is
Affordable to Low and Moderate-Income Families

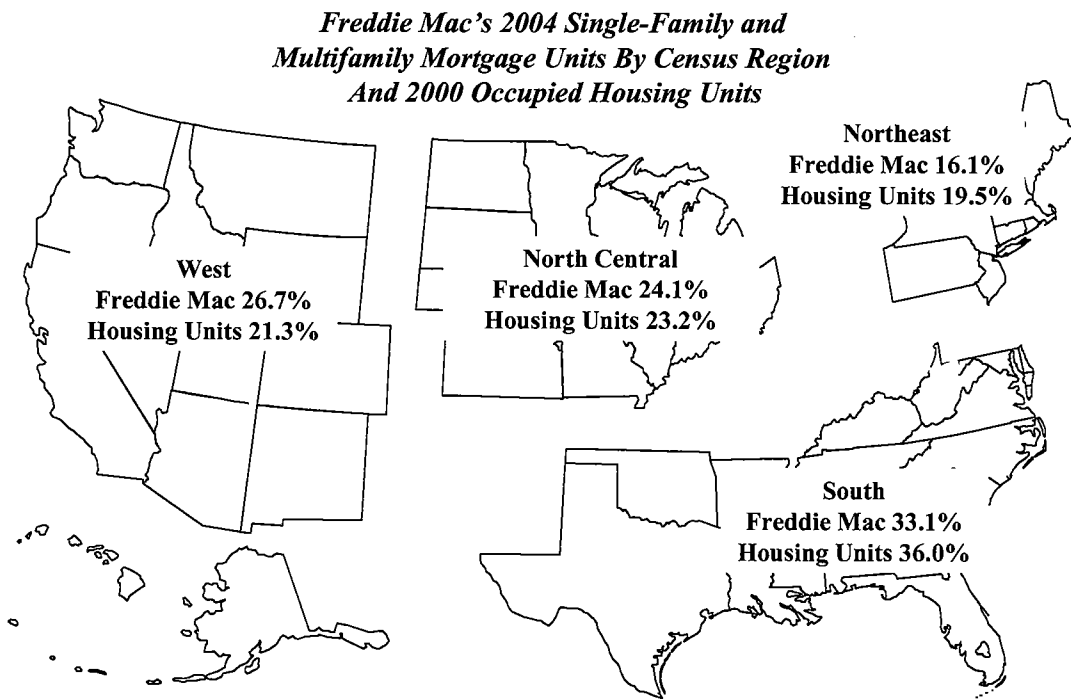


Source: Table 4

Serving Families Nationwide

Freddie Mac's nationwide network of lenders enables us to serve families all over the country. As shown in Exhibit 11, the mortgages Freddie Mac bought in 2004 financed homes nationwide in roughly the same proportion as the stock of occupied housing units in the United States.

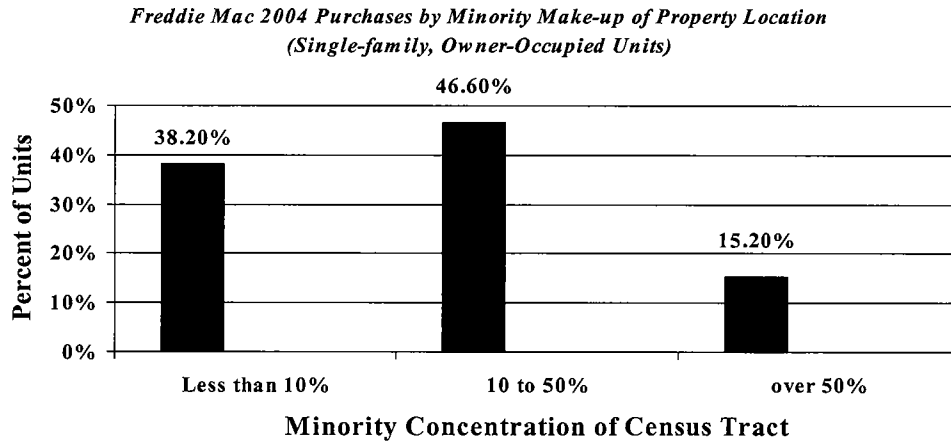
Exhibit 11
Freddie Mac Serves Families Across the Nation



