ANNUAL HOUSING ACTIVITIES REPORT FOR 2007

FEDERAL HOME LOAN MORTGAGE CORPORATION

MARCH 14, 2008
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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 2007 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).¹

¹ The statistical and financial information included in this report and in the tables attached to this report may not be comparable to information provided in Freddie Mac's public disclosure documents, including Monthly Volume Summaries, Information Statements and Information Statement Supplements, as the statistical and financial information included in this report and in the tables has been compiled and aggregated in accordance with specific HUD guidelines.

The information presented in the exhibits (and described in the related discussion) is derived from, and qualified by reference to, certain tables included in Freddie Mac's 2007 Annual Mortgage Report (2007 AMR), which is being delivered to HUD concurrently with this report. Some of the tables in the 2007 AMR are proprietary and not available to the general public.
A. Information Required Under § 307(f)(2)(A)

§ 307(f)(2)(A) requires that this report 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.

As set forth below, Freddie Mac is reporting that it exceeded all three of the 2007 annual housing goals and the multifamily subgoal, and one of the three home purchase subgoals established by HUD, despite difficult market and economic conditions. While Freddie Mac exceeded primary market origination levels for the low- and moderate-income and special affordable subgoals, Freddie Mac is reporting that it did not achieve the two income-based subgoals for 2007. We submitted an infeasibility analysis to HUD in January 2008 demonstrating that the 2007 low- and

2 Pursuant to § 1331(a) of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, 12 U.S.C. § 4561(a), the Secretary of HUD establishes affordable housing goals (the housing goal or housing goals) for Freddie Mac and the Federal National Mortgage Association (Fannie Mae) (collectively, the GSEs) each year. These housing goals are:

- Low- and Moderate-Income Housing Goal (12 U.S.C. § 4562): An annual goal for the purchase of mortgages on housing for low- and moderate-income families. ("Low-income families" are families with incomes at or below 80 percent of the area median income, and "moderate-income families" are families with incomes at or below 100 percent of the area median income).

- Central Cities, Rural Areas, and Other Underserved Areas Housing Goal (12 U.S.C. § 4564): An annual goal for the purchase of mortgages on housing located in central cities, rural areas and other underserved areas.

- Special Affordable Housing Goal (12 U.S.C. § 4563): An annual goal for the purchase of mortgages on rental and owner-occupied housing for low-income families in low-income areas and for very low-income families. ("Low-income areas" are census tracts in which the median area income does not exceed 80 percent of the area median income, and "very low-income families" are families with incomes at or below 60 percent of the area median income.)

The housing goals are expressed in percentage terms, as the minimum percentage of the total eligible housing units financed by a GSE's mortgage purchases in a particular year, and include units financed by the GSE's purchase of both single-family and multifamily mortgages. Housing units may count towards more than one housing goal category. In addition, both purchase and refinance mortgages count toward the housing goals. In this report, we generally discuss our performance on the housing goals in terms of units, not mortgages, as we track and measure our performance on the housing goals in terms of units.

HUD regulations that were published in 2004 and took effect in 2005 established home purchase subgoals under each of the housing goals. The home purchase subgoals apply specifically to mortgages that finance the purchase (not refinance) of single-family, owner-occupied properties located in metropolitan areas. The home purchase subgoals are expressed as percentages of the total number of mortgages purchased by the GSEs that finance the purchase (not refinance) of single-family, owner-occupied properties located in metropolitan areas.

In addition, the 1995 HUD regulations established a special affordable multifamily subgoal under the Special Affordable housing goal. The multifamily subgoal sets a minimum dollar volume of qualifying multifamily mortgage purchases that each GSE must meet annually.
moderate-income and special affordable home purchase subgoals were infeasible because the subgoal targets exceeded market origination levels in 2007 to an insurmountable degree. The gap arose from three factors: the escalation in income-based subgoals levels, the unforeseen precipitous drop in housing affordability beginning in 2005, and the unanticipated collapse of the subprime sector and consequent liquidity crisis beginning in mid-2007.

Freddie Mac's performance on the annual housing goals and the multifamily subgoal for 2007

In 2007, Freddie Mac purchased over 2.6 million mortgages on single-family properties, and over 6,300 mortgages on multifamily properties. ³

Low- and Moderate-Income Goal

55.98 percent of the units financed by Freddie Mac's mortgage purchases in 2007 were for low- and moderate-income families. These purchases totaled $177.7 billion in unpaid principal balance and financed over 1.7 million units. The low- and moderate-income housing goal for 2007 was 55 percent of the total number of units financed by our mortgage purchases.

Underserved Areas Goal

43.19 percent of the units financed by Freddie Mac's mortgage purchases in 2007 were located in underserved areas. These purchases totaled $184.1 billion in unpaid principal balance and financed over 1.3 million units. The underserved areas goal for 2007 was 38 percent of the total number of units financed by our mortgage purchases.

Special Affordable Housing Goal and Multifamily Special Affordable Subgoal

25.65 percent of the units financed by Freddie Mac's mortgage purchases in 2007 were for low-income families in low-income areas or to very low-income families. These purchases totaled $60.3 billion in unpaid principal balance and financed over 787,000 units. The special affordable housing goal for 2007 was 25 percent of the total number of units financed by our mortgage purchases.

In addition, $15.4 billion of the multifamily mortgages purchased by Freddie Mac were qualifying multifamily mortgage purchases for the multifamily special affordable subgoal, financing over 341,000 units. This was more than $11.5 billion above the 2007 requirement of $3.9 billion of qualifying multifamily mortgage purchases.

³ The vast majority of these single-family and multifamily mortgages funded "eligible housing units" for purposes of the housing goals, and thus were used as the basis for calculating our performance on the housing goals. See Table 1 of the 2007 AMR for more information.
Freddie Mac's performance on the home purchase subgoals for 2007

In 2007, Freddie Mac purchased over 1.0 million single-family, owner-occupied home purchase mortgages located in metropolitan statistical areas.  

Low- and Moderate-Income Subgoal

43.53 percent of the single-family, owner-occupied home purchase mortgages financed by Freddie Mac during 2007 were for low- and moderate-income families. These purchases consisted of over 396,000 mortgages. The low- and moderate-income subgoal for 2007 was 47 percent of the total number of single-family, owner-occupied home purchase mortgages financed by Freddie Mac during 2007.

Underserved Areas Subgoal

33.77 percent of the single-family, owner-occupied home purchase mortgages financed by Freddie Mac during 2007 were in underserved areas. These purchases consisted of over 307,000 mortgages. The underserved areas subgoal for 2007 was 33 percent of the total number of single-family, owner-occupied home purchase mortgages financed by Freddie Mac during 2007.

Special Affordable Housing Subgoal

15.88 percent of the single-family, owner-occupied home purchase mortgages financed by Freddie Mac during 2007 were for low-income families in low-income areas or to very low-income families. These purchases consisted of over 144,000 mortgages. The special affordable housing subgoal for 2007 was 18 percent of the total number of single-family, owner-occupied home purchase mortgages financed by Freddie Mac during 2007.

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4 The vast majority of these mortgages were eligible mortgages for purposes of the home purchase subgoals, and thus were used as the basis for calculating our performance on the subgoals. See Tables 1 and 1A of the 2007 AMR for more information.
Exhibit 1:
Freddie Mac's Performance on the
2007 Housing Goals and Home Purchase Subgoals

Source: Table 1 of the 2007 AMR
Freddie Mac's 2007 mortgage purchases supported a range of affordable housing opportunities for America's families. As illustrated in Exhibit 2, a significant portion of the mortgages purchased by Freddie Mac that qualified for the housing goals financed rental units. Approximately 44.9 percent of the total units qualifying for the low- and moderate-income housing goal were rental units (both single-family rental and multifamily rental). Multifamily units (properties with five or more units) represented 34.9 percent of the total units meeting the goal, while rental units in single-family properties represented 10.0 percent. Rental properties represented 40.3 percent of the total units qualifying for the underserved areas housing goal and 56.2 percent of the total units meeting the special affordable housing goal.

**Exhibit 2:**
Freddie Mac's 2007 Housing Goals Purchases by Property Type

<table>
<thead>
<tr>
<th></th>
<th>Low- and Moderate-Income</th>
<th>Underserved Areas</th>
<th>Special Affordable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Multifamily Rental</td>
<td>34.9%</td>
<td>27.1%</td>
<td>43.3%</td>
</tr>
<tr>
<td>Single-Family Rental</td>
<td>10.0%</td>
<td>13.2%</td>
<td>12.8%</td>
</tr>
<tr>
<td>Single-Family Owner-Occupied</td>
<td>55.2%</td>
<td>59.7%</td>
<td>43.8%</td>
</tr>
</tbody>
</table>

Source: Tables 1A and 1B of the 2007 AMR
Exhibit 3 shows for each affordable housing goal category the dollar volume of goal-qualifying mortgages that Freddie Mac purchased in 2007, and the number of units financed by goal-qualifying mortgages.

### Exhibit 3: Freddie Mac's 2007 Mortgage Purchases Meeting Affordable Housing Goals

<table>
<thead>
<tr>
<th></th>
<th>Low- and Moderate-Income Housing Goal</th>
<th>Underserved Areas Housing Goal</th>
<th>Special Affordable Housing Goal</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Volume ($billions)</td>
<td>Units Financed</td>
<td>Volume ($billions)</td>
</tr>
<tr>
<td><strong>Single-Family</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Owner-Occupied</td>
<td>$143.5</td>
<td>1,113,080</td>
<td>$162.3</td>
</tr>
<tr>
<td>Rental</td>
<td>$126.8</td>
<td>942,585</td>
<td>$141.5</td>
</tr>
<tr>
<td><strong>Multifamily Rental</strong></td>
<td>$16.8</td>
<td>170,495</td>
<td>$20.8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$34.2</td>
<td>595,874</td>
<td>$21.8</td>
</tr>
</tbody>
</table>

Source: Tables 1, 1A and 1B of the 2007 AMR

**Notes:**
1. Owner-occupied units with missing income information and rental units with missing rent information are not included in the single-family dollar volumes.
2. Single-family rental consists of rental units in investor-owned properties with 1 to 4 rental units and owner-occupied properties with 1 to 3 rental units.
3. Columns may not sum due to rounding.
B. Information Required Under § 307(f)(2)(B)

§ 307(f)(2)(B) requires that this report 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.

Freddie Mac's mortgage purchases during 2007 financed an aggregate of 3,260,179 units of housing, consisting of 2,327,252 units of owner-occupied housing and 932,927 units of rental housing. Exhibit 4 shows that Freddie Mac's purchases of mortgages funding rental housing supported 289,392 rental units (31.0 percent) in single-family properties and 643,535 rental units (69.0 percent) in multifamily properties.

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**Exhibit 4:**
Freddie Mac's 2007 Mortgage Purchases
Support Single-Family and Multifamily Rental Opportunities

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5 The term "housing units" generally refers to a property or a portion thereof intended for use as a dwelling for one or more persons. In this report, we generally assume that a family would occupy one housing unit.
Serving Low- and Moderate-Income Homeowners

Through its mortgage purchases, Freddie Mac finances mortgages for families across a broad income spectrum. As shown in Exhibit 5, the income range for approximately 95 percent of the families whose single-family home purchase mortgages or refinance mortgages were acquired by Freddie Mac in 2007 was between $10,000 and $200,000. The mean income of families whose home purchase mortgages were purchased by Freddie Mac was $89,697; the mean income of families whose refinance mortgages were purchased by Freddie Mac was $84,538.

