



Final Transcript

FREDDIE MAC: Freddie Mac's 2008 Annual Stockholders' Meeting

June 6, 2008, 9:00 a.m. EDT

SPEAKERS

Richard Syron
Robert Bostrom
Fred Meyers

PRESENTATION

R. Syron We welcome you to our Annual Stockholders' Meeting. I think this is a time, given what's happening in the economy reflected in today's papers, every day's papers, that we should all be proud of the work that Freddie Mac does. We'll be discussing that mission and how it interacts with our shareholders' interest in detail at this meeting. For now I'd like to formally call the meeting to order.

I'm pleased to have all of the directors, who have been nominated for election in our board in attendance at this meeting. They will be recognized individually later during the meeting.

Bob Bostrom, our General Counsel and Corporate Secretary, is Secretary of this meeting. I'd also like to recognize Bill Lewis, from PwC, PricewaterhouseCoopers, our independent auditors, who is in the audience.

Bob, do we have a quorum?

B. Bostrom Yes, Dick. I'm pleased to report that we do. We have a quorum with approximately 77.3% of the Freddie Mac voting common stock issued entitled to vote represented at this meeting. Since a quorum is present, the meeting is duly constituted and the meeting may proceed.

Let me note that this meeting is being Webcast. I'd also like to note for the meeting that we may make certain forward-looking statements regarding business results. These statements are based upon a set of assumptions about key business drivers and other factors. Changes in these factors could cause our actual results to vary materially from our expectations. You'll find a discussion of these assumptions in our Information Statement and Annual Report to Shareholders dated February 28th, which is posted on our Web site. Copies also are available at the entrance to the auditorium and we would urge you and encourage you to carefully review those factors.

R. Syron Thanks, Bob. Since we do have a quorum we're ready for business. When you entered the room this morning you received an agenda and rules for the meeting. Bob, would you review those rules now, please?

B. Bostrom Sure, Dick. In the interest of conducting an orderly meeting, we would like to ask you to observe the rules that were distributed to you as you entered the auditorium. In particular, I'd like to remind you of three or four things:

First: The business of the meeting will be taken up as set forth on the agenda. When an item on the agenda is before the meeting for consideration stockholders should please confine their questions to that particular agenda item at that time.

Second: All questions and comments should be directed to the chairman of the meeting. Stockholders wishing to address the meeting should ask the chairman to be recognized. Upon recognition by the chairman speakers should use the microphone provided and state their name and status as a stockholder before asking any questions.

Third: If a stockholder has a question on Freddie Mac's operations that are not otherwise related to the business of this meeting an opportunity will be provided to present such a question during the general question period listed on the agenda.

Finally, in order to give all stockholders who wish to speak an opportunity to do so, we are limiting stockholders to two questions. You will be permitted to ask your second question only after each stockholder has had an opportunity to ask a single question. We would also like to ask you to please, not let your questions exceed three minutes.

With that I'll turn it back to you, Dick.

R. Syron Thank you, Bob. We expect that this approach will let us accomplish the business of the meeting while providing ample opportunity for shareholders here today to have their questions answered. If in the unlikely event there are any questions that we don't have time to answer, I invite you to talk to Ed Golding. Ed, do you want to raise your hand? Ed heads our Equity Investor Relations. He'd be happy to stay after the meeting to talk to you and so I think we'd like to handle it that way.

I'll now ask Bob to report on the mailing of the notice of the meeting.

R. Bostrom Yes. This meeting is held pursuant to a notice that was mailed to the voting common stockholders of record as of March 31, 2008. I have an affidavit from Computershare Communication Services, Freddie Mac's transfer agent. Computershare commenced mailing those shares on April 29, 2008, to each stockholder of record who is entitled to vote. The document is available for inspection if any stockholder wishes to examine it. A list of registered stockholders entitled to vote is also available at this meeting for examination by any stockholder who wishes to do so. Dick?

R. Syron Bob, could you file these documents with the records of the meeting? ComputerShare is acting as inspector of elections for the meeting to receive the proxies, judge the qualification of voters, collect and count the votes, and report the results of the ballots in writing. Mr. Fred Meyers of ComputerShare is here to perform these duties. We administered the Oath of Office to Fred and it will be delivered to Bob for filing with the records of the company in the meeting. We have also directed Fred to deliver all proxies and ballots presented at the meeting to Bob for filing, similarly, with the records.

Now let's consider the matters to be voted on by the shareholders. Three matters will be voted on today. As I mentioned earlier, PwC is here at the meeting. Also present are all of the director-nominees. Bob, could you please read each of the proposals to be voted on?