Note: Does not include Puerto Rico, Guam or Virgin Islands
Source: Table 14 and 2000 Census

In 2004, Freddie Mac purchased mortgages supporting owner-occupied and rental housing in a variety of neighborhoods. Over 15.2 percent of our owner-occupied units were located in census tracts with a minority population of over 50 percent. Another 46.6 percent of our owner-occupied units were in census tracts with from 10 to 50 percent minority population. Finally, 38.2 percent of our units were located in census tracts with less than 10 percent minority population.

Exhibit 12
Freddie Mac's 2004 Home Purchases Supports Diverse Neighborhoods

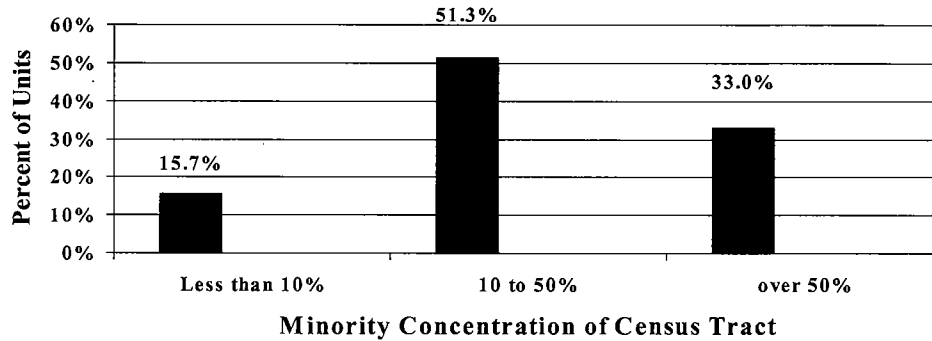


Note: Missing tracts are excluded.
Source: Table 11

In terms of rental housing, as Exhibit 13 illustrates about 33 percent of the single-family and multifamily rental units we financed during 2004 were located in census tracts with 50 percent or more minority families. Another 51.3 percent of the units were located in tracts with from 10 to 50 percent minority families. Only 15.7 percent of the units were located in tracts with less than 10 percent minority families.

Exhibit 13
Freddie Mac's 2004 Purchases Support Rental Units in Diverse
Neighborhoods

*Freddie Mac 2004 Purchases by Minority Make-up of Property Location
(Single-family and Multifamily Rental Properties)*



Note: Missing tracts are excluded.
Source: Table 12

For additional detail, please see Tables 2, 3, 4, 7, 11, 12 and 14.

(C) include a statement of the extent to which the mortgages purchased by the Corporation have been used in conjunction with public subsidy programs under federal law;

Freddie Mac participates in federal subsidy programs through the purchase of single-family mortgages that utilize federal subsidies for down payment and closing cost assistance or to reduce interest-rates on first or second mortgages. Freddie Mac also purchases single-family mortgages that are guaranteed or insured through federal programs, providing liquidity to these markets and ultimately reducing the overall cost of the home financing for the homeowner. Freddie Mac also purchases, on the open market, tax-exempt Mortgage Revenue Bonds backed by mortgages with reduced interest rates or down payment subsidies created through a tax-exempt structure.

Federal subsidies can be leveraged in many ways to increase the opportunity for home ownership. Freddie Mac seeks to bring the efficiencies of our financing to utilize the subsidies most effectively, either in the financing of the home (which reduces the amount needed for most subsidies) or by helping coordinate homebuyer education funded in part by HUD. This collaboration allows for the most effective use of funding to increase homeownership opportunities for more families.

Described below are examples of Freddie Mac offerings which build on federal programs, including HOME funds, Community Development Block Grants (CDBG), Section 8, tax-exempt bonds, and government guarantees. This list of examples is not – and is not intended to be – a complete list of all efforts.