Exhibit 5:
Freddie Mac Serves Borrowers of All Incomes
Borrower Income of 2007 Single-Family, Owner-Occupied Mortgage Purchases

Source: Freddie Mac internal data
During 2007, Freddie Mac purchased single-family mortgages supporting 2.3 million owner-occupied units of housing. As can be seen from Exhibit 6, 41.1 percent (930,908 units) were attributable to families with incomes at or below 100 percent of the area median income, 26.1 percent (592,584 units) were attributable to families whose incomes were 80 percent or less of the local area median income, and 6.4 percent (145,411 units) were attributable to families whose incomes were 50 percent or less of the local area median income.6

Exhibit 6:
Freddie Mac Supports Affordable Homeownership
Borrower Income on Owner-Occupied Units Financed by Freddie Mac in 2007

Source: Table 2 of the 2007 AMR

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6 We do not have borrower income information with respect to 2.6 percent (59,668) of the owner-occupied units in the single-family mortgages financed in 2007. Therefore, we excluded those units from the calculations underlying the information presented in this section and in Exhibit 6.
Serving Racially and Ethnically Diverse Families

In 2007, Freddie Mac's single-family mortgage purchases financed homes for 532,736 minority families. This included 254,338 families with a Hispanic borrower or co-borrower, 154,698 families who classified their race as African-American, 106,280 families who classified their race as Asian, and 35,734 families from other minority groups. Freddie Mac's purchases of mortgages made to minority families during 2007 comprised 25.6 percent of our single-family mortgage purchases for which the race and/or ethnicity of the borrower was known. As illustrated in Exhibit 7A, the minority purchase rate in 2007 was slightly higher than in 2006. As shown in Exhibit 7B, which provides information on Freddie Mac's purchase rate for specific minority groups, the improvement was largely attributable to an increase in the purchase of mortgages to Hispanic families.

Exhibit 7A:
Freddie Mac's Purchase Rate of Single-Family Minority Mortgages
Minority Status of Borrowers

<table>
<thead>
<tr>
<th>Race/Ethnicity on Mortgage Application</th>
<th>Percentage of Units</th>
</tr>
</thead>
<tbody>
<tr>
<td>White</td>
<td>73.6%</td>
</tr>
<tr>
<td>Minority</td>
<td>74.8%</td>
</tr>
<tr>
<td>Minority</td>
<td>74.4%</td>
</tr>
<tr>
<td>White</td>
<td>26.4%</td>
</tr>
<tr>
<td>Minority</td>
<td>25.2%</td>
</tr>
<tr>
<td>Minority</td>
<td>25.6%</td>
</tr>
</tbody>
</table>

Source: Table 7A of the 2005-2007 AMR.
Note: The "White" category contains non-Hispanic Whites while the "Minority" category contains the total remainder of borrowers.

7 In 2006, following consultations with HUD, Freddie Mac adopted a new counting protocol for reporting race and ethnicity information in AMR Tables 7A and 7B, which replaced the previous AMR Table 7. For comparison purposes, we have re-calculated the race, ethnicity and minority results for 2005 presented in Exhibits 7A and 7B using the new counting protocol.
8 The Hispanic borrower category overlaps with other minority categories, since borrowers may define themselves to be of Hispanic ethnicity and also belong to one or more racial classifications. Therefore, the sum of the individual classifications presented in this sentence (551,050 minority families) exceeds the total minority count of 532,736 minority families.
9 Minority shares exclude mortgages where (a) ethnicity is non-Hispanic and race is missing, (b) race is White and ethnicity is missing, or (c) both race and ethnicity are missing. Because of missing race or ethnicity data, we excluded 20.4 percent (533,231) of the units in the single-family mortgages we purchased in 2007 from the calculations underlying the information presented in this section and in Exhibits 7A and 7B.
Exhibit 7B:
Freddie Mac's Purchase Rate of Single-Family Minority Mortgages
Race/Ethnicity of Minority Borrowers

Source: Tables 7A and 7B of the 2005-2007 AMR.
Note: The "Other" category includes American Indian or Alaskan Native, Native Hawaiian or Other Pacific Islander, loans that have white and minority co-borrowers, and loans where a borrower defines him or herself to be of two or more races.
Serving Households Headed by Both Genders

In 2007, 43.0 percent of the single-family mortgages purchased by Freddie Mac financed homes for male/female co-borrowers, 32.6 percent financed homes for male borrowers (any co-borrowers on these mortgages were male as well), and 24.4 percent financed homes for female borrowers (any co-borrowers on these mortgages were female as well).10

Providing Affordable Rental Opportunities

As demonstrated in Exhibit 8, 90.8 percent, or 735,687, of the rental units in the properties underlying the single-family and multifamily mortgages we purchased in 2007 had rent levels affordable to families making 100 percent or less of the local area median income. In particular, 18.0 percent (145,719 units) had rent levels affordable to families making 50 percent or less of the local area median income, and 76.2 percent (617,273 units) had rent levels affordable to families making 80 percent or less of the local area median income.11

Exhibit 8: Freddie Mac Supports Affordable Rental Housing

Source: Tables 3 and 4 of the 2007 AMR

10 We do not have information on the borrower's gender with respect to 12.0 percent (313,420) of the units in the single-family mortgages we purchased. Therefore, we excluded those mortgages from the calculations underlying the information presented in this section.

11 We do not have rent information with respect to 13.1 percent (122,519) of the rental units related to single-family and multifamily mortgages we purchased in 2007. Therefore, we excluded those units from the calculations underlying the information presented in this section and in Exhibit 8.
In 2007, Freddie Mac purchased mortgages for single-family rental properties (involving properties with between one and four rental units) with an unpaid principal balance of $36.4 billion, of which more than $5.8 billion financed owner-occupied properties (48,511 units) and nearly $30.6 billion financed investor-owned properties (240,881 units).

As indicated in Exhibit 9, of the single-family rental units we financed in 2007 for which we have rental information, 82.7 percent (155,071 units) had rent levels affordable to families making 100 percent or less of the local area median income. In particular, 22.4 percent (42,008 units) were affordable to families with incomes at or below 50 percent of the area median income, and 66.0 percent (123,900 units) were affordable to families with incomes at or below 80 percent of median income.\textsuperscript{12}

\textbf{Exhibit 9:}
\textbf{Freddie Mac Supports Affordable Single-Family Rental Units}
\textbf{Rent Affordability of Units Financed by Freddie Mac's 2007 Single-Family Purchases}

\begin{center}
\begin{tabular}{cccccc}
& 50\% or Less & 60\% or Less & 80\% or Less & 100\% or Less & 120\% or Less \\
Cumulative Percentage of Units & 22.4\% & 38.1\% & 66.0\% & 82.7\% & 90.5\% \\
\end{tabular}
\end{center}

\textit{Area Median Income (AMI) Categories}

Source: Table 3 of the 2007 AMR

\textsuperscript{12} We do not have rent information with respect to 35.2 percent (101,782) of the rental units in the single-family mortgages we purchased in 2007. Therefore, we excluded those units from the calculations underlying the information presented in this section and in Exhibit 9.
In 2007, Freddie Mac's multifamily mortgage purchases and related activities (involving properties with five or more rental units) totaled $41.1 billion ($18.0 billion of mortgage purchases and $23.1 billion in credit enhancements, risk sharing, and securities purchases). Through multifamily mortgage purchases and related activities, Freddie Mac helps make rental housing affordable to very low-, low- and moderate-income households.

Our multifamily activities financed 643,535 units of rental housing in 2007. Of the multifamily rental units for which we have rental information, 93.2 percent were affordable to renters with incomes at or below the median income for their residential area.¹³

Freddie Mac's multifamily financing activities play a vital role in our service to very low-, low- and moderate-income families. As illustrated in Exhibit 10, of the multifamily units we financed in 2007 for which we have rental information, 16.7 percent were affordable to families with incomes at or below 50 percent of the area median income. Cumulatively, 79.2 percent of our multifamily units were affordable to families with incomes at or below 80 percent of median income. Only 6.8 percent of the multifamily units we financed in 2007 had rents affordable only to families with incomes above the local area median. As indicated above, our multifamily financing activities in 2007 included the purchase of $15.4 billion in mortgages meeting the criteria for the multifamily special affordable housing subgoal (mortgages serving low-income families living in low-income neighborhoods or very low-income families).

Exhibit 10:
Freddie Mac Supports Affordable Multifamily Rental Units
Rent Affordability of Units Financed by Freddie Mac's 2007 Multifamily Purchases

<table>
<thead>
<tr>
<th>Cumulative Percentage of Units</th>
<th>0%</th>
<th>20%</th>
<th>40%</th>
<th>60%</th>
<th>80%</th>
<th>100%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Area Median Income (AMI) Categories</td>
<td>50% or Less</td>
<td>60% or Less</td>
<td>80% or Less</td>
<td>100% or Less</td>
<td>120% or Less</td>
<td></td>
</tr>
<tr>
<td>16.7%</td>
<td>41.0%</td>
<td>79.2%</td>
<td>93.2%</td>
<td>96.8%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Table 4 of the 2007 AMR

¹³ We do not have rent information with respect to 3.2 percent (20,737) of the rental units in the multifamily mortgages we purchased in 2007. Therefore, we excluded those units from the calculations underlying the information presented in this section and in Exhibit 10.
Serving Families Nationwide

Freddie Mac's nationwide network of lenders enables us to serve families all over the United States. As shown in Exhibit 11, the housing units financed by Freddie Mac's 2007 mortgage purchases were distributed across the U.S. in similar proportions to the distribution of the stock of occupied housing units, as measured by the 2006 American Community Survey of the U.S. Census. The difference between the distribution of housing units financed by Freddie Mac's mortgage purchases in 2007 and the overall housing stock distribution in 2006 is due, in part, to differences in mortgage market activity between regions and regional variation in Freddie Mac's share of the housing units financed in 2007.  

Exhibit 11:  
Freddie Mac Serves Homeowners Across the Nation  
Freddie Mac’s 2007 Mortgage Units Compared to 2006 Occupied Housing Units by Census Region

[Map showing distribution of Freddie Mac's mortgage purchases by Census region]

Source: Table 14 of the 2007 AMR and 2006 American Community Survey  
Does not include Puerto Rico, Guam or US Virgin Islands.

14 In this section, we use the 2006 distribution of housing stock as a benchmark for our performance, because a direct measure of the overall mortgage market for 2007 is not available as of the date of this report. The best known measure of total mortgage market activities is the Home Mortgage Disclosure Act (HMDA) data. However, as of the date of this report, HMDA data are only available for 2006. It should also be noted that the HMDA data do not capture all multifamily housing activities, which limits the usefulness of the data.
In 2007, Freddie Mac purchased mortgages supporting owner-occupied and rental housing in a variety of neighborhoods. For owner-occupied housing, as illustrated in Exhibit 12, 15.9 percent of the owner-occupied units we financed in 2007 were located in census tracts in which 50 percent or more of the residents were minorities as measured by the 2000 U.S. Census. A total of 64.1 percent of the units we financed were located in census tracts in which at least 10 percent of the residents were minorities.

Exhibit 12:
Freddie Mac's Purchases Support Homeownership in Diverse Neighborhoods
Location of Freddie Mac's 2007 Single-Family, Owner-Occupied Purchases
by Minority Concentration

Source: Table 11 of the 2007 AMR
For rental housing, as illustrated in Exhibit 13, about 30.7 percent of the single-family and multifamily rental units we financed during 2007 were located in census tracts in which 50 percent or more of the residents were minorities as measured by the 2000 U.S. Census. Approximately 86.3 percent of the rental units we financed were located in census tracts in which at least 10 percent of the residents were minorities.