R. Bostrom Sure, Dick. The three proposals are as follows: Proposal number one is to elect 11 directors, each for a term ending on the next date of the next annual meeting of stockholders. Now, if I may, I'd like to briefly introduce each of the director-nominees, who are in attendance. They are, in alphabetical order: Barbara Alexander; Geoffery Boisi; Michelle Engler; Robert Glauber; Richard Karl Goeltz; Thomas Johnson; Jerome Kenney; William Lewis; Nicolas Retsinas; Stephen Ross; and Richard Syron.

Proposal number two is to ratify the appointment of PricewaterhouseCoopers as the independent auditors of the company for 2008.

And finally, proposal three is to approve the Amendment and Restatement of 2004 Stock Compensation Plan. Dick?

R. Syron I now declare the polls open. Do I have a motion to consider the matters to be voted on?

E. Goott I move to vote.

M. Roy Second.

R. Syron Thank you. All in favor, please indicate so by saying, "aye."

Participants Aye.

R. Syron All those opposed? The ayes have it. At this time we will take questions only on the proposals. Later we will entertain general questions. If you have a question, please stand and someone with a mic will come to you. Please identify yourself and limit yourself to one question at a time. So that all stockholders maybe heard. Does anyone have questions on the proposals? I see no questions on the proposals. Now let's turn to the vote.

Most of you have already voted by proxy. However, if you have brought your proxy cards with you and have not already turned it in we'll collect them at this time. Please hand them to the individuals in the aisles. I see no proxy cards being handed to the people in the aisles.

Also, if anyone wishes to vote in person now is the time. If you want to vote, please raise your hand and a ballot will be brought to you. Please

complete the ballot now and hand it to the individuals collecting them. That's an easy task.

Since all stockholders have indicated that they've voted, I declare the polls closed. Fred, could you please proceed with the counting of the votes? While Fred is doing that I'd like to make a few brief remarks, which I will do from over here.

We've already started the meeting, but let me say it's good to be with you again. It's almost exactly one year; actually, two days short of a year, from the time we had last year's annual meeting. Most companies are in the housing industry now, but Freddie Mac is living in a kind of paradox these days. In some ways, with some of our accomplishments and some of our opportunities, it's been the best of times for us. In other ways I don't know if it's been the worst, but it sure hasn't been terrific.

This tale of two Freddie's began last year and it included the same severe deterioration in credit and the housing market that has affected virtually every company in our sector. Our best of times included substantially remediating our accounting and internal controls, getting current in our financial reporting, driving ahead towards, what we expect will be soon, SEC registration, and taking on the needed steps.

Now, becoming timely in filing with the SEC has been our focus for a very long time at this company. We are finally there and I want to thank everyone associated with the company, particularly our employees for making it possible.

This year it was a similarly paradoxical story. These remain very, very tough times in terms of the credit overhang we all face. Yet, going forward Freddie is facing our opportunities, in terms of improved market share, market opportunities, finally more rational pricing and expected revenue growth.

I want to talk a little bit, just while the votes are being counted, about the pluses and minuses of this and specifically in detail why, going forward, that we're quite confident that the positive changes, the positive delta, if you will, outweigh the negative deltas as we go forward. We also want to leave time for your questions.

I first would be very remiss if I didn't express profound thanks to Shaun O'Malley, who retired from the board after nearly seven years, first as a

Board Member and then as Chairman, then as Lead Director, and was the one who dealt with the company in the critical days, from June to December of '03. Shaun has been a great leader of the board and a great friend to all of us, including me personally.

Fortunately, we anticipate that when the preliminary vote is announced in a few minutes we will fill Shaun's seat with Jerry Kenney, Jerome Kenney, whose distinguished career has included long service at Merrill Lynch, both as Vice-Chairman and as CEO of the Capital Markets Group Worldwide.

Our ability to continue replenishing your board with exceptionally experienced talent of this caliber, I think, bodes very well for the company and I think is an indicator of these individuals' beliefs not only in the company, but in the importance of its mission at this point in the nation's history. Let me just say I would put our board up against any company, financial or otherwise, domestic or international, both as a group and individually.

Now, let's turn to our financial performance in 2007. As I said in the tale of two cities, this was a year in which internally we made great progress, but also in which the housing market in many areas virtually collapsed as the subprime crisis came to a boil and many credit and financial markets have been in great turmoil. Clearly, weakening housing prices and housing activity have led to a punishing deterioration of credit, which has hurt our results along with those of almost all other market participants. Our '07 losses amounted to roughly \$3.1 billion on a GAAP basis. These results reflect increased credit box losses of \$8.1 billion. It was a higher provision. Last year we instituted a new GAAP measure called segment earnings. Segment earnings are something also that's required by the SEC; that you report by segment if you have segments when you file with the SEC.