Affordable Seconds

Most of our Expanding Markets mortgage products allow for the combination of an Affordable Second with an Expanding Markets first mortgage. Freddie Mac purchases the first mortgage and the lender or other entity will hold the second mortgage. The source for many of the Affordable Second mortgages is federal subsidy dollars including HOME or CDBG funds. Affordable Seconds reduce a significant barrier to homeownership by allowing all or a portion of the down payment and closing costs to be financed as part of the mortgage financing. In doing so Freddie Mac allows total financing up to 105% of the value of the property with Freddie Mac purchasing up to 100% of the value of the property financed by the first mortgage.

Section 8 Rental to Homeownership

In 2004 Freddie Mac continued to support mortgages using Section 8 vouchers for homeownership. Working with Public Housing Agencies, this innovative HUD program allows people currently receiving Section 8 rental subsidies to use them toward mortgage payments. Freddie Mac permits lenders to deduct the full amount of the voucher from the mortgage payment or add it to stable monthly income to help a borrower qualify for a

mortgage. Under this program, borrowers receive extensive credit and homeownership counseling.

Individual Development Accounts

Under all of our Expanding Markets mortgage products, Freddie Mac permits mortgage loans in which the borrower's down payment consists of funds that have been matched through an Individual Development Account (IDA) homebuyer savings program. IDA homebuyers' savings programs, considered as borrower cash, require that a borrower make regular deposits to a savings account established to save toward the purchase of a home. A public agency, nonprofit organization, lender or employer matches the savings from a variety of sources including CDBG funds, foundations and employers.

Federal Government Programs

Freddie Mac purchases mortgages backed by many federal insurance programs, including FHA/VA, Guaranteed Rural Housing, both section 502 and leveraged lending, as well as Section 184 Native American Housing. These federally-backed programs target specific-need borrowers where conventional financing may not be able to adequately serve the need. We provide liquidity and efficiency to this market through our purchases and securitization of the loans.

In 2004, Freddie Mac and the United States Department of Agriculture agreed to establish a new collaborative effort to help property owners substantially rehabilitate and preserve affordable rental apartments located in underserved rural areas not traditionally served by the mortgage industry. Freddie Mac anticipates that in 2005 this initiative will result in our purchase of mortgages secured by rural properties with existing Section 515 rental-housing mortgages.

Low-Income Housing Tax Credits

In 2004, Freddie Mac continued to be a leader in the Low-Income Housing Tax Credits (LIHTC) market. We made the largest single-year commitment in our history to LIHTC -- \$1.3 billion. As a result, our total investments are approaching \$5 billion.

LIHTC investments are an effective tool that combines private sector capital, government incentives and community-based housing expertise for the benefit of low-income renters. Our investment in these credits provides important support for the creation or rehabilitation of rental housing for America's lowest income families. Altogether, Freddie Mac's investments have financed the construction or rehabilitation of more than 273,000 rental units for very-low- and low-income families in 3,651 projects in all 50 states, the District of Columbia, Puerto Rico and the Virgin Islands. Although these rental units do not count toward Freddie Mac's affordable housing goals, these investments contributed to meeting the needs of the nation's low-income renters.

(D) include statements of the proportion of mortgages on housing consisting of 1 to 4 dwelling units purchased by the Corporation that have been made to first-time homebuyers, as soon as providing such data is practicable, and identifying any special programs (or revisions to conventional practices) facilitating homeownership opportunities for first-time homebuyers;

In 2004, Freddie Mac purchased mortgages of more than 189,000 first-time homebuyers, 22.7 percent of the purchase money mortgages for which we had information on the borrowers' ownership history.² Almost 94.3 percent of the first-time homebuyer purchase money mortgages were bought under our standard processes, while slightly more than 5.7 percent resulted from our special first-time homebuyer initiatives.

These results suggest that most first-time homebuyers can finance their homes with standard mortgage products, but that some families need specially-targeted initiatives. To serve these families, Freddie Mac undertakes numerous targeted efforts to expand homeownership opportunities for very-low, low, and moderate-income homebuyers, including first-time homebuyers. We develop innovative affordable housing loan mortgage products specifically designed to overcome barriers to homeownership.

