



FEDERAL HOUSING FINANCE AGENCY
Office of the Director

March 27, 2009

The Honorable Charles E. Grassley
United States Senate
135 Hart Senate Office Building
Washington, DC 20510

Dear Ranking Member Grassley:

Last Friday I responded to your letters of March 19 to the Chief Executive Officers of Fannie Mae and Freddie Mac by promising to provide answers to your questions on their behalf. As the Deputy Commissioner of Social Security, for 4½ years, I appreciated our good working relationship and I now appreciate your interest in Fannie Mae and Freddie Mac. As conservator of both Enterprises, the Federal Housing Finance Agency (FHFA) has the principal responsibility for the retention plans you asked about. Fannie Mae and Freddie Mac were placed into conservatorship by FHFA after intense consultations with the Treasury Secretary and the Chairman of the Federal Reserve Board. If we had not done so, the Enterprises would have stopped providing liquidity and stability to the mortgage market at a critical time for the U.S. economy.

I have recently addressed some of your questions in a letter to Chairman Frank of the House Financial Services Committee and a letter to Senator Boxer, which I am enclosing. As I noted in the letter, the senior management at the time of conservatorship that took advantage of the excessive leverage allowed by law, resisted legislative reforms and lowered underwriting and investment standards, which produced the large losses in the third and fourth quarter of 2008 mentioned in your letter, have all left.

Late last August as we were planning the establishment of Enterprise conservatorships, we quickly identified retention of human capital as one of our most important challenges. With \$1.7 trillion in assets and more than \$5 trillion in outstanding debt and guarantees, the Enterprises need to control their risks carefully. That requires skilled and experienced staff in a wide range of corporate activities, including financial asset and property management, operations, technology, modeling, among others.

Even more important, the dependence of the mortgage markets and the American economy on the Enterprises in the continuing crisis had greatly accentuated the importance of maintaining their normal business activities. As those markets had deteriorated, the Enterprises became the critical backstop, with their market share last year more than doubling from two years ago to 73 percent. Keeping the Enterprises operating at full speed was best for the housing markets and best for the economy, which clearly also made it best for the taxpayer. And that would only be possible if we retained the Fannie Mae and Freddie Mac teams. They are an important part of the solution and not the problems of the past.

The conservatorships, new CEOs, new Boards of Directors, and broad public discussion about whether there should be major changes in the structure of the Enterprises created considerable

uncertainty for their employees. At the same time, we knew one of our first announcements would be that bonuses would not be paid to senior executives based on 2008 performance. Furthermore, the collapse in value of the Enterprises' stock had destroyed years of savings for many, and future vesting of previous stock grants no longer provided any retention incentives. For senior executives, salary provided only a tenth to a third of total expected income.

We hired HayGroup, a firm with expert compensation advisers to help us develop, in consultation with the Treasury Department, a program to keep key staff without rewarding poor performance and to attract new staff to fill vacancies. We considered a variety of retention payment approaches, but felt it was extremely important to have a broad-based plan. The final program was designed to incorporate market practices and standards for troubled companies. It included a retention plan that targeted the employees most critical to keep and difficult to replace, including many hardworking lower level employees which are important to the mission of providing stability, liquidity and affordability to the housing market. There were separate retention plans for top officers (but not the CEOs) and for vice-presidents and below. The Freddie Mac plan included a total of 4,057 employees, and the Fannie Mae plan included 3,545.

Executive Vice-Presidents and Senior Vice-Presidents were scheduled to receive four payments, one in December 2008, two in 2009 (Fannie Mae in April and November, Freddie Mac in August and December), and one in 2010 (Fannie Mae in February and Freddie Mac in March). Each of the first two payments for each recipient was 20 percent of the total for that recipient. For Fannie Mae, the next two were 27 and 33 percent respectively, and for Freddie Mac they were 25 and 35 percent. The first three payments are based on staying with the Enterprise and continuing to fulfill their jobs. The fourth is performance based.

Vice-Presidents and below are scheduled to receive payments on the above 2008 and 2009 dates, distributed 30 percent-30 percent-40 percent at both Enterprises. In addition, Freddie Mac created a second pool for a broader group of these employees. Money from this pool paid out 50 percent in March 2009 and 50 percent in this October. To address concerns about potential reorganization, an employee whose job is eliminated or is otherwise terminated for reasons not related to poor performance receives all scheduled but not yet paid amounts. At Freddie Mac, the timing of payments was further altered in a very small number of cases to reflect previous contractual arrangements.