Exhibit 13:
Freddie Mac's Purchases Support Rental Units in Diverse Neighborhoods
Location of Freddie Mac's 2007 Rental Properties by Minority Concentration

Source: Table 12 of the 2007 AMR
C. Information Required Under § 307(f)(2)(C)

§ 307(f)(2)(C) requires that this report 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 works in conjunction with federal public subsidy programs that support homeownership and rental housing in a number of ways, including:

• purchasing single-family mortgages in conjunction with federal subsidy programs that assist borrowers by subsidizing down payments and closing costs and/or by reducing interest rates on first or second mortgages;
• purchasing single-family mortgages that are guaranteed or insured through federal programs;
• helping to build and renovate low-income rental properties through the federal Low-Income Housing Tax Credit (LIHTC) program;
• purchasing tax-exempt mortgage revenue bonds backed by mortgages that utilize a tax exempt structure to assist borrowers by reducing the interest rate on the underlying mortgages; and
• providing credit enhancements for tax-exempt bonds issued by state housing finance agencies to fund the development of affordable housing.

Described below are examples of Freddie Mac products and offerings used in 2007 in conjunction with federal programs to increase the opportunity for homeownership.

Affordable Seconds

Most of our affordable mortgage products allow for the combination of a subsidized second mortgage (known as an Affordable Second) with a first mortgage. Freddie Mac purchases the first mortgage through our standard mortgage purchase process and the lender or other entity holds the second mortgage. Many Affordable Second mortgages are subsidized using federal funds, including funds from HUD's HOME Investment Partnerships (HOME) and Community Development Block Grant (CDBG) programs. Since the borrower may use the proceeds of the Affordable Second to pay the down payment and closing costs, Affordable Seconds reduce a significant barrier to homeownership by allowing all or a portion of these costs to be financed as part of the mortgage financing. With Affordable Seconds, Freddie Mac allows total financing of the first mortgage and the Affordable Second up to 105 percent of the value of the property, and allows the first mortgage (purchased by Freddie Mac) to be up to 100 percent of the value of the property.
Section 8 Homeownership Program

Freddie Mac works with public housing agencies to support HUD's Homeownership Voucher Program under Section 8 of the U.S. Housing Act of 1937 (Section 8). This innovative HUD program allows borrowers to apply their Section 8 housing vouchers towards their mortgage payments. Freddie Mac permits lenders to deduct the full amount of the housing voucher from the mortgage payment before applying qualification ratios, which can greatly increase the borrower's ability to qualify for a mortgage. Lenders can also add the amount of the housing voucher to a borrower's stable monthly income to help the borrower qualify for a mortgage. Under this program, borrowers receive credit counseling and homeownership counseling.

Individual Development Accounts

All of our affordable mortgage products permit borrowers to make down payments consisting of funds that have been accumulated through an Individual Development Account (IDA) homebuyers savings program. IDA savings programs require that a borrower make regular deposits to a savings account established to save toward the purchase of a home. A governmental agency, nonprofit organization, lender or employer matches the borrower's savings.

Federal Loan Guarantee Programs

Freddie Mac purchases mortgages backed by many federal guarantee and/or insurance programs, including the U.S. Department of Agriculture's (USDA) Guaranteed Rural Housing Program (both Section 502 and leveraged lending), HUD's Section 184 Indian Housing Loan Guarantee Program, and programs operated by the Federal Housing Administration and the Department of Veterans Affairs. These federally-backed programs are designed for borrowers with specific needs that may not be adequately addressed through conventional mortgage products. We provide liquidity and efficiency to this market by purchasing and/or securitizing these mortgages.

Low-Income Housing Tax Credits

In 2007, Freddie Mac continued to be a leader in the LIHTC market. We invest as a limited partner in qualified LIHTC partnerships formed for the purpose of providing funding for affordable multifamily rental properties. In 2007, we invested $458.3 million in LIHTCs. Our total gross investment in LIHTCs now exceeds $7 billion.

LIHTC investments are an effective tool for the development of affordable rental housing that combines private sector capital, government incentives and community-based housing expertise.

Our investment in LIHTCs 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 376,740 rental units for very low- and low-income families in 5,064 affordable multifamily housing communities in all 50 states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands and Guam. 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.

For additional details relating to our investments in LIHTCs, please see the subsection titled Targeted Affordable Housing and Structured Transactions in Section H below.
D. Information Required Under § 307(f)(2)(D)

§ 307(f)(2)(D) requires that this report 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 2007, Freddie Mac purchased 362,874 mortgages of first-time homebuyers, representing 36.8 percent of the owner-occupied, purchase money mortgages for which we have information on the borrower's ownership history.\(^{15}\) We acquired 69.3 percent of the first-time homebuyer purchase money mortgages under our standard processes, while 30.7 percent were acquired under various homebuyer initiatives. These results suggest that specially-targeted initiatives, such as those described in this report, can help a significant number of families overcome barriers to owning their first home.

Described below are some of the creative initiatives and mortgage products that we employed in 2007 to assist families achieve homeownership. Many of these initiatives and products are designed to help low- and moderate-income borrowers overcome barriers to homeownership, and do not exclusively target first-time homebuyers. However, by helping reduce barriers to homeownership, these initiatives and products help more borrowers buy their first home.

Home Possible®

The Home Possible suite of mortgage products is designed to include many of the features we have successfully tested over the last several years and provide them in one group of products available to all of our customers. These products reduce barriers to homeownership by reducing the minimum required down payment and providing flexible credit and payment terms. Home Possible's features also make it a viable product for assisting borrowers with little equity who need to refinance subprime loans or loans subject to substantial rate increases.

Home Possible accomplishes these objectives by:

- being available to all Freddie Mac Seller/Servicers with no negotiated contracting required (the offering is available under our Single-Family Seller/Servicer Guide);
- using our automated underwriting tool Loan Prospector® (LP), which provides timely and consistent loan assessments;

\(^{15}\) We do not have information on the borrower's ownership history for 2.4 percent (24,482) of the single-family, owner-occupied, purchase money mortgages we purchased in 2007. Therefore, we excluded those mortgages from the calculations underlying the information presented in this section.
• offering flexible credit terms – Home Possible offers expanded underwriting payment ratios and options for borrowers who may have less-than-perfect credit;
• allowing Home Possible mortgages to be originated as adjustable rate mortgages;
• allowing Home Possible mortgages to finance 2-to-4 unit properties;
• allowing loan-to-value (LTV) ratios up to 97 percent on 2-unit properties;
• allowing LTV ratios up to 95 percent on 3-to-4 unit properties;
• allowing for flexible sources of funds for down payments, closing costs, financing costs, prepaid items and escrow expenses;
• providing affordable housing options, including manufactured homes and mortgages secured by cooperative units;
• allowing the use of mortgage credit certificates (MCCs) to assist more borrowers in qualifying;
• permitting reduced mortgage insurance coverage, which lowers a borrower's monthly payments and allows more borrowers to qualify for a mortgage;
• allowing Rural Housing Service leveraged second loans;
• providing a 97% LTV product with 3% borrower funds contribution and a reduced post-settlement delivery fee; and
• allowing flexible Affordable Seconds financing options, which expand the funding sources available to borrowers for down payment and closing costs.

One of the most innovative features of Home Possible is the Neighborhood SolutionSM mortgage. Under Neighborhood Solution, teachers, firefighters, law enforcement officers, healthcare workers and, since 2007, military personnel, receive additional underwriting flexibility that helps them buy homes in the communities they serve. These underwriting features include expanded debt-to-income ratios and two temporary subsidy buydown plans, which substantially increase a borrower's buying power. Neighborhood Solution is available under two of our affordable products, the Home Possible 100 mortgage and the Home Possible 97 mortgage.

Beginning in 2007, we made Home Possible Neighborhood Solution mortgages available to members of the United States armed forces. Active duty and recently separated and retired military and military reservists are eligible for higher debt payment-to-income ratios and mortgage payment reduction through the use of a temporary interest rate subsidy buydown plan. Additionally, we implemented a number of local lending initiatives in 2007 focused on supporting the military. For example, we launched an initiative with Navy Federal Credit Union in Virginia's Tidewater/Hampton Roads area, which includes the use of Freddie Mac's Get The Facts! Workshop and Navy Federal Credit Union's "Active Choice" mortgage product. We also implemented an initiative with Central National Bank to educate military personnel at Ft. Riley, Kansas on financial literacy, homeownership, mortgage credit and predatory lending issues.
Freddie Mac 100

For some families, the largest barrier to homeownership is the lack of funds for a down payment. To help alleviate this problem, Freddie Mac offers the Freddie Mac 100 mortgage product. The Freddie Mac 100 allows a 100 percent LTV ratio and requires only that the borrower contribute his or her own funds (including gift funds) to the transaction in an amount equal to the lesser of three percent of the loan amount or $500 to pay closing costs. The Freddie Mac 100 is also available to borrowers who may not have been able to refinance their mortgages because they had little or no equity in their homes.

Affordable Seconds

Another major challenge for many first-time homebuyers is accumulating funds for various closing costs such as origination costs, 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 allows families to receive an Affordable Seconds mortgage in conjunction with the Home Possible suite of mortgages. This allows low- and moderate-income borrowers to use subsidized secondary financing to qualify for affordable mortgages. Payments on the subsidized secondary financing may be excluded from the borrower's debt-to-income ratio if they are deferred for at least the first five years. For more information, please see the subsection titled Affordable Seconds in Section C above.

Affordable Seconds are available on all Freddie Mac Home Possible mortgages as well as the ALT 97® and Freddie Mac 100 products.

Alt 97

Freddie Mac's Alt 97 product can help borrowers who have good credit but limited cash savings for a down payment. The Alt 97 product provides for a three percent down payment, which the borrower can fund from a combination of nontraditional sources, such as gifts or grants. The Alt 97 is designed for first-time homebuyers with limited funds and for borrowers with low equity who want to refinance their homes to take advantage of lower rates and/or better terms.

Workforce Housing

We expanded Workforce Home Benefit (WHB), our employer-assisted initiative, during 2007 to include more products and options for participating lenders and employers. For more information, please see the subsection titled Workforce Home Benefit in Section K below.

In early 2006, HUD provided guidance to Freddie Mac on marketing our WHB initiatives. The WHB initiatives we helped to establish were carefully tailored to conform to HUD's guidance. We confine our WHB marketing activities to those that are...
business-to-business only. Moreover, Freddie Mac does not recommend one specific lender to the employer. We present our WHB plans to employers and assist with implementation and administration. However, only the appropriate providers, including lenders, loan counselors, affordable housing counselors and providers, real estate professionals, and other primary market providers, have direct interaction with employees.

Also in 2007, Freddie Mac updated the WHB Toolkit. The updated Toolkit offers a wide range of information from homebuyer education to forgivable loans and matched savings accounts.

New Market Lending

In late 2007, Freddie Mac introduced "New Market Lending … Resources to Grow Your Business." The New Market Lending initiative provides lenders with valuable information to help them understand the potential growth areas to expand their business. Resources include "market snapshots" and Community Reinvestment Act (CRA) and Lending Opportunities maps. The market snapshots help lender customers identify potentially underserved areas. The data includes median household income, housing tenure for owners and renters, housing affordability and median existing home prices.

Guaranteed Rural Housing

Freddie Mac is working with the USDA's Rural Housing Service on further use of the Section 502 guaranteed rural housing (GRH) program. The GRH program allows for LTV ratios up to 102 percent that include the financing of the guarantee provided by the agency. This enhancement reduces the out-of-pocket costs that borrowers in rural markets are required to pay.

Community Reinvestment Act Portfolios

We continued to enhance our ability to purchase mortgages from lenders who maintain portfolios of mortgages to low-income borrowers as part of their CRA lending activities. By providing liquidity to this market, we free up capital for lenders to originate mortgages to CRA-qualifying borrowers.

Mi Casa Propia

In 2006, Freddie Mac introduced "Mi Casa Propia: A Bilingual Mortgage Guide" to guide potential Hispanic borrowers through the homebuying process and thereby help bridge the information gap blocking many Hispanic families from becoming homeowners. The target audience for this guide is first-time homebuyers whose primary language is Spanish.
In 2007, Mi Casa Propia was piloted with seven lenders in high Hispanic growth areas of the country. Based upon feedback from the pilot participants, Freddie Mac revised the guide and continues to move forward with the initiative.