Described below are some of the creative initiatives and loan products that we have developed to assist families achieve homeownership. These are illustrative examples of our efforts to help first-time homebuyers and low- and moderate-income borrowers, but are not a complete list of these efforts.

Project Greenlight

In 2004, we launched "Project Greenlight," a multi-faceted initiative aimed at increasing the number of borrowers we can serve. This initiative is intended to improve our ability to meet the needs of borrowers needing low down payments and flexible sources of funds, including first-time homebuyers, low- to moderate-income borrowers, and families in underserved areas. It included changes to Loan Prospector® (LP), our automated underwriting system, that allow LP to automatically determine when a borrower meets the median income and property location requirements for these products.

The initiative also included testing of new mortgage products offered through selected national lenders that resulted in the origination and sale to Freddie Mac of more than \$1.5 billion in mortgages in 2004. Compared to standard affordable lending products, very low-income, low-income and minority borrowers (including first-time homebuyers) comprised a higher share of the homebuyers served. We also redesigned our A-minus

² We have preliminary information suggesting that these reported numbers substantially understate the actual number of mortgages made to first-time homebuyers and sold to Freddie Mac. We have instituted an initiative to assess the validity of this preliminary information, and if it is correct, to explore ways to ensure more accurate reporting to us of this category of mortgages.

process to simplify the fee assessment process, which makes it easier to price and deliver A-minus loans to us.

Building on the products tested in 2004, we initiated “Home Possible” in the fourth quarter of 2004 and implemented it in February 2005. With Home Possible, the products we tested last year are now available as “Guide” products to all our lender customers without special contracting. It is designed to promote homeownership by providing lenders with a simple process that enables them to serve the widest array of borrowers and borrower needs.

Home Possible accomplishes these objectives through:

- Availability to all Freddie Mac Seller/Servicers with no special contracting required (Guide offering)
- Utilization of LP, which provides timely and consistent underwriting evaluations
- Flexible credit terms – Home Possible offers expanded underwriting ratios and options for borrowers who may have less-than-perfect credit
- Adjustable rate mortgages (ARMs) and financing for 2-4 unit properties
- Borrower contributions as low as \$500 on a single family home
- Allowing for flexible sources of funds for down payments, closing costs and financing costs, and prepaid items and escrow expenses
- Permitting affordable housing options including manufactured homes and Cooperative Share Mortgages.

One of the most significant benefits of Home Possible is Neighborhood Solution. Under Neighborhood Solution, teachers, firefighters, law-enforcement officers and healthcare workers receive additional flexibility that allows them to live in the communities they serve. These include expanded debt-to-income ratios and temporary subsidy buydowns, which – when combined with qualification based on below-market rates -- substantially increase a borrower’s buying power. Neighborhood Solution is available under both Home Possible 100 and Home Possible 97.

Freddie Mac 100

For many families, the largest barrier to homeownership is lack of funds for a down payment. To help alleviate this problem, Freddie Mac introduced the Freddie Mac 100 mortgage product in 2000. It allows a 100 percent LTV and requires only that the borrower have sufficient funds to pay closing costs. In 2003, we improved the Freddie Mac 100 by making it available to borrowers who may not have been able to take advantage of the refinance boom because of low or no equity in their homes. We added the refinance option and reduced the cost of the loan through reduced mortgage insurance coverage and a lower fee for the product.

Affordable Seconds

Another major challenge for many first-time homebuyers is accumulating funds for various closing costs such as origination and appraisal fees, title insurance, rehabilitation costs, and prepaid items, including real estate taxes and mortgage insurance premiums. To help families overcome these barriers, Freddie Mac offers an Affordable Seconds product that allows low- and moderate- income borrowers to utilize subsidized secondary financing to qualify for affordable mortgages. Payments may be excluded from the debt-to-income ratios if they are deferred for at least the first five years. *See* the discussion of Affordable Seconds in the answer to §307(f)(2)(C), above.

Affordable Seconds are available on all Freddie Mac Affordable Gold® and most other affordable lending products.