Under these plans, Freddie Mac paid \$17.3 million in 2008, with an individual maximum of \$800,000. Nineteen employees received \$100,000 or more, but only 2 were above \$300,000. In 2009, Freddie Mac is scheduled to pay retention payments of \$74.5 million. Ninety-two employees are scheduled to receive \$100,000 or more with only one over \$675,000. That non-senior officer's total \$1,325,000 reflects a previously existing contractual bonus. In 2010, payments totaling \$5.8 million are scheduled, depending on performance with a maximum of \$525,000 and 21 employees receiving more than \$100,000. For the three years together, the total dollars paid and scheduled to be paid equals 12 percent of 2008 salaries and employee benefits. The highest individual total for the three years is \$1.5 million. The performance-related payments for senior officers in 2010 will, for each individual, depend on a strong personal evaluation for 2009 and completion of specified significant assignments such as improved risk analytics reporting, default models, and risk governance structures.

Fannie Mae paid \$33.5 million in 2008. Twenty employees received \$100,000 or more with the individual maximum of \$300,000. In 2009, Fannie Mae is scheduled to pay \$71.9 million, with 121 employees receiving \$100,000 or more and a maximum of \$705,000. In 2010, payments of

\$7.2 million are scheduled, and thirty-five employees are scheduled to receive \$100,000 or more with a maximum of \$495,000. For the three years together, the total dollars paid and scheduled to be paid equals 11 percent of 2008 salaries and employee benefits. The highest individual total for the three years is \$1.5 million. Performance measures for the 2010 payments to senior officers have not yet been finalized, but will reflect among other goals, successful contributions to the President's Homeowners Affordability and Stability Program

The total amounts for the three years are less than three-fourths of targeted cash bonuses for 2008. For EVPs and SVPs the shortfall from targeted income was far greater because they receive no stock grants for the 2008 performance year, which normally are as large or larger than cash bonuses for the highest ranking officers. The plans generally have been successful. Total forfeitures, caused when employees leave voluntarily and lose any scheduled payments not yet made, have amounted to just \$2.1 million at Freddie Mac and \$2.3 million at Fannie Mae. Only half a year has passed, and it will be important to maintain that success over the coming year.

For personal privacy and safety reasons, we do not think it is appropriate to release individual names of employees receiving over \$100,000. In general, we can say these recipients include employees with both little and long term tenures, as the future needs of the Enterprises, not past performances were the basis for these payments. These recipients come from all major groups within the Enterprises but particularly those with vacancies and those with high demands because of the current environment.

For the 2009 performance year, Freddie Mac has established short-term and longer-term incentive award plans for employees at the Vice-President level and below. The amount of money in the short-term bonus pool will depend on the Enterprise's achievement of a variety of important goals primarily relating to mission, risk management, accounting and controls, business infrastructure, financial performance and foreclosure prevention. A longer-term incentive plan will pay out over two years, depending on Enterprise performance in addressing FHFA examination findings and other infrastructure issues. Non-salary compensation plans have not yet been completed for senior Freddie Mac executives or for Fannie Mae employees, generally.

Given my experience in several major private sector companies and as a member of the President's Management Council, I am a strong believer in "pay for performance." It is not realistic to expect that experienced and highly skilled employees will indefinitely continue to work as hard as they have if we do not provide reasonable incentives to perform, nor will it be possible to fill critical senior openings, such as the CEO, COO, and CFO positions at Freddie Mac and the General Counsel, Chief Risk Officer, and EVP for Operations and Technology at Fannie Mae.

You asked about other retention programs at the Enterprises during the past three years. These programs generally rewarded work on satisfying their consent agreements, including remediating their internal controls, improving their information systems and timely filing of their financial reports. Fannie Mae made a total of 2,041 retention awards, with some receiving more than one award. Since the beginning of the conservatorship, eighteen individuals received cash retention awards totaling \$573,000 from these programs and four employees received contractually deferred sign on bonuses totaling \$400,000. An additional two such bonuses, for a total of \$175,000, are scheduled for later this year. Freddie Mac has had 11 retention programs in the past three years, other than the conservatorship plan. The programs involved six to 64 employees, for a total of 277 awards. Three of the plans, involving 47 employees made or is scheduled to make post-conservatorship cash payments, totaling \$1.0 million.

As you requested, we are also including certain retention plan documents, including letters sent to employees of both Fannie Mae and Freddie Mac. In the latter case, different documents were given to senior executives and other recipients. Fannie Mae and Freddie Mac each believes that it has a contractual obligation with respect to each employee included in the program. At Freddie Mac, senior executives were informed that the "agreement" was enforceable according to Virginia law.