**Section 8 Rental to Homeownership**

Please see the subsection titled Section 8 Homeownership Program in Section C above.

**Individual Development Accounts**

Please see the subsection titled Individual Development Accounts in Section C above.
E. Information Required Under § 307(f)(2)(E)

§ 307(f)(2)(E) requires that this report 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].

Approximately 74.0 percent of the total single-family, owner-occupied purchase money and refinance mortgages acquired by Freddie Mac in 2007 had an LTV of 80 percent or less at the time of origination. Mortgages with an LTV of between 80 percent and 95 percent constituted 15.9 percent of the single-family, owner-occupied mortgages acquired in 2007. Mortgages with an LTV of over 95 percent constituted 10.1 percent of the single-family, owner-occupied mortgages acquired in 2007.

Exhibit 14 compares the LTV distribution on the goal-qualifying, single-family home purchase mortgages we acquired in 2007 with the LTV distribution on all single-family home purchase mortgages we acquired in 2007 (in each case, as measured at the time of origination). On average, the goal-qualifying single-family home purchase mortgages had higher LTV ratios than did the overall portfolio of single-family home purchase mortgages acquired by Freddie Mac during 2007.

Exhibit 14:
Goal Qualifying Mortgages Have Higher LTVs
Loan-to-Value Ratio of Freddie Mac's 2007 Home Purchase Mortgage Acquisitions

Source: Table 6 of the 2007 AMR
F. Information Required Under § 307(f)(2)(F)

§ 307(f)(2)(F) requires that this report compare the level of securitization versus portfolio activity.

During the year ended December 31, 2007, we purchased $578 billion of mortgages and mortgage-related securities, which included $86.5 billion of non-Freddie Mac mortgage-related securities. We issued $439 billion of our guaranteed Participation Certificates (PCs) and Structured Securities during 2007. In addition, we issued long-term standby commitment guarantees for $32 billion of single-family loans held by third parties.

As of December 31, 2007, approximately $1.7 trillion of our guaranteed PCs and Structured Securities were issued and outstanding in the global capital markets. Of this amount, we held $357 billion in our retained portfolio, or 21 percent of the total guaranteed PCs and Structured Securities issued. At December 31, 2007, our retained portfolio was approximately $721 billion, an increase of approximately two percent compared to year-end 2006.

The information presented above is derived from our December 2007 Monthly Volume Summary (MVS), and is subject to the qualifications set forth therein. The December 2007 MVS is unaudited and subject to change. For more information, please see the December 2007 MVS, which can be found at the following location: http://www.freddiemac.com/investors/volsum/pdf/1207mvs.pdf. A glossary of selected terms used in the December 2007 MVS can be found at the following location: http://www.freddiemac.com/investors/volsum/glossary.html.
G. Information Required Under § 307(f)(2)(G)

§ 307(f)(2)(G) requires that this report 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.\(^\text{16}\)

Underwriting Standards, Credit Policy and Other Business Practices

Freddie Mac continues to seek ways of increasing access to sustainable homeownership opportunities. To that end, we constantly evaluate market conditions and the credit environment to ensure that our underwriting standards, policies and business practices serve our mission to provide liquidity and stability to the conforming mortgage market.

In 2007, the credit environment and financial markets deteriorated rapidly, beginning with subprime mortgages, expanding to Alt-A, and finally impacting the prime market. Borrowers with higher-risk loan products, such as no-documentation mortgages and Payment Option ARMs, were particularly adversely affected by this crisis. Many borrowers experienced payment shock when their ARMs reset to higher interest rates, leading in some cases to foreclosure.

In the face of this credit crisis, Freddie Mac took further steps designed to reduce or mitigate the impact of these higher-risk products, to provide mortgage credit risk leadership in the marketplace, and to help lenders make mortgage financing available at terms that are likely to lead to successful homeownership.

In early 2007, Freddie Mac announced stricter subprime lending standards under which we would cease purchasing short-term hybrid ARMs that have a high likelihood of payment shock or were originated as no-documentation mortgages. In April, we committed to buy $20 billion of mortgages that offered potential subprime borrowers better financing opportunities. By the end of 2007, we had purchased approximately $43 billion of prime mortgages from families whose credit profiles might previously have relegated them to the subprime market.

Freddie Mac also developed additional requirements for nontraditional mortgage products, which allow borrowers to defer the payment of principal and, sometimes, interest. Such mortgages were cited as having increased risk by federal financial regulatory agencies in the Interagency Guidance on Nontraditional Mortgage Product Risks. In 2007, as directed by our safety and soundness regulator, the Office of Federal Housing Enterprise Oversight (OFHEO), Freddie Mac announced that (i) a borrower's capacity to repay such mortgages must be determined using the fully indexed rate, assuming a fully amortizing payment schedule, and (ii) it would require lenders to

\(^{16}\) As implemented by § 81.43(a) of the HUD's regulations, 24 C.F.R. § 81.43(a) (2005).
disclose the details of these products, including potential for a payment shock, prepayment penalties and fees, to borrowers in writing and in a timely manner.

Also during 2007, we made further efforts to ensure that the credit terms of business provided to our customers aligned with our corporate credit risk tolerance. In addition, we implemented an even more rigorous oversight process for the allocation of credit terms of business.

As a result of these and other changes, many of the credit terms negotiated with our customers have been tightened. Our focus has been on eliminating no-documentation loans, limiting the use of reduced documentation, and reducing risk layering on high-risk products such as interest-only, stated income and 80/20 mortgages.

In the effort to address the effects of the decline in property values, which have impacted many areas of the country, in 2007 we issued an announcement reiterating Freddie Mac's appraisal standards and underwriting expectations related to maximum financing in declining markets.

Freddie Mac increased certain delivery fees during 2007 due to continuing volatility and turmoil in the mortgage market, including the deteriorating performance of higher-risk mortgages. We may provide favorable pricing on a negotiated basis 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 that lenders repurchase mortgages sold to us if those mortgages do not comply with those agreements. As a result, we sometimes request that lenders repurchase mortgages sold to us, or indemnify us against losses on those mortgages. We make repurchase requests on a case-by-case basis. In 2007, repurchase requests on performing mortgages (without regard to year of purchase) were 0.05 percent of 2007 single-family purchase volume.

Hurricane Relief – Easing Underwriting and Servicing Requirements

In 2005 and 2006, Freddie Mac temporarily eased several underwriting and servicing requirements to assist homeowners in areas affected by Hurricanes Katrina and Rita. In 2007, Freddie Mac extended these temporary changes, which helped borrowers obtain mortgages to rebuild their homes or to purchase new homes. These changes also helped borrowers retain their homes and protect their financial interests in their homes. We provided this temporary relief to borrowers who suffered property damage from these disasters; some of the borrowers who received this relief were borrowers with very low-, low- and moderate-incomes, or borrowers living in underserved areas. Through these continued efforts, Freddie Mac was able to ease the housing burdens for thousands of displaced homeowners and renters in the Gulf region.
The temporary underwriting and servicing requirements included the following:

- extending our forbearance policy to any homeowner who needed it through December 31, 2007. Since 2005, this assistance has benefited nearly 35,000 homeowners;
- extending our temporary servicing policies to continue to suspend credit reporting and refrain from charging late fees or pursuing collections from borrowers who fell short on their mortgage payments;
- asking servicers to continue to waive prepayment penalties for families with prepayment penalty mortgages on their homes;
- extending our streamlined loan modification requirements so servicers could continue to help homeowners hold on to their homes through loan modifications or repayment plans. Since 2005, this has enabled approximately 10,600 homeowners to keep their homes. Freddie Mac also continued to suspend foreclosures; then lifted the moratorium gradually using a zone approach; and
- eliminating the median income limits for Home Possible mortgages through the end of the year so people with incomes above the limits could qualify for a mortgage.

Hurricane Relief – Freddie Mac and Freddie Mac Foundation

Following Hurricanes Katrina and Rita in 2005, Freddie Mac and the Freddie Mac Foundation donated a combined $10 million in humanitarian assistance, with special emphasis on finding temporary or permanent housing for displaced families. The company also provided mortgage payment and other relief to affected homeowners; helped mortgage servicers and lenders in affected areas reestablish their operations; and made a $1 billion investment in state and local mortgage revenue bonds, which helped fund housing for as many as 10,000 families. In addition, the company provided temporary or permanent housing for more than 2,100 families.

Today, the Gulf region is still struggling. Two major issues are hindering the region's recovery—lack of affordable housing and lack of support services. During 2007, Freddie Mac and the Freddie Mac Foundation helped address these problems by focusing their investments in the areas of renovation lending and resident services.

Freddie Mac, in collaboration with the Louisiana Housing Finance Agency and the City of New Orleans, has established a $4.5 million home renovation reserve fund to help remove obstacles to renovating hurricane-damaged homes in New Orleans (Freddie Mac invested $1.5 million in the fund). The Rebuild New Orleans initiative is designed to help individuals and families return to their homes and assist new homebuyers by providing flexible mortgage financing, expert construction oversight services and free homebuyer education. This infusion of capital is expected to jumpstart $100 million in renovation mortgage activity over two years in selected neighborhoods in New Orleans and the City of Lake Charles with participating lenders Chase, Countrywide Home Loans, and Standard Mortgage. Rebuild New Orleans is one of the largest collaborative
efforts to date designed to establish scaleable home renovations in specific neighborhoods.

The Freddie Mac Foundation, which is dedicated to improving the lives of children and their families, committed $3 million in grants, to be provided over a three year period, to a variety of non-profit organizations that help New Orleans children and families transition out of crisis. In particular, the Freddie Mac Foundation will focus a large amount of its investments on resident services that connect families who are moving back into affordable rental housing to the social services that can help put them—and keep them—on the path towards self-sufficiency.

The Foundation's grants in 2007 include supporting Enterprise Community Partners' efforts to provide needed resident services to families returning to LaFitte public housing in the Treme neighborhood. Enterprise and its partners, Catholic Charities of New Orleans and Providence Community Housing, will link more that 300 returning families to resources that promote self-sufficiency, such as food, clothing, furniture, transportation, mental and physical health care, tutoring and job training. The Foundation is also supporting a resident services program in three housing projects that are being built and rehabilitated by NHP Foundation. The projects are located in Orleans Parish, Jefferson Parish, and the Upper Ninth Ward. Families that will be living in the 877 affordable housing units in these projects will receive services including a pre-kindergarten program, parenting education, an after-school enrichment program and an on-site health and wellness program.

In an effort to assist local residents return to their homes, 100 Freddie Mac employee volunteers from across the country went to New Orleans in October 2007 to spend a week renovating 3 properties. The houses, located in the Broadmoor neighborhood, were all severely damaged by the hurricane, with their owners still residing in FEMA trailers in front of their own properties. Freddie Mac volunteers, in coordination with Rebuilding Together New Orleans, a local nonprofit organization that refurbishes homes for the aging and disabled, spent over 4,200 hours helping the local residents.

Freddie Mac also implemented a temporary housing assistance program for families displaced by Hurricanes Katrina and Rita. Sixty-five Freddie Mac REO properties located throughout Houston, Dallas/Ft. Worth and Atlanta were utilized in the program to provide rent-free shelter for sixty-five displaced families. (REO, or real estate owned, are properties Freddie Mac has acquired as a result of foreclosure.) Through our collaboration and partnership with local home buying counseling agencies and other related nonprofit organizations, these families, many of which were low- and moderate-income borrowers living in underserved areas, were provided the tools and education needed to prepare for homeownership. In 2006, the program began with the families moving into the designated sixty-five REO properties - all in repaired and move-in condition. At the end of the rent periods, these families either purchased the homes we provided or found permanent solutions in other properties. As of year-end 2007, two properties remained in the Atlanta program and are currently under contract for sale.
While Freddie Mac is not required to provide disaster and humanitarian relief to victims of these hurricanes, Freddie Mac believes its actions are consistent with the spirit of our mission to provide liquidity, stability and affordability in the residential mortgage market.