Affordable Gold® 97

Available since 1996, Freddie Mac's Affordable Gold 97 product permits borrowers to make 3 percent down payments from personal cash and to use other sources to cover their closing costs. It also offers flexible ratio and reserves guidelines. Affordable Gold, along with our other low down payment offerings, provides opportunities for homeownership for first-time homebuyers or others who have limited savings to use toward the purchase of a home. In 2003, we enhanced the product with a refinance option allowing more borrowers to take advantage of historically low mortgages rates.

Affordable Gold® 100

Freddie Mac, the California Housing Finance Agency Loan Insurance Fund, and several national and local lenders offer Affordable Gold 100, which provides 100 percent financing of the purchase price of a home to low- and moderate-income borrowers in California. Borrowers pay the closing costs associated with the home purchase, which can come from a variety of sources, including a grant from a qualified institution, gift from a relative, or an unsecured loan. Affordable Gold 100 is the first product of its kind to combine mortgage insurance benefits provided by a state insurance fund, the secondary mortgage market and a team of the nation's top mortgage lenders.

Alt 97SM

Alt 97 is a product that can help reach borrowers who have good credit but limited cash for a down payment. It incorporates many of the underwriting flexibilities of Affordable Gold, including expanded debt ratios. The 3 percent down payment can come from a combination of sources, such as gifts or grants. It is an ideal product for first-time homebuyers with limited funds. It is also an ideal product for borrowers with low equity to refinance their homes. In 2003, Freddie Mac added a refinance option and

reduced the fees associated with Alt 97, extending the reach of the product to more borrowers.

Two-Family 95 Percent LTV Product

Freddie Mac offers Loan Prospector customers the ability to make low down payment loans to purchasers of two-family properties when the borrowers occupy one of the units as their primary residence. Under this initiative, rental income from the other unit further helps many homebuyers afford their homes.

Section 8 Rental to Homeownership

See Answer under §307(f)(2)(C) above.

Individual Development Accounts

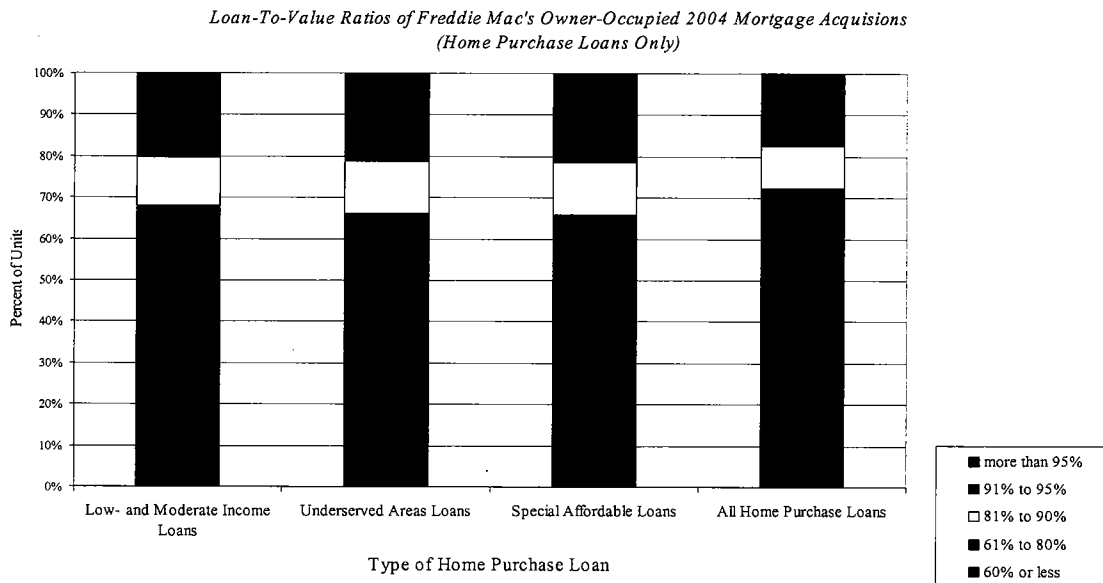
See Answer under §307(f)(2)(C) above.

