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Memo

To
Mike Lynch

Date
10/14/2008

From
Michael Taets

Subject
Preferred Stock Valuation

Cc:

Peter Federico

Background

Freddie Mac needs to value the Senior Preferred Stock being issued to the United States Treasury by Freddie Mac for Fair Value Balance Sheet disclosures. The original issuance is 1,000,000 shares at $1,000 per share for an original notional balance of $1 billion. Any future draws will increase the dollar price of each share to reflect the total amount drawn on the facility. The dividend on the preferred stock is 10%, to be paid quarterly. The dividend becomes 12% if Freddie Mac is unable to pay the dividend through organic income, similar to a negative amortization feature.

Freddie Mac has very limited redemption options. Freddie Mac can elect to not pay a cash dividend and pay down the accumulated balance in the future. If Freddie Mac is able to issue common stock in the future, the proceeds must be used to draw down the preferred stock draws excluding the $1 billion investment. Freddie Mac cannot draw down the $1 billion investment.

The U.S. Treasury has the right to redeem the Senior Preferred Stock facility for any of the following reasons:

- Liquidation event (receivership)
- Use of entire commitment ($100 billion)
- Treasury determines balance sheet is solid enough to no longer warrant the preferred facility.

The commitment to honor the $100 billion facility is not terminable by Treasury solely due to conservatorship, insolvency proceedings, or adverse changes in financial conditions. There is a periodic commitment fee payable by Freddie Mac to Treasury starting on 3/31/10. The fee is designed to compensate Treasury for its support on an ongoing basis. The fee will be set by 12/31/09 and will reset every five years.

[redacted]

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