**Mortgage Servicing**

At the end of 2007, more than 11.9 million mortgages were being serviced on behalf of Freddie Mac. We are constantly searching for new ways to more 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.

At year-end 2007, the overall delinquency rate for Freddie Mac's single-family mortgages was 76 basis points (based on the number of mortgages that were 90 days or more delinquent or in foreclosure). As with the rest of the industry, the relative proportion of seriously delinquent loans in Freddie Mac's portfolio has increased over the past few years.

Active management of delinquent mortgages enables Freddie Mac and its Servicers to help keep borrowers in their homes through foreclosure alternative measures such as loan modifications, repayment plans, forbearance and pre-foreclosure sales. The total number of single-family loans with foreclosure alternatives was approximately 52,000, 59,100, and 60,000, for the years ended December 31, 2007, 2006, and 2005, respectively. The total number of loans with foreclosure alternatives decreased in 2007, as compared to 2006 and 2005, due to a significant reduction in the number of forbearance agreements that were extended to single-family borrowers affected by Hurricane Katrina in 2005 and 2006. Absent the impact of Hurricane Katrina, the number of foreclosure alternatives increased slightly due to the deterioration of the residential mortgage market during 2007.

As described above, in 2005 and 2006, Freddie Mac temporarily eased several underwriting and servicing requirements to assist homeowners in areas affected by Hurricanes Katrina and Rita. In 2007, Freddie Mac extended these temporary changes, which helped borrowers obtain mortgages to rebuild their homes or to purchase new homes.

**Using Automated Tools to Preserve Homeownership**

Freddie Mac has found that early intervention with troubled borrowers significantly decreases the likelihood of foreclosure. For that reason, we provide Servicers with automated tools that allow them to identify and work with borrowers most likely to encounter problems making their mortgage payments. One of those tools is EarlyIndicator® (EI), 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.
EI is used to determine the likelihood of a mortgage becoming more seriously delinquent or continuing through to a loss-producing state. EI generates two types of assessments: "collection" (mortgages overdue for one payment) and "loss mitigation" (mortgages overdue for two or more payments, including mortgages in foreclosure). The collection assessment measures the likelihood of a borrower owing two payments, while the loss mitigation assessment measures 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). At the end of 2007, 57 mortgage Servicers were licensed to use EI (collectively servicing more than eight million of Freddie Mac's mortgages).

We also offer Servicers a number of free default management tools and training, which allow Servicers to manage delinquent mortgagors, borrower workouts, and default and foreclosure expenses more efficiently.

**Affordable High Touch Servicing**

In late 2004, we launched an Affordable High Touch Servicing pilot to help determine the effectiveness of using non-profit homeownership counselors as trusted intermediaries to increase the contact rate with delinquent borrowers and reduce foreclosure rates. This program targets delinquent borrowers (whose mortgage payments are at least 45 days late) that our Servicers have been unable to contact. Due to its effectiveness, the pilot became a baseline program in 2006.

The need for this program was supported by the findings of a Foreclosure Avoidance Research Survey, commissioned by Freddie Mac in 2005 and supported by a follow up survey in 2007. The majority of delinquent borrowers in the survey were not only unaware of the available assistance options when in default, but were very interested in talking to a housing counseling agency when faced with a mortgage delinquency.

The participating non-profit agencies include Consumer Credit Counseling Services (CCCS) of San Francisco and CCCS of Atlanta.

During 2007, housing counseling agencies attempted to contact approximately 49,000 delinquent borrowers through this program, and were successful in reaching approximately 11,000 borrowers (for a resulting contact rate of 22.4%). Approximately 44 percent of the borrowers contacted were able to avoid foreclosure.

**Affordable Housing Advisory Council**

Freddie Mac's Affordable Housing Advisory Council (AHAC) is designed to give us expert advice on ways to increase opportunities for affordable housing. The AHAC is comprised of leaders in the affordable housing field, including lenders, real estate professionals, builders, representatives from community-based and other non-profit and for-profit organizations, and state and local government agencies actively engaged in the field. Beginning in mid-2007 the AHAC has been in redevelopment. The AHAC's next meeting is expected to be in the second quarter of 2008.
Combating Predatory Lending

Freddie Mac is committed to encouraging and promoting responsible lending by refraining from purchasing certain categories of mortgages or mortgages with unacceptable terms or conditions, or mortgages resulting from unacceptable practices. Predatory lending runs counter to our mission to expand opportunities for homeownership to individuals and families. Our efforts to safeguard borrowers from predatory lending practices help to encourage responsible lending, sustain a stable national residential mortgage market, and maintain our role as a vital participant in the secondary residential mortgage market. As part of our commitment to responsible lending, we have instituted significant measures designed to protect consumers from predatory lending practices. These measures include policies, educational campaigns in communities across the United States (see Section K below), and targeted mortgage products (see Section D above).

Stance on unacceptable terms and conditions: Freddie Mac has taken voluntary leadership positions that have helped to improve market practices. These positions include (i) our bans on purchasing mortgages with single premium credit insurance and mandatory arbitration clauses, (ii) our insistence on regular credit reporting, and (iii) limiting prepayment penalty periods to three years for subprime mortgages that we purchase.

HOEPA and high-cost mortgages: Freddie Mac does not purchase high-rate or high-fee mortgages that meet or exceed the Home Ownership and Equity Protection Act of 1994 (HOEPA) thresholds. In addition, Freddie Mac does not purchase high-cost home mortgages as defined by statute in the following 14 states: Arkansas, Colorado, Georgia, Illinois, Indiana, Kentucky, Maine, Massachusetts, New Jersey, New Mexico, New York, Oklahoma, Rhode Island and Tennessee. Additionally, we do not purchase mortgages with points and fees in excess of 5 percent of the total loan amount.

Subprime and Nontraditional Mortgage Products: Effective October 2007, Freddie Mac updated its Investment Requirements and Seller/Servicer Guide to require compliance with the federal banking agencies’ Interagency Statement on Subprime Mortgage Lending and the Interagency Guidance on Nontraditional Mortgage Product Risks. For further discussion, see Underwriting Standards, Credit Policy and Other Business Practices in this section.
§ 307(f)(2)(H) requires that this report describe trends in both the primary and secondary multifamily housing mortgage markets, including a description of the progress made, and any factors impeding progress, toward standardization and securitization of mortgage products for multifamily housing.

National Trends in the Primary and Secondary Multifamily Mortgage Markets

Freddie Mac closed a record $44.7 billion in new multifamily business transactions in 2007, a 55 percent increase over the 2006 volume of $28.8 billion. This volume includes approximately $3.7 billion in targeted affordable housing products, which finance apartments that receive some form of government subsidy.

During 2007, effective rents increased in the majority of areas. Vacancy rates were stable, although likely to trend upward in 2008. Interest rates remained low and there was only a slight movement upwards in capitalization rates.

Lending volumes were strong throughout the year and were supported by improving fundamentals (occupancy levels and rent growth) in most major markets. Nationally, mortgage debt on multifamily properties grew to more than $800 billion in the third quarter of 2007, from $740 billion in the fourth quarter of 2006 (representing an annualized increase of 10.8 percent). Nationally, multifamily fixed mortgage rates remained historically low, but increased from 5.85 percent in the fourth quarter of 2006 to 6.01 percent in the fourth quarter of 2007.

The national vacancy rate continued to improve, decreasing slightly from 5.8 percent in the first quarter of 2006 to 5.6 percent by the end of the fourth quarter of 2007. At the same time, rent concessions for new and renewed leases remained flat, and this produced effective rent growth of 4.5 percent for the four quarters ending in the fourth quarter of 2007. Both of these national trends mask increased vacancies and much weaker rent growth in markets suffering general economic weakness, and markets having significant oversupply of unsold condominiums or single-family homes, such as many of the Florida metropolitan areas and some other markets.

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17 This figure includes amounts related to transactions that are not eligible for counting under the affordable housing goals in 2007.
20 Federal Reserve Information for the fourth quarter of 2007 is not yet available.
22 REIS, December 2007.
23 REIS, December 2007
Based on U.S. Census Bureau preliminary data for 2007, about 276,000 new multifamily units were started in 2007, a 6 percent decline from 2006. This is a relatively low level of new multifamily construction from a historical standpoint. The supply of rental units was also influenced by the reversal of the condominium conversion trend in many markets, which resulted in unsold condominiums returning to the rental market. This somewhat offset the very low new supply numbers and kept the rental markets balanced, except for markets most affected by the reversal of the condominium conversion trend.

The credit quality of Freddie Mac's multifamily portfolio remained very good with the 60 days or more delinquency rate at two basis points at the end of 2007. The dollar amount ($10.3 million) of these delinquencies is lower than at the end of 2006; the delinquencies consist of two delinquent loans. By comparison, at the end of 2006, even though there was only one delinquent loan, it had an unpaid principal balance of $29.5 million, which yielded a delinquency rate of 6 basis points.

Overall credit quality in the multifamily market remained stable. The industry-wide delinquency rate remains low by historical standards, although we expect delinquencies and losses to increase in the future. The American Council of Life Insurers Mortgage Portfolio Profile—Fourth Quarter 2007 shows that its members' multifamily portfolios' 60-day delinquency rates have decreased to zero, down from two basis points for the same period in 2006.

CMBS apartment performance data indicate a mild deterioration in credit, as the percentage of 60 days or more delinquent loans in outstanding conduit multifamily portfolios increased from 0.66 percent at the end of 2006 to 0.96 percent by the end of 2007.

Multifamily credit markets were strongly affected later in the year by the ripple effect of single-family losses in subprime products. Tightened credit standards and reduced liquidity caused many market participants to limit purchases of multifamily mortgages during the second half of 2007, creating investment opportunities for us. As a result, our purchases of multifamily retained mortgages were at record levels in 2007.

We accomplished these record purchases by streamlining processes and by approving a select group of sellers as delegated underwriters for affordable housing through our Program Plus® and Targeted Affordable lender networks. In addition, we introduced new products, such as our highly successful "acquisition-rehab" initiative, that has contributed to our success in the turbulent market conditions in 2007.

In 2007, an aggregate of $202 billion of fixed-rate domestic CMBS were issued compared to $165 billion in 2006, an increase of 18 percent. The multifamily portion of that market was over $38 billion, compared to $28 billion in 2006, an increase of 37 percent. Freddie Mac purchased $22.3 billion of the multifamily fixed-rate domestic

25 ACLI Mortgage Loan Portfolio Profile, 4th Quarter 2007.
26 Data from Trepp, a provider of CMBS, multifamily, and commercial mortgage information.
securities issued in 2007. Although the CMBS market stalled in the latter part of the year, CMBS purchase volumes were up from $15.6 billion in 2006.

**Freddie Mac Multifamily Initiatives**

Freddie Mac supports the financing of affordable apartment communities across the United States by providing credit enhancements to or purchasing (directly or through our CMBS investments) the multifamily mortgages originated by numerous financial institutions. The majority of our non-CMBS multifamily business is originated by primary lenders in our Program Plus and Targeted Affordable lender networks.

In 2007, we delivered several new products and enhancements, and we are continuing to make improvements in customer service and business operations. Additionally, in our efforts to expand our capabilities to meet more customers' needs, we demonstrated our ability to execute large, complex deals, while remaining committed to our mission to be a source of liquidity, stability, and affordability in multifamily markets. Two noteworthy examples include: a $2.8 billion transaction involving the Freddie Mac Tax-Exempt Bond Securitization (TEBS) execution, and a transaction involving our purchase of two pools of mortgages totaling $1.8 billion and our approving the assumption of an additional 15 mortgages. More details about the TEBS transaction are described in the section below on *Targeted Affordable Housing and Structured Transactions*.