(E) Include, in aggregate form and by appropriate category, the data provided to the Secretary under subsection (e)(1)(B) [loan-to-value ratios of purchased mortgages at the time of origination];

Over 79.8 percent of the total single-family, owner-occupied mortgage loans acquired by Freddie Mac in 2004 and for which we obtained LTV information had a LTV of 80 percent or less. Higher LTV loans between 80 percent and 95 percent constituted 18.0 percent of the 2004 acquired loans. Loans with an LTV of over 95 percent were 2.2 percent of the total loans.

Exhibit 14 illustrates that the LTV distribution on the goal qualifying, home purchase loans did not differ significantly from the LTV distribution of all home purchase loans. All categories had similar levels of low LTV loans and higher LTV loans.

**Exhibit 14
All Types Of Loans Have Similar LTVs**



Note: Excludes loans with missing LTV
Source: Table 6

(F) Compare the level of securitization versus portfolio activity;

Freddie Mac purchased more than \$494 billion of mortgages and mortgage-related securities in 2004. More than \$365 billion of these purchases resulted in the issuance of mortgage participation certificates (PCs) or structured securities (backed by non-Freddie Mac mortgage-related securities).³

As of December 31, 2004, there were more than \$1.209 trillion of Freddie Mac PCs and structured securities outstanding in the global capital markets. Of this amount, Freddie Mac held about \$357 billion in its retained portfolio, about 29.5 percent of total PCs outstanding. At year-end 2004, Freddie Mac's total retained mortgage portfolio was about \$653 billion, up 1.3 percent over year-end 2003.

All results are from the December 2004 Monthly Volume Summary (at <http://www.freddiemac.com/investors/volsum/pdf/1204mvs.pdf>), and are unaudited and subject to change.

³ This total excludes structured securities in which we have resecured existing PCs or other previously-issued structured securities, which totaled \$215 billion in 2004.

(G) Assess underwriting standards, business practices, repurchase requirements, pricing, fees, and procedures, that affect the purchase of mortgages for low- and moderate-income families, or that may yield disparate results based on the race of the borrower, including revisions thereto to promote affordable housing or fair lending;⁴

Freddie Mac constantly seeks to increase access to the mortgage finance system and keep families in their homes. To that end, we assess the likely impact of any changes to our underwriting standards, credit policies, servicing standards and other business practices on low-income and protected-class borrowers through careful quantitative and legal analysis.

Credit Policy, Underwriting Standards and Other Business Practices

Freddie Mac continues to use technology, such as Loan Prospector®, our automated underwriting system, to make the mortgage finance system more objective and fair. We take specific steps to ensure that LP (and other technology tools) is used in a way that promotes fairness and access to credit in the mortgage process. We periodically review these tools to ensure that they remain fair and unbiased.

LP does not make lending decisions. It instead provides a risk assessment to the lender of “accept” (meaning the mortgage meets Freddie Mac’s underwriting standards of purchase) or “caution,” which requires lenders to make a further review of the application before selling the mortgage to Freddie Mac. We believe that LP does a better job of distinguishing between high- and low-risk loans than manual underwriting, and that low- and moderate-income borrowers are more likely to obtain a mortgage on favorable terms through automated than manual underwriting.

In 2004, we continued to refine LP with an eye towards increasing the number of borrowers we can serve. As discussed above in answer to §307(f)(2)(D), one part of “Project Greenlight” gave LP new capabilities to “green light” more mortgage purchases. Specifically, we improved our Affordable Gold product to allow LP to automatically determine when a borrower meets the median income and property location requirements for these products. This eliminates the need for the lender to perform manual processes, making it easier for the lender to offer these products to qualified borrowers.

⁴ As implemented by §81.43(a) of the HUD’s regulations, 24 C.F.R. §81.43(a) (2004).

LP also helps reduce origination costs. We estimate that LP, on average, saves borrowers up to \$650 per loan as compared to manual underwriting. Lowering origination costs lowers barriers to homeownership, especially for low- and moderate-income families.

Freddie Mac assesses the likely impact of proposed changes to our underwriting standards on low-income and protected-class borrowers. We frequently solicit feedback from lenders, community and advocacy groups, and others in the housing finance system. We experiment with affordable housing initiatives designed to explore ways of expanding the availability of mortgage credit to more underserved families. We describe some of these initiatives in our answers to §307(f)(2)(C), (D), and (K) in this report.

