FEDERAL HOUSING FINANCE AGENCY
Office of the Director

March 16, 2009

Mr. John Koskinen
Interim Chief Executive Officer
Freddie Mac
8200 Jones Bridge Road
McLean, VA 22102-3107

Re: Final Feasibility Determination on 2008 Housing Goals Compliance

Dear Mr. Koskinen

In accordance with section 1336(b) of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (Safety and Soundness Act), the Federal Housing Finance Agency (FHFA) hereby notifies Freddie Mac of its final determination that there is a substantial probability of failure by Freddie Mac to meet its low- and moderate-income housing goal, special affordable housing goal, underserved areas goal, and three home purchase subgoals for 2008. The FHFA has also determined, however, that achievement of these goals and subgoals was not feasible. Accordingly, Freddie Mac is not required to submit a housing plan to FHFA pursuant to section 1336(c) of the Safety and Soundness Act.

Pursuant to section 1336(b) and implementing regulations, FHFA notified Freddie Mac on December 8, 2008 of its determination that there was a substantial probability that Freddie Mac would fail to meet its two income-based housing goals -- the low- and moderate-income housing goal and special affordable housing goal -- for 2008. The letter also notified Freddie Mac of FHFA's determination that there was a substantial probability that Freddie Mac would fail to meet all three of its home purchase subgoals for 2008 -- the low- and moderate-income home purchase subgoal, the underserved areas home purchase subgoal, and the special affordable home purchase subgoal. FHFA further stated that it had not determined the probability that Freddie Mac would fail to achieve its underserved areas goal for 2008.

By letter dated January 12, 2009, Freddie Mac responded that achievement of its goals and subgoals, including the underserved areas goal, for 2008 was unlikely. Freddie Mac subsequently notified FHFA that it had exceeded its 2008 multifamily special affordable subgoal of $3.92 billion. Freddie Mac requested that FHFA find the three housing goals and three home purchase subgoals infeasible for 2008, citing reasons for its conclusions about the infeasibility of these goals and subgoals.

Based on recent analysis, FHFA has made a final determination that there is a substantial probability of Freddie Mac's failure to meet the three housing goals and three home purchase subgoals for 2008. In determining whether these goals and subgoals were infeasible, FHFA took into consideration, with regard to the single-family mortgage market, the tightened underwriting standards adopted by Freddie Mac and others in the mortgage industry, the decreased availability of private mortgage insurance in the primary market, the sharp increase in the share of single-family mortgages insured by the Federal Housing Administration, the decrease in the goal-qualifying shares of conventional mortgages since the Department of Housing and Urban Development (HUD) established the 2008 goals in November 2004, and the sharp fall in the issuance of goal-rich private-label securities. With regard to Freddie Mac's purchases of multifamily mortgages, FHFA considered the decrease in the multifamily share of units financed by Freddie Mac in 2008, and the collapse of the Commercial Mortgage-Backed Securities market. FHFA also took into account the financial condition of Freddie Mac in 2008.

1700 G Street, N.W., Washington, D.C. 20552-0003 • 202-414-3800 • 202-414-3823 (fax)

FHFA does not believe that there is conclusive evidence that the 2008 underserved areas goal for Freddie Mac was infeasible from a market point of view. Freddie Mac's performance on this goal, as determined by HUD, was 42.3 percent in 2005, 42.7 percent in 2006, and 43.1 percent in 2007, significantly above the 2008 goal of 39 percent. FHFA believes that, while the housing market and economic conditions discussed in the preceding paragraph made it difficult for Freddie Mac to meet the underserved areas goal, these conditions did not make the goal infeasible. FHFA has considered Freddie Mac's financial condition. FHFA placed Freddie Mac into conservatorship in September 2008, and Freddie Mac has drawn substantial sums under the preferred stock agreement with the Department of the Treasury. In light of the adverse financial condition of Freddie Mac in 2008, FHFA has determined that the underserved area goal, in retrospect, might be seen as a stretch goal, but not an infeasible goal.

In the economic analysis accompanying its final housing goals rule for 2005-08, HUD stated that even though the housing goals and subgoals levels were based on market share ranges that covered more adverse economic and market affordability conditions than existed at that time, changing economic conditions could decrease the goal-qualifying shares of the conventional mortgage market during 2005-08. FHFA has determined that actual economic conditions in 2008 limited the relative number of mortgages qualifying for the two income-based goals and three home purchase subgoals. Based on the housing market and economic conditions in 2008, FHFA has concluded that achievement by Freddie Mac of the low- and moderate-income housing and special affordable housing goals and three home purchase subgoals was not feasible in 2008. Based on Freddie Mac's financial condition in 2008, FHFA has concluded that achievement by Freddie Mac of the underserved areas goal was feasible, but challenging, in 2008. Accordingly, FHFA has determined that Freddie Mac is not required to submit a housing plan to FHFA pursuant to section 1336(c) of the Safety and Soundness Act.

FHFA anticipates receiving Freddie Mac's 2008 Annual Housing Activities Report, goal performance tables, and loan-level data no later than March 16, 2009, and FHFA will determine Freddie Mac's official 2008 housing goals and subgoals performance later this year. FHFA will also continue its ongoing discussions with Freddie Mac regarding its plans to meet the 2009 goals, including the underserved areas goal.

Sincerely,

Edward J. DeMarco
Chief Operating Officer
Senior Deputy Director for Housing Mission and Goals

xc: The Honorable Christopher J. Dodd
Chairman, Committee on Banking, Housing, and Urban Affairs
United States Senate

The Honorable Barney Frank
Chairman, Committee on Financial Services
U. S. House of Representatives

Robert Y. Tsien, CFA
Senior Vice President for Mission Oversight & Development
Freddie Mac