Below are highlights from 2007:

**Conventional Mortgages**

The multifamily market in 2007 was profoundly different from 2006. The problems in the single-family subprime mortgage market had an impact on all capital markets, and caused other sources of multifamily mortgage capital to choose to exit the market. However, Freddie Mac remained active in the market and provided a continuous source of liquidity, stability, and affordability. This ongoing market presence contributed to a record volume year, with approximately $18.2 billion of conventional multifamily mortgages purchased.

Freddie Mac's Early-Rate Lock delivery continued to perform well. In 2007, we rate-locked more than 800 transactions totaling $12.4 billion using our Early Rate-Lock option. Our Streamlined Refinance products also performed well, with over $1.2 billion of Streamlined Refinances funded.

Freddie Mac continued to be a leader in the growing seniors housing market, funding approximately $1 billion in seniors housing mortgages. Freddie Mac's in-house expertise and broad array of financing options enable it to efficiently execute transactions that expand the availability of affordable housing for seniors, such as purchasing a portfolio of loans totaling $217 million secured by 21 seniors housing properties, comprising 1,927 independent and assisted living units in Arizona, Florida, Georgia, Louisiana, Oklahoma, Tennessee, and Texas.
New Products and Enhancements

In 2007, we introduced the Freddie Mac Acquisition Upgrade Mortgage℠ and Freddie Mac Acquisition Rehabilitation Mortgage℠. These new products provide funds for both the purchase and upgrade or rehabilitation of the property in one first lien mortgage. The Acquisition Upgrade Mortgage provides financing for cosmetic improvements, while the Acquisition Rehabilitation Mortgage is available for more substantial improvements that allow borrowers to reposition properties in their respective markets. In 2007, we funded 30 transactions using these two products totaling $786 million. For example, we provided $135 million in financing through the Acquisition Rehabilitation product, which enabled the lender to assist the borrower in rehabilitating a 914-unit apartment complex in Norwood, Massachusetts.

Another new product we launched in 2007 was Freddie Mac Streamlined Acquisition Financing℠. This product extends the Freddie Mac Streamlined Refinance product benefits to borrowers under contract to purchase properties that are currently financed by Freddie Mac. It allows lenders to close acquisition loans more quickly and leverage Freddie Mac's portfolio advantages, giving them the opportunity to do more business with those borrowers seeking acquisition financing.

Loan Processing Improvements

In 2007, we made significant progress in improving the efficiency of our loan processing. For example, we introduced a standardized preliminary loan submission template. We enhanced the Freddie Mac Early Rate-Lock process by reducing the amount of required information and expediting the approval process.

This past year, we also launched Freddie Mac Data Delivery, a new easy-to-use, interactive, Web-based system that allows customers to upload the loan submission template or an XML file of their loan production data directly into our loan production system. This helps to speed up the loan application process.

Our Expedited Funding Process was also introduced in 2007. This is a more formalized, comprehensive, permanent version of previous temporary lender-specific attempts to address fourth-quarter funding logistics. The Expedited Funding Process, which is available to lenders year-round, helped many customers clear their warehouse lines in days rather than weeks, thereby freeing resources to transact more multifamily business. This new process also created greater internal efficiencies and produced better quality closing packages from the lenders.

Targeted Affordable Housing and Structured Transactions

In 2007, Freddie Mac made enhancements to our services and products to better meet the need of lenders (and their borrowers) for customized LIHTC debt, with the goal of
bringing greater speed and ease of execution to the market and increasing our targeted affordable purchases.

One of our key efforts to bring speed and efficiency to the targeted affordable market has been the development of a delegated underwriting business model. In 2007, we made significant progress in advancing the Freddie Mac Delegated Underwriting for Tax Credit HousingSM model to a full delegation model. Under the full delegation model, known as Freddie Mac Delegated Underwriting for Targeted Affordable HousingSM, customers can now enter into a fully delegated underwriting relationship with us for all targeted affordable products, after going through the initial phase limited to tax credit debt products. In 2007, we increased the number of lenders approved for the initial phase of Delegated Underwriting to eight, and graduated one lender (Centerline Capital Group) to the full delegation phase.

In the initial phase of delegated underwriting, Freddie Mac continues to perform full underwriting contemporaneously with the lender after screening all transactions with the lender. Freddie Mac agrees to expedited centralized underwriting, and the lender agrees to underwrite pursuant to an underwriting standard contract in a master relationship agreement as well as to share the risk of losses.

In full delegation, the lender no longer screens transactions with Freddie Mac but clears credit exceptions to the underwriting standards with Freddie Mac. The lender performs full underwriting based on the Freddie Mac Delegated Underwriting Guide, and Freddie Mac reviews the underwriting after the closing. As in the initial phase, the lender shares the risk of losses.

Fully Delegated Underwriting increases the product types that can be financed through delegation. These now include 80/20 bonds, preservation transactions without LIHTCs including Section 8 and Section 236 transactions, and LIHTC transactions with less than seven years remaining in their tax credit benefit period. During a period in which our conventional lending volume has increased dramatically due to market forces, delegated underwriting provides us a means to serve targeted affordable borrowers by tapping more effectively into the delegated Seller/Servicer's capacity to originate and underwrite.

The Freddie Mac LIHTC Moderate Rehabilitation (Mod Rehab) execution, which preserves affordable housing and provides funding to an owner to rehabilitate units, was our most popular bond credit enhancement product in 2007. There were just over $220 million in Mod Rehab fundings this past year, which was a significant increase over the 2006 level of $9 million.

In 2007, Freddie Mac completed one of its largest multifamily deals ever — a $2.8 billion transaction using the Freddie Mac Tax-Exempt Bond Securitization execution (TEBS). TEBS brings capital market efficiencies to the affordable housing market, offering owners of privately placed multifamily housing revenue bonds the potential for larger proceeds and longer terms for affordable housing transactions. This transaction
involved 383 bonds secured by 275 multifamily low-income housing tax credit properties containing more than 57,000 units.

In 2007, we made progress on yet another significant initiative: a capital markets execution for multifamily mortgages — the Freddie Mac Capital Markets Execution. This securitization execution will give us the capability to access more potential capital sources. This new execution will feature some attributes that borrowers typically expect from a portfolio lender, but will provide the proceeds that have been the hallmarks of a conduit execution. In addition, it will provide improved flexibility compared with standard conduits, through supplemental financing.

Preservation of Affordable Housing

Freddie Mac encourages the preservation of affordable housing not only with its new LIHTC Mod Rehab product, but also by making the full array of its conventional and affordable products available for properties with federal, state and local government subsidies. A few of Freddie Mac's many 2007 preservation success stories include the following:

Freddie Mac provided a credit enhancement for a $37.5 million tax-exempt bond financing for Casa Familiar, a non-profit organization, and Steadfast Residential Properties, an affordable housing developer, arranged by Centerline Capital Group. This transaction was the first fully delegated financing completed under the Freddie Mac Delegated Underwriting for Targeted Affordable Housing. Centerline is the first multifamily lender to achieve full delegation status. The financing package allowed Casa Familiar and Steadfast Residential Properties to acquire and rehabilitate Villa Nueva Apartments, a 398-unit property, and allowed the tenants to stay in place and benefit from upgraded apartments at a rent similar to what they were paying previously.

Freddie Mac continues to play an active role in the recovery efforts of the Gulf region. In 2005, Freddie Mac purchased a $24.8 million loan used to refinance Arbor View, a 472-unit apartment complex outside of Biloxi. Shortly thereafter, Hurricane Katrina hit, doing extensive damage to the property. Freddie Mac provided 16 months of forbearance while the borrower repaired the property. Today, Arbor View is completely rebuilt and rented.

In 2007, Freddie Mac worked with Column Guaranteed to issue a $7.6 million unfunded forward commitment enabling the borrower, Renaissance Property Group, to proceed with plans to gut and rehabilitate the former New Orleans Falstaff brewery. The transaction utilized the Freddie Mac Affordable Forward Commitment 9 percent Tax Credit product. The brewery will be converted into a 147-unit apartment complex, and will provide affordable and mixed income housing in a key New Orleans location.
Standardization and Securitization

Although standardization and securitization are important considerations in the development of new multifamily financing initiatives, they are not always the best solution for all types of borrowers. In certain cases the borrower's need for flexibility requires customization. Additionally, the complex nature of preservation and targeted affordable housing transactions makes standardization of these transactions difficult. However, in 2007 securitization of multifamily mortgages became easier and more standardized. Over $38 billion of multifamily and manufactured housing parks were securitized in 2007, an increase over 2006 of 37 percent. While the second half of 2007 saw a marked slow-down in the origination and securitization of loans, advances were made in loan standardization and securitization.

Freddie Mac continued to be a reliable high-volume purchaser of CMBS multifamily directed-pay bonds in 2007. We purchased $22.3 billion of these securities from 60 different issues in 2007. Our purchase activity has contributed to the progress of standardization and securitization of mortgage products for multifamily housing. Our increased purchases of CMBS also have (i) helped to lower the spreads on multifamily mortgages originated for CMBS, and (ii) led to a greater level of comfort among multifamily lenders who originate multifamily mortgages for CMBS. The lower spreads and greater level of comfort have, in turn, resulted in an increased willingness by those CMBS lenders to lend on a wider range of multifamily property types than previously securitized. For example, in 2007, originators allowed features previously thought to be non-securitizable, including future fundings, properties with planned renovation or additional construction, and properties converting from rent controlled to market rent. Freddie Mac believes that its participation in this market has also led to greater standardization of the due diligence requirements for multifamily properties backing the CMBS.

Freddie Mac increased its efforts to develop unique securitization products and executions in 2007. For example, we continued to improve our small loan CMBS execution by enlarging the number of lenders with whom we work. In 2007, we purchased a total of $2.5 billion of bonds that were unique in that the underlying collateral was almost exclusively small multifamily hybrid ARMs, a type of mortgage where the borrower has more flexibility in prepaying ahead of the mortgage maturity date. This structure allowed the originators to effectively securitize and sell a more flexible (and familiar) mortgage product to owners of small multifamily properties. By investing in AAA-rated CMBS backed by less traditional multifamily mortgage collateral, we have helped increase liquidity in the small loan multifamily market and contributed to the establishment of a new sector within the multifamily mortgage securities market, all while maintaining a relatively conservative credit risk position.
I. Information Required Under § 307(f)(2)(I)

§ 307(f)(2)(I) requires that this report describe trends in the delinquency and default rates of mortgages secured by housing for low- and moderate-income families that have been purchased by the Corporation, including a comparison of such trends with delinquency and default information for mortgage products serving households with incomes above the median level that have been purchased by the Corporation, and evaluate the impact of such trends on the standards and levels of risk of mortgage products serving low- and moderate-income families.

Freddie Mac's greater than 90 day delinquency rate for single-family mortgages ended the year at 76 basis points, up from 54 basis points at year-end 2006.

Our analysis of the performance of mortgages serving low- and moderate-income families shows increasingly higher rates of delinquency and default relative to mortgages on units serving households with incomes above the median level.27

The data show that the delinquency rate on mortgages to low- and moderate-income borrowers on average was about 1.9 times higher than the rate on mortgages to higher income borrowers with respect to mortgages acquired during years 1996-2006. Since 2001, as eligibility for higher risk mortgage products has expanded, the relative delinquency rate on mortgages to low- and moderate-income families has generally worsened.