Freddie Mac's underwriting guidelines and credit policies are crucial to our ability to maintain credit quality, but are also crucial to borrowers, because the origination of mortgages that end up in foreclosure can be disastrous for families and their neighborhoods. We seek to ensure, however, that our guidelines and policies are not misinterpreted or misunderstood to create unnecessary barriers for creditworthy borrowers through marketing and customer support materials and training.

From time to time, Freddie Mac provides favorable pricing on a negotiated basis, or may waive certain fees, to encourage lenders to sell Freddie Mac mortgages that meet the income-based and/or geographic criteria of the affordable housing goals.

Under our agreements with lenders, we have the right to request repurchase of mortgages sold to us if those mortgages do not comply with those agreements. As a result, we sometimes request sellers to repurchase mortgages sold to us, or to indemnify us against losses on those mortgages. We make repurchase requests on a case-by-case basis. In 2004, repurchase requests on performing mortgages (without regard to year of purchase) were .03 percent of 2004 single-family purchase volume.

Mortgage Servicing

At the end of 2004, the number of mortgages that Freddie Mac serviced was more than 10 million. We are constantly searching for new information that will help accurately assess risk of default and help families avoid mortgage foreclosures. Low- and moderate-income families and neighborhoods are particularly vulnerable to the harmful effects of foreclosures.

During the past few years, delinquency and foreclosure rates on mortgages purchased by Freddie Mac have dropped overall. At year-end 2004, the overall delinquency rate for Freddie Mac single-family mortgages was 73 basis points. Continued house price appreciation combined with lower interest rates has significantly contributed to this decline. Freddie Mac has also found that innovative tools to assist families who

encounter problems in making their mortgage payments also helps those families avoid foreclosure.

Active management of delinquent mortgages enables Freddie Mac and its servicers to help keep borrowers in their homes. In 2004, we were able to help some 40,000 families keep their homes through loan modifications, repayment plans and forbearance. Since 2000, some 145,000 families have benefited from these measures. This translates into 130 families every business day that were able to keep their homes.

Using Automated Tools to Preserve Homeownership

Freddie Mac has found that early intervention with troubled borrowers significantly decreases the likelihood of foreclosure; the longer a loan is delinquent, the greater the likelihood of foreclosure. For that reason, we provide automated tools that allow servicers to identify and work with borrowers most likely to encounter problems making their mortgage payments. In 1997, Freddie Mac introduced EarlyIndicator,[®] a state-of-the-art, statistically based delinquency management tool that assists the mortgage industry in helping more borrowers avoid foreclosure, makes delinquency management more effective and efficient for mortgage servicers, and reduces credit losses for investors.

In the summer of 2004, Freddie Mac released Version 5.0 of EarlyIndicator (EI), which is used to determine the likelihood of a loan becoming more seriously delinquent or continuing through to a loss-producing state. EI is comprised of 17 distinct models, which accommodate conventional, government and subprime loans. EI also generates two types of assessments: Collection (loans due for one payment) and Loss Mitigation (loans due for two or more payments, including loans in foreclosure). Collection measures are used to determine the likelihood of a borrower owing two payments, while loss mitigation measures assess the likelihood of a delinquent mortgage resulting in a loss (*i.e.*, REO, short payoff, third party sale, charge-off or deed-in-lieu of foreclosure). A Servicer can use EI to assess all delinquent loans in a portfolio, including conventional, conventional w/MI, FHA/VA, and subprime mortgages. By the end of 2004, 61 mortgage servicers (servicing more than 8.3 million of Freddie Mac's mortgages) had been licensed to use EI.

We also offer servicers a number of complementary default management tools, which allow them to manage delinquent mortgages, borrower workouts, and default and foreclosure expenses more efficiently.

High Touch Servicing

In November 2004, Freddie Mac, in collaboration with the Housing Partnership Network, a national non-profit intermediary, and servicers Wells Fargo and National City, launched the High-Touch Servicing initiative. The initiative is designed to improve early contact