One objective we had in doing this was to more clearly convey our results in our three separate lines of business, multifamily, single family, and our investment business. Now, investors, I remember from the first day I came here, have been seeking such a measure because, obviously, we have not and still are not an easy company to understand. We think this segment income enhances both, our transparency, which ultimately is the key to everything, and importantly, our comparability of results to other institutions.

On a segment-earnings basis our earnings were a positive \$2.1 billion in 2007. They were positive, but they were down on a comparable basis from \$3.9 billion in '06. This decline, once again, was consistent with the deterioration in credit that we've been seeing. We know we have to do better even in the most adverse market environment.

Let me sketch out for you some of the steps we've taken and some of the reasons I think there are for comparative optimism going forward. As I said, we've become timely. We will be registering with the SEC in the very near future. These are major strides taken down the road to be a transparent, normal company.

We have significantly improved our accounting thanks in large part to our Chief Financial Officer, Buddy Pizsel, and his team. Because of these enhancements our accounting today is more transparent, more comparable to our peers and provides more consistency in our treatment of capital. We have raised prices and tightened credit terms, both significantly and both appropriately if you look at what's happened in the market recently. These steps were essential and they came, I can assure you, after only the most careful and detailed consideration.

At the same time, consistent with our obligations as the unique kind of institution we are, we've continued to subsidize our affordable business. We think we've acted prudently and decisively to protect and bolster our capital. Late in the year, you know we successfully raised about \$6 billion; not about \$6 billion, \$6 billion; in preferred capital.

In March of this year OFHEO Jeff Spohn is over there with some of his colleagues—as a result of our progress in remediating internal controls OFHEO reduced our capital surplus, our mandated capital surplus, from 30% to 20%.

We have also committed to raise an additional \$5.5 billion in capital in a mix of common and preferred stock, and that is part of an agreement we have with OFHEO in which over time our mandated surplus will come down to 10%. So effectively, this is an agreement, which I think benefits everyone, including the housing market most importantly, in which we will raise an additional \$5.5 billion and \$5.2 billion in additional capital. Relief will come to us from OFHEO, and this is money that we'll be able to put to work in bolstering the housing market.

Given the excellent business opportunities we're seeing, we think that we have a moment in which there is enormous confluence between the interests of our shareholders and at the same time, doing what we're supposed to do under our mission: providing stability, liquidity, and affordability in the mortgage market.

Now, we all know this is a time in which the private securitization system has basically dried up. And, if you look at the two GSEs together I think that we account for about 83% ultimately of what's going on in the mortgage market. Consistent with that, Congress and the administration in part in the stimulus bill asked us to take on additional duties in the subprime areas, in foreclosure prevention, and in the jumbo mortgage market area. That's a market area where we have a new category, jumbo conforming mortgage loans. This, I think, confirmed what's become clear: there is a much greater understanding now of the need for the GSEs. Many of you will recall that three or four years ago people were saying, "The Street has taken care of all of this. You don't need the GSEs any longer. Let's find a way to quietly put them out of their misery and we'll just go on." I don't think there's a whole lot of view that that's an appropriate housing policy for the United States right now.

These are just some of the key things we've done and the changes we've made to respond to a really historical housing situation, one that we certainly haven't seen since the Great Depression. The results, so far in this year, in '08, was a GAAP loss of \$151 million, not a profit, but still clearly, I think, a turn in the right direction.

We believe our 2008 results will be significantly better than 2007 and that the current tale of two Freddie's that I described, the best of times in terms of revenue growth and profitability, are yet to come. That doesn't mean we're ignoring the negatives and we can't. Credit continues to weaken, just look at the papers every day. Our provision is growing. We are keeping a very, very close eye on falling housing prices almost on a daily basis, but we believe all of this will be manageable, not desirable, but manageable for three reasons:

First, we have already reflected on our results more than \$7 billion of future losses for the combined effect of our reserved and credit related mark to market items.

Second, our overall asset quality continues to be among the best in the industry with a mortgage portfolio, which, compared to our competitors' is

low in loan-to-value ratios, low in holdings of exotic mortgages, and high in regional diversification and high in credit quality.

Third, the revenue engine of our business is showing more horsepower than it has in many, many years thanks to the volumes that we've seen improve, the appropriate changes in credit terms and in prices and the investment opportunities spreads that we're seeing. Specifically, as we indicated in our first quarter conference call, for the full year of 2008 based on current growth opportunities and credit conditions we'd expect to achieve a 15% to 20% growth from our guarantee business, very strong growth in net interest income. On the credit side we also expect to see an increase in our 2008 provision of another \$5 to \$6 billion.