For mortgages acquired by Freddie Mac in 2006, the delinquency rate on mortgages to low- to moderate-income borrowers was 1.2 times higher than the rate on mortgages to higher income borrowers.28 The relative default rate is also consistently worse on mortgages for low- to moderate-income borrowers than on mortgages for higher income borrowers with performance generally becoming significantly worse since 2000.29

27 The information presented in this section and in Exhibit 15 is based upon an analysis of a sample of unseasoned, conforming, conventional, forward amortizing, first liens, non Graduated Equity Mortgages/Graduated Payment Mortgages. The delinquency (default) rates presented in Exhibit 15 were determined by dividing mortgages serving low- and moderate-income families by the delinquency (default) rates for mortgages serving households with incomes above the median level. Delinquency is defined as the borrower ever being 90 or more days delinquent on the mortgage within 12 months of Freddie Mac's acquisition. Default is defined as a foreclosure, deed-in-lieu of foreclosure, or third party sale occurring at any point since Freddie Mac acquired the mortgage. With respect to the delinquency rate, we analyzed only the performance during the first year so that we could present a trend over time that avoided commingling mortgages of different ages. The analysis presented here does not control for other risk factors, such as LTV or credit history.

28 For mortgages acquired by Freddie Mac in 2006, the delinquency rate on mortgages to low- to moderate-income borrowers was 0.76 percent, the rate on mortgages to higher income borrowers was 0.65 percent and the overall rate on single-family owner-occupied mortgages was 0.69 percent.

29 As of December 31, 2007 (and with respect to mortgages acquired since 1996), the default rate on mortgages to low- to moderate-income borrowers was 0.86 percent, the rate on mortgages to higher income borrowers was 0.36 percent and the overall rate on single-family owner-occupied mortgages was 0.55 percent.
On an absolute basis, delinquency rates on mortgages to low- to moderate-income borrowers have been increasing. The delinquency rate on mortgages to low- to moderate-income borrowers acquired by Freddie Mac in 2006 was 0.76 percent, while the delinquency rate on mortgages to low- to moderate-income borrowers acquired in 2005 was 0.51 percent. However, the default rates on mortgages to low- to moderate-income borrowers acquired by Freddie Mac in 2006 and 2005 were 0.35 percent and 0.50 percent, respectively.

Freddie Mac regularly evaluates the delinquency and default rates of mortgages secured by housing for low- and moderate-income families. Freddie Mac uses this information to update our underwriting and eligibility requirements for our affordable mortgage products to ensure that lenders apply prudent underwriting standards when qualifying prospective borrowers.

**Exhibit 15**
Lower Income Borrowers Default More Frequently Than Higher Income Borrowers

Delinquency and Default Rate of Lower Income Borrowers (below median income) Relative to the Delinquency and Default Rate of Higher Income Borrowers (above median income)

<table>
<thead>
<tr>
<th>Year of Acquisition</th>
<th>Relative Delinquency Rate</th>
<th>Relative Default Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
<td>1.5</td>
<td>1.6</td>
</tr>
<tr>
<td>1997</td>
<td>1.7</td>
<td>1.7</td>
</tr>
<tr>
<td>1998</td>
<td>1.5</td>
<td>1.8</td>
</tr>
<tr>
<td>1999</td>
<td>1.7</td>
<td>1.8</td>
</tr>
<tr>
<td>2000</td>
<td>1.9</td>
<td>2.6</td>
</tr>
<tr>
<td>2001</td>
<td>1.9</td>
<td>2.6</td>
</tr>
<tr>
<td>2002</td>
<td>2.8</td>
<td>3.7</td>
</tr>
<tr>
<td>2003</td>
<td>2.7</td>
<td>3.9</td>
</tr>
<tr>
<td>2004</td>
<td>2.3</td>
<td>3.3</td>
</tr>
<tr>
<td>2005</td>
<td>1.7</td>
<td>2.4</td>
</tr>
<tr>
<td>2006</td>
<td>1.2</td>
<td>1.1</td>
</tr>
<tr>
<td>Average</td>
<td>1.9</td>
<td>2.4</td>
</tr>
</tbody>
</table>

Source: Internal Freddie Mac delinquency study.
Note: Exhibit 15 displays the delinquency and default performance of lower income borrowers, as compared with the delinquency and default performance of higher income borrowers. The relative delinquency and default rates presented in the Exhibit were determined by dividing the delinquency (default) rates for mortgages serving low- and moderate-income families by the delinquency (default) rates for mortgages serving households with incomes above the median level.
J. Information Required Under § 307(f)(2)(J)

§ 307(f)(2)(J) requires that this report describe in the aggregate the seller and servicer network of the Corporation, including the volume of mortgages purchased from minority-owned, women-owned, and community-oriented lenders, and any efforts to facilitate relationships with such lenders.

Freddie Mac purchases mortgages from a network of nearly 2,200 lenders, benefiting borrowers across the U.S. and its territories. Freddie Mac purchases mortgages from all major lender types. Some of these firms sell mortgages to Freddie Mac regularly, while others sell to us only occasionally. Of the total Seller network, over 1,000 lenders sold mortgages to us in 2007. At the end of 2007, minority- or women-owned lenders comprised approximately four percent of the lenders in Freddie Mac's network, and community oriented lenders comprised approximately 90 percent of the lenders in Freddie Mac's network.

In 2007, we purchased approximately $12.4 billion of mortgages from community-oriented lenders and approximately $71 billion of mortgages from regional lenders, which includes approximately $1.1 billion in mortgages we purchased from minority-owned lenders and approximately $300 million from women-owned lenders.

Freddie Mac renewed and enhanced its relationship with the National Association of Professional Mortgage Women (NAPMW) in 2007, continuing our educational alliance with NAPMW and acting as NAPMW's top sponsor. NAPMW is a nationwide organization of approximately 4,000 mortgage professionals that focuses on the professional development of its members through training and mortgage certifications. Through the alliance, NAPMW members benefit from a variety of both on-site and web-based educational courses, as well as customized classes provided by Freddie Mac.

In 2007, Freddie Mac continued its efforts to facilitate relationships with community-oriented lenders. We renewed and enhanced our Community Lending Alliance with the American Bankers Association. We expect to renew the alliances with the Independent Community Bankers and the Credit Union National Association in early 2008. The alliances are negotiated collectively, which allows small, community-based institutions to have access to the secondary mortgage market on terms that would be more difficult for the institutions to obtain individually. The alliances help participating lenders improve their mortgage origination capabilities, by providing them with access to a comprehensive package of product offerings, tools and services.

Over 500 lenders are currently taking advantage of the alliance offerings provided by Freddie Mac. In 2007, approximately 9 percent of the dollar volume of mortgages that Freddie Mac purchased from community and regional lenders came from participants in one of the Community Lending Alliances.
K. Information Required Under § 307(f)(2)(K)

§ 307(f)(2)(K) requires that this report describe the activities undertaken by the Corporation with non-profit and for-profit organizations and with State and local governments and housing finance agencies, including how the Corporation's activities support the objective of comprehensive housing affordability strategies under section 105 of the Cranston-Gonzalez National Affordable Housing Act.

National Initiatives

Freddie Mac undertakes numerous activities in support of affordable housing, with state and local governments, housing finance agencies, our lender customers, and a wide variety of non-profit and for-profit organizations. The following section describes some of the initiatives we launched in 2007, as well as developments concerning some of our ongoing activities.

Mortgage Revenue Bonds and Housing Finance Agencies

In 2007, Freddie Mac made a series of targeted investments in approximately $1.8 billion of single-family mortgage revenue bonds (MRBs) issued by various state and local housing finance agencies (HFAs). Although these purchases do not qualify for the affordable housing goals, we bought these MRBs as part of our effort to support affordable housing, as the HFAs are required to use the proceeds from the sales of the MRBs to originate below-market interest rate mortgages to lower income first-time homebuyers.

We also purchased approximately $2.2 billion in newly issued multifamily MRBs from various state, county and local HFAs. HFAs use the proceeds from the sale of the MRBs to finance the production of apartments at rents affordable to lower income families. Our purchases of multifamily MRBs also do not qualify for the affordable housing goals.

Our purchases provide liquidity for such bonds, which helps the HFAs ensure continued availability of lower-cost financing for first-time homebuyers with limited incomes and the production of apartments at rents affordable to lower income families. In turn, this promotes neighborhood stability and revitalization through increased homeownership.

In 2007, Freddie Mac made significant progress with select state and local HFAs and national lenders (serving as master servicers) to promote the use of Freddie Mac PCs as collateral for single family mortgage revenue bonds. As a result of these efforts, master servicers swapped approximately $1.5 billion of mortgages originated by lenders pursuant to a Mortgage Revenue Bond initiative for Freddie Mac PCs. These PCs helped support first-time homebuyers nationwide. In this effort, we collaborated with more than 30 local HFAs and 10 state HFAs throughout the country. Some of the largest transactions were with the City of Chicago, Phoenix/Maricopa Counties in Arizona and Sedgewick/Shawnee Counties in Kansas.
For Freddie Mac, supporting HFAs continues to be an important part of our efforts to expand affordable homeownership opportunities for low- to moderate-income homebuyers and minority and immigrant families in underserved markets.

Financial Education Outreach

Freddie Mac's award-winning CreditSmart initiative (which includes CreditSmart and CreditSmart Español curricula, and, since 2007, CreditSmart Asian®) is a multilingual financial education curriculum and consumer outreach initiative developed by Freddie Mac in collaboration with a number of multicultural groups. CreditSmart is designed to help consumers build and maintain better credit, make sound financial decisions, and understand the steps to successful long-term homeownership.

Freddie Mac makes CreditSmart, CreditSmart Español and CreditSmart Asian available to local and national organizations. Freddie Mac believes that by educating consumers about smart credit habits and helping them understand the importance of obtaining and maintaining good credit, we can empower them with the skills and information necessary to achieving homeownership. Since its inception in 2001, Freddie Mac and its collaborating organizations have reached out to more than 1.5 million consumers nationwide through CreditSmart.

Freddie Mac continues to upgrade CreditSmart to ensure the curriculum remains relevant and engage additional population segments that face barriers to credit. In 2007, Freddie Mac enhanced its CreditSmart and CreditSmart Español curricula with a new module to help consumers address today's challenges to homeownership preservation and foreclosure prevention. The new module, entitled Preserving Home Ownership: Protecting Your Home Investment, focuses on providing practical information about the responsibilities of homeownership and specific advice on protecting one's homeownership investment. It provides helpful worksheets, tips and suggestions for new and existing homeowners on how to be successful.

During 2007, Freddie Mac also launched CreditSmart Asian, a three-part series of multilingual guidebooks that are available in Chinese, Korean, Vietnamese, and English. CreditSmart Asian guidebooks underscore the value of a positive credit history, walk the consumer through the homeownership process, and provide information on responsible homeownership.

Freddie Mac provides CreditSmart, CreditSmart Español, and CreditSmart Asian to consumers and potential homebuyers in collaboration with homebuyer education providers, lenders, real estate professionals, churches, African American, Hispanic, and Asian American organizations, colleges, and universities. Recent collaborations include a partnership with a lender, the Philadelphia Chinatown Development Corporation (PCDC), and Consumer Credit Counseling Services of the Delaware Valley to launch a comprehensive financial literacy and homeownership education and outreach initiative.
focused on meeting the needs of Chinese speaking individuals in metropolitan Philadelphia. The goal was to expand homeownership opportunities for these individuals, by making Home Possible loan products available for their use and using PCDC as a trusted intermediary to help individuals overcome the barriers to homeownership. Through the use of CreditSmart Asian, this initiative will help individuals understand the homeownership process, banking basics, and the importance of budgeting and credit. CCCS of the Delaware Valley will also offer supplementary homeownership education and counseling services in conjunction with PCDC.

Freddie Mac also convened a Women's Roundtable with more than 50 housing and finance industry and women leaders to identify and discuss the critical issues relating to women's credit education; this Roundtable also discussed expanding CreditSmart to address women's credit education.

