

Date
November 13, 2008

To
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From
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Subject
Value of Senior Preferred Stock issued to Treasury and value of the Commitment set forth in the Purchase Agreement

Background

On September 6, 2008, the Board of Directors of Freddie Mac consented to the appointment of a conservator and, in accordance with the Federal Housing Finance Regulatory Reform Act of 2008 and the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, FHFA was appointed the Conservator of the Company.

The conservatorship is a statutory process designed to stabilize the Company with the objective of returning the Company to normal business operations. Upon appointment, the Conservator has all rights, titles, powers, and privileges of the Company, and of any stockholder, officer or director of the Freddie Mac with respect to its assets pursuant to the Federal Housing Finance Regulatory Reform Act of 2008.¹ All voting rights of the shareholders were suspended, the powers of the Board of Directors were assumed by the Conservator, and all dividends on outstanding preferred and common stock were eliminated. During conservatorship, all of the preferred stock and common stock of Freddie Mac will remain outstanding.

Upon the Director of FHFA's determination that the Conservator's plan to restore the Company to a safe and sound condition has been completed successfully, the Director will issue an order terminating the conservatorship. As of the date of this memo, there is no time frame as to when the conservatorship may end.

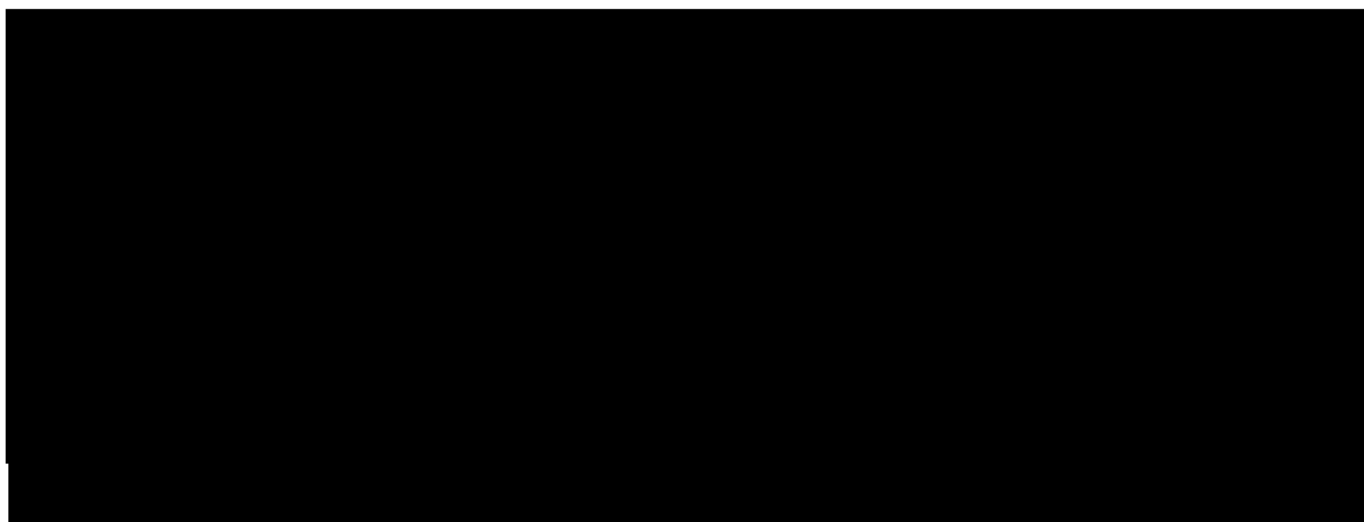
On September 7, 2008, the Conservator executed a Preferred Stock Purchase Agreement ("Purchase Agreement") with the Treasury on behalf of Freddie Mac. As consideration for the Treasury's entry into the Purchase Agreement, Freddie Mac has issued \$1 billion aggregate liquidation preference of senior preferred stock ("Senior Preferred Stock") to the Treasury, together with a warrant ("Warrant") for the

¹ As Conservator, FHFA is authorized to, among other things:

- (i) take over the assets of and operate the Company with all the powers of the shareholders, the directors, and the officers of the Company and conduct all the business of the Company;
- (ii) collect all obligations and money due to the Company;
- (iii) perform all functions of the Company in the name of Freddie Mac which are consistent with the FHFA's appointment as Conservator;
- (iv) preserve and conserve the assets and property of the Company; and
- (v) provide by contract for assistance in fulfilling any function, activity, action, or duty of FHFA as Conservator.

purchase of common stock representing 79.9% of the Company's common stock on a fully diluted basis, to be determined as of the exercise date. The warrant is exercisable at any time through September 7, 2028 at a price of \$0.00001 per share.

The Senior Preferred Stock will pay quarterly cumulative dividends at a rate of 10% per year, or 12% in any quarter in which dividends are not paid in cash, until all accrued dividends have been paid in cash. If FHFA has determined that the Company's liabilities have exceeded its assets (excluding Treasury's commitment and any unfunded amounts thereof under the Purchase Agreement) under generally accepted accounting principles, the Treasury will contribute funds to the Company in an amount equal to the difference between such liabilities and assets. The maximum aggregate amount of funding under each Purchase Agreement is \$100 billion. Should a contribution be required, the amount of such contribution will be added to the aggregate liquidation preference of the Senior Preferred Stock. In addition, each GSE will be required to pay a quarterly commitment fee to the Treasury based on the market value of the Treasury's commitment.



Given the Senior Preferred Stock has a 10% stated cash dividend yield, and a 12% dividend yield if paid in-kind, the stated rate on the Senior Preferred Stock appeared to be a reasonable return for the instrument, based on where it fits in the Company's capital structure.