The bottom line is that while our credit costs are increasing in this tough environment, we believe they're manageable in any realistic scenario and mitigated by our revenue growth going forward. Essentially, you have two buckets. You can think of the Freddie going forward. We have these great opportunities, better pricing, better spreads lifting us up in the drag down from some of the previous-year books.

As for our mission, we think are meeting our challenges head on. For example, we more than doubled our commitment to buy \$20 billion in consumer-friendly mortgages that provided better choices for current subprime holders. We work out almost 1,000 mortgages a week. That's quite a lot when you think about it just because these involve a lot of detailed work, more than twice as many loans as we're forced to foreclose on. It took us only about 60 days after the passage of the Economic Stimulus Act for consumers to start to see the improvement in the conforming jumbo market. Now, that means you have to look not at the jumbo market as a whole, but you have to look at the jumbo market where we're allowed to participate and at the levels we're allowed to participate up because it varies by MSA and there are a couple of handfuls of them are MSA, so spreads have come in very, very dramatically in that market.

Internally we think we've made a lot of strides, but we've got a lot of work left to do. For example, we need to be much more cost efficient. We need to improve our security performance. That is one of our major objectives for the year and will be a really watershed event for the competitive opportunities this company faces. We need to strengthen our securitization business overall and we always have to continue to stress integrating credit management and risk management into decision making.

Let me finish with what I think is the balance of where we stand, and a candid view of where we stand. Anything like this has to start with what are our objectives. In looking at that, I think the first thing that we all need to remember is the most valuable asset this company has is our charter. That charter was in danger for some substantial period of time. There is legislation now, but I do not think the legislation is charter-endangering. The charter allows us to meet our viable housing mission and hopefully do so in a way that is rewarding to shareholders over time.

In order to be sure we can maintain the charter, we had to be absolutely sure; and this is our favorite word, but hopefully in a period of years we can forget it; by remediating the problems that we had in accounting, controls, and everything else because without that remediation we would not be able to have kept the charter realistically over time. If we didn't keep the charter the source for more shareholder value would have gone away. Our next objective, of course, is ensuring that that charter is transformed at a benefit for shareholders and that's what we're doing now.

Looking back, we successfully upgraded our accounting financial control systems. Dealing with the problems in credit we fared better than most, but that's not satisfactory. There's still a problem. That's no surprise for a company that isn't diversified; that is a business constrained by charter, again, to the housing industry.

I know you're not satisfied with Freddie Mac, your investment in the company. I think I can say fairly neither am I and I can certainly tell you our directors are not. Your senior management team will not be satisfied until you've received a fair return on the capital you've invested in the company. This is something we stressed both internally and vociferously externally as legislation moves forward on the GSEs.

Meanwhile, we want to thank you for your continued support in very difficult days for the enterprise, but we think we will build shareholder value by meeting our statutory measure. As Freddie Mac's turnaround gains momentum, we're very committed to ensuring that you, our owners, will be duly rewarded. After all, you're the ones that provide the private capital that we've been stressing in discussions that provide the GSEs to serve this public mission at all in the first place. Again, thank you for being here and listening.

Now, Fred, if you could please report the preliminary results of the vote, after which I'll take questions.

- F. Meyers Mr. Syron, I am pleased to report the following preliminary voting results. With respect to the proposal regarding the election of directors, each nominee has been duly elected a director of the company.
- The proposal ratifying the appointment of PricewaterhouseCoopers was approved with approximately 98% of the voting in favor of the proposal.
- The proposal approving the amendment and restatement of the 2004 Stock Compensation Plan was approved with approximately 88% voting in favor of the proposal.
- R. Syron Thank you very much, Fred. I think that completes the formal business of the meeting. Now I'd be happy to take any questions that people have. Questions? Hearing none and seeing none, I thank you all for your time. Thank you, again, for your continued understanding and ability to focus on the long-term for Freddie Mac.
- R. Bostrom Mr. Chairman, would you call for a motion to adjourn?
- R. Syron As usual, there's one thing I forgot. I need to ask, could I have a motion to adjourn, please?
- D. Groman I move the meeting be adjourned.
- R. Syron Is there a second?
- E. Goott I second.
- R. Syron The ayes?
- Participants Aye.
- R. Syron The ayes have it.
- Moderator Ladies and gentlemen, that does conclude our conference for today. Thank you for your participation and for using AT&T Executive Teleconference. You may now disconnect.