Workforce Home Benefit

Freddie Mac's Workforce Home Benefit (WHB) initiative is a "turnkey" approach to developing and implementing employer-assisted homeownership (EAH) plans. These plans provide employers with a way to help their employees, many of whom come from traditionally underserved groups, achieve homeownership. Since the inception of WHB in 2004, we have helped to develop and implement 44 employer-assisted homeownership initiatives throughout the U.S.

Our WHB initiative assists employers in designing, implementing, and administering EAH plans for their employees. As part of these initiatives, Freddie Mac may help employers identify organizations that can provide homebuyer education, financial literacy and credit counseling to their employees. Freddie Mac offers a full range of affordable mortgage products that may be used in conjunction with an EAH plan. EAH plans may also feature employer assistance with down payment and closing costs, and access to the participating lenders' affordable mortgage products.

In accordance with guidance provided by HUD, Freddie Mac confines its WHB marketing activities to those that are business-to-business only and that do not favor the services of one lender over another. Freddie Mac presents the WHB plan to employers and assists with its implementation and administration. However, only the appropriate providers, including lenders, loan counselors, affordable housing counselors and providers, real estate professionals, and other primary market providers, have direct interaction with employees. Also in 2007, Freddie Mac updated the WHB Toolkit. The updated Toolkit offers a wide range of information from homebuyer education to forgivable loans and matched savings accounts.

Don't Borrow Trouble®

Don't Borrow Trouble is a comprehensive consumer awareness campaign that combines public education and counseling services to help homeowners avoid predatory lending practices. Each Don't Borrow Trouble campaign uses a combination of ads, billboards,
websites, and public service announcements in English and Spanish to educate borrowers about predatory lending practices and encourage them to call a toll free number for referrals to local government and non-profit agencies to help them understand and resolve specific lending problems. We believe it is the most comprehensive consumer awareness/predatory lending prevention campaign of its kind.

Don't Borrow Trouble was pioneered in Boston by Mayor Thomas M. Menino and the Massachusetts Community & Banking Council. Since 2000, Freddie Mac has been expanding the Don't Borrow Trouble campaign nationwide. For each state or locality that launches a Don't Borrow Trouble campaign, Freddie Mac provides seed funding, marketing assistance, and a bilingual Don't Borrow Trouble toolkit of media materials to be adapted to the specific needs of the locality. Freddie Mac has also funded on-site training provided by the National Consumer Law Center to prepare members of the local referral networks to respond to calls. Local officials and leaders of community-based organizations at each of the sites take the lead in creating local coalitions to collaborate on the campaign, assembling a local referral network, raising additional funds and managing the day-to-day operation of the campaigns.

Since we began expanding Don't Borrow Trouble in 2000, 55 local and statewide campaigns have been launched and these campaigns have assisted more than 350,000 consumers across the U.S. Six new Don't Borrow Trouble campaigns were launched in 2007 in Charlottesville, Virginia; El Paso, Texas; Westchester, New York; Pittsburgh, Pennsylvania; Ventura/Oxnard, California; and Salt Lake City, Utah.

Mobile Homeownership and Outreach Center (eBus)

Since 2005, Freddie Mac has worked with Fifth Third Bank on the Mobile Homeownership and Outreach Center (eBus) initiative. The eBus is a full-size commercial bus retrofitted as a self-contained mobile homeownership center with computer workstations and Internet access. Using on-line education services provided by Freddie Mac and Fifth Third Bank, the eBus delivers homeownership information and financial literacy education to minority and low-to-moderate income consumers where they "work, live, pray and play."

During 2007, over 17,000 consumers came aboard the eBus to receive information on mortgage opportunities as well as other financial services such as checking, savings, and credit cards. The eBus initiative is intended to improve awareness of homeownership opportunities, and foster more trust between minority consumers and mortgage providers.

Get The Facts!

Get The Facts!, formerly known as Homeownership: Let the TRUTH Move You, is a dynamic education initiative intended to dispel common myths about buying and owning a home in the United States. At the core of Get The Facts! is an interactive workshop designed to break down barriers of misinformation that keep African-American and
Hispanic families from exploring homeownership. The workshop is based on a Freddie Mac survey that revealed that minority households may have extensive misunderstandings regarding the home buying process. Participants are encouraged to ask questions as workshop facilitators help them separate fact from fiction.

Get The Facts! is typically delivered by community-based organizations as a one-hour workshop and preamble to homebuyer education. In 2007, Get The Facts! was implemented in 45 locations across the U.S.

Nuestro Barrio

Nuestro Barrio (Our Neighborhood) is a Spanish-language 13 episode TV mini-series about Hispanic life in the United States that uses the telenovela, or soap opera, format to engage and educate consumers on financial literacy, predatory lending and homeownership. This broadcast-quality product with English subtitles was produced by Community Reinvestment Association of North Carolina's Media Advocacy division and sponsored by Freddie Mac.

Freddie Mac sponsors the production of Nuestro Barrio as part of its efforts to reach more Hispanic households and provide them with information about the homeownership and the homebuying process. Freddie Mac is committed to ensuring that homeownership is accessible to this growing segment of the population.

In 2007, Nuestro Barrio aired in ten markets, with five lenders co-sponsoring the broadcast. Local grassroots efforts were also used to help promote the show. Also in 2007, Freddie Mac introduced a direct-to-consumer (non-broadcast) approach. Nuestro Barrio DVDs were provided to participating lenders for direct consumer distribution. Nuestro Barrio helps build trust and credibility in the Hispanic community by bridging the language and information gaps with an innovative bilingual tool.

State and Local Lending Initiatives

In concert with our lender customers, state and local governments, and other organizations, Freddie Mac undertakes numerous initiatives designed to increase homeownership opportunities in minority and underserved communities in states and localities across the country. The following section describes some of the initiatives we launched in 2007, as well as new developments concerning some of our ongoing activities.

Education and Lending Initiatives

In 2007, Freddie Mac joined forces with Navy Federal Credit Union and local organizations on an initiative to expand homeownership opportunities for military families in Virginia’s Tidewater/Hampton Roads area using financial education workshops and affordable mortgage products. Under the initiative, the Hampton Roads
Planning District, Child & Family Services of Eastern Virginia, and Community Housing Partners Corporation will offer Freddie Mac's *Get The Facts!* financial education workshops to military families. Navy Federal Credit Union will provide affordable mortgage products as part of the initiative.

**Lending Initiatives with Faith-Based Organizations**

We believe that faith-based organizations can be well-positioned to help underserved and minority borrowers and communities realize the dream of homeownership, as those organizations can serve as trusted intermediaries.

In 2007, Freddie Mac collaborated with Friendship West Baptist Church to provide financial literacy education and homeownership counseling to members of the congregation and the surrounding South Dallas neighborhoods. The education and counseling was implemented through the use of Freddie Mac's *CreditSmart* and *Get The Facts!* workshops.

Freddie Mac joined forces with a lender and the Bedford Central Community Development Corporation (CDC) to create a financial literacy and homeownership initiative. The CDC is the community development arm of Bedford Central Presbyterian Church, located in the Bedford-Stuyvesant neighborhood of Brooklyn, New York. Bedford Central CDC focuses on creating economic development initiatives that positively impact the local residents and business community in Central Brooklyn. Outreach is conducted through regular marketing and outreach efforts to members of several local churches and residents of Bedford-Stuyvesant and the surrounding neighborhoods. Freddie Mac's *Get The Facts!* workshops are provided, along with comprehensive homeownership counseling and education to potential homebuyers, preparing families to purchase a home they can afford and keep.

**Neighborhood Revitalization Lending Initiatives**

Freddie Mac has created a number of neighborhood revitalization efforts that work in conjunction with rehabilitation and new construction initiatives. For example, in 2007, Freddie Mac, in collaboration with the City of Kansas City, a lender, and the Ivanhoe Neighborhood Association (INA) developed an initiative to expand homeownership opportunities for low- and moderate-income Ivanhoe community. Ivanhoe is an historic African-American neighborhood that has experienced disinvestment and high crime in recent years. This initiative promotes the development of new single-family homes on vacant lots, as well as the restoration of vacant and abandoned single-family homes within the neighborhood. As a part of the initiative, the lender converted an old firehouse into a community center where the offices of INA are located and all homeownership classes are held.
Minority Homeownership Lending Initiatives

In an effort to increase homeownership opportunities for minority families, Freddie Mac works with various public and private organizations to implement homeownership initiatives in minority communities across the country.

In 2007, Freddie Mac joined forces with M&T Bank, the Ibero-American Action League, Inc. (Ibero) and NeighborWorks Rochester to launch a new first-time homebuyer campaign in Rochester, New York. As part of this initiative, Ibero and NeighborWorks Rochester, in collaboration with M&T Bank, are conducting free homebuyer workshops using Freddie Mac's Get The Facts! toolkit.

Freddie Mac, Harris Bank, Latin United Community Housing Association and the Spanish Coalition for Housing joined forces to increase homeownership opportunities to underserved Hispanic households in the Chicago area. The initiative included an outreach campaign using the Nuestro Barrio telenovela series. The series aired for 26 weeks on local Chicago television. Simultaneously, two local Hispanic nonprofit organizations offered educational workshops using the Nuestro Barrio content.

Public Housing to Homeownership Lending Initiatives

Freddie Mac recognizes the importance of developing public/private partnerships to raise awareness among families that may believe homeownership is not a possibility. In Kitsap County, Washington, Freddie Mac has partnered with a lender and the Consolidated Housing Authority to increase awareness and understanding of the homeownership opportunities available to the low- and moderate-income families and Housing Authority residents of Kitsap County and surrounding Mason County communities. As part of the initiative, Freddie Mac helps provide quality homebuying information and education. The homeownership initiative features financial literacy education, automated loan readiness assessment, flexible affordable mortgage products, and homebuyer education and counseling.

Homeownership Education and Counseling

Freddie Mac has been a leader in supporting homeownership education and counseling. We conducted the first empirical study convincingly demonstrating that pre-purchase homeownership education and counseling lowers borrower delinquency rates. As described below, during 2007 we continued to support the homeownership education and counseling industry by providing tools to help counselors service more potential homebuyers and provide more consistent homeownership counseling.

One of the tools Freddie Mac offers is CounselorMax Supported by Freddie Mac, which is designed to help housing counselors enhance their capacity and productivity. CounselorMax is a web-based case management tool for housing counselors that has been owned by EMTA, a small California firm. Freddie Mac provides enhanced support
to select counseling agencies using CounselorMax in conjunction with Freddie Mac initiatives. Currently, over 400 housing counseling agencies use CounselorMax Supported by Freddie Mac. In December 2007, EMTA sold CounselorMax to NeighborWorks® America. Under an agreement with NeighborWorks America, Freddie Mac will continue to provide CounselorMax training and customer support to nonprofit providers through 2009.

To help ensure that homeownership counseling is consistent, Freddie Mac continued to offer Loan Prospector Outreach (LPO), an online client assessment tool. LPO helps counselors quickly and accurately assess the readiness of their clients to apply for a mortgage, offers information to shape pre-purchasing counseling, and helps ensure that consumers have access to affordable mortgage products. The housing counselor first inputs the client's data in LPO, then reviews the client's credit history, and considers the various financing and mortgage options. LPO automatically conducts a client assessment in minutes, indicating whether an applicant is ready to apply for a mortgage or requires additional pre-purchase counseling. When the client is ready to apply for a mortgage, LPO allows the housing counselor to print out a certificate signifying that they are ready to apply for a mortgage. LPO can help lenders reach more first-time homebuyers, families in underserved communities, immigrants, and others.

Cranston-Gonzalez National Affordable Housing Act

Initiatives like those described above in this Section K could support the objective of comprehensive housing affordability strategies under §105 of the Cranston-Gonzalez National Affordable Housing Act.