Some perspective on the importance of the role of the Enterprises may be useful. Jumbo conventional loans that do not qualify under the Enterprises loan limits are costing borrowers nearly 1.5 percentage points more than Enterprise conforming loans for each year for the life of the loan. The retention payments for the three years, 2008-2010, will likely total between 0.01 and 0.02 percent of this year's Enterprise loan purchases and guarantees.

The Enterprises have been leading efforts of the Administration to implement loan modification and refinancing programs designed to stop millions of foreclosures and stabilize the mortgage market. Recognizing the importance of these institutions, the Treasury Department and the Federal Reserve have already invested more than \$400 billion in their securities. Taking risks with the viability of Fannie Mae and Freddie Mac by not providing adequate compensation would be unwise.

I hope this answers your questions. We will be available to discuss this matter further with you or your staff.

Sincerely,

A handwritten signature in black ink, appearing to read "J. Lockhart III". The signature is written in a cursive, somewhat stylized font.

James B. Lockhart III
Director

Enclosure

ATTACHMENTS

TAB 1: FHFA LETTER TO THE HONORABLE BARBARA BOXER

TAB 2: COMPENSATION AND RETENTION PLAN GUIDELINES

FANNIE MAE

TAB 3: COMMUNICATIONS RELATING TO FORMULATION AND IMPLEMENTATION

- Fannie Mae's Employee Compensation Statement
- Special Messages from Herb Allison
- Frequently Asked Questions

FREDDIE MAC

TAB 4: DOCUMENTS OUTLINING THE RETENTION PROGRAM

- EVP and SVP Parameters Document
- VP and Non-Officer Parameters Document

TAB 5: COMMUNICATIONS RELATING TO FORMULATION AND IMPLEMENTATION

- Freddie Mac's Compensation Statement
- 2008-2009 Compensation Planning Statement – Non-Officers
- Conservatorship Retention Award Template – EVPs and SVPs
- Conservatorship Retention Award Template – VP and Below

TAB 1

FHFA LETTER TO THE HONORABLE BARBARA BOXER



FEDERAL HOUSING FINANCE AGENCY
Office of the Director

March 25, 2009

The Honorable Barbara Boxer
United States Senate
112 Hart Senate Office Building
Washington, DC 20510

Dear Senator Boxer:

Thank you for your letter of March 20, 2009 with respect to Fannie Mae and Freddie Mac compensation. FHFA initiated employee retention programs at the Enterprises prior to conservatorship as we and our advisors agreed that they were critical to a successful conservatorship. I still believe that.

As you know, Fannie Mae and Freddie Mac were placed into conservatorship to ensure they fulfill their extremely important mission of providing liquidity, stability and affordability to the very troubled mortgage market. They continue to serve this vital mission. As the private mortgage market began to freeze in 2007, Fannie Mae and Freddie Mac's market share grew rapidly to where they had a 73 percent market share of all mortgages originated in 2008. Now they are the central players in the President's Making Home Affordable plan. Given the current predominant role the Enterprises play in the nation's mortgage market, it is imperative that FHFA ensure their continued functioning and safe and sound operations.

In September, when the conservatorships were established, I made clear to Congress that we had developed, with the new CEOs and with an outside pay consultant, employee retention programs. As required by the Housing and Economic Recovery Act of 2008, we consulted with the Treasury Department. I stated then my view that it was very important to work with the current management teams and employees to encourage them to stay and to continue to make important improvements to the Enterprises.

In response, most have stayed. Indeed, I can attest that many employees at all levels at each company have been working more far more hours, with far less compensation than they did prior to conservatorship. The success of the Administration's recently announced Making Home Affordable program, aimed at preventing foreclosures and stabilizing housing markets, depends on the continued efforts of these employees, both executives and staff. But I can also say that we run a great risk of these same employees deciding this is the last straw and walking away.

The loss of key personnel would be devastating to the companies and to the government's efforts to stabilize the housing system. Retention payments are not a reward for the past. Unlike other financial institutions, I made the decision not to pay severance to the departing CEOs. All of the senior managers who made decisions that led to the current situation are gone. I might add that

some of these senior managers for years stood in the way of the legislation that might have lessened the impact of this housing market crash has had on their firms. Since last August, just before the appointment of the conservatorships, the four highest compensated executives at Freddie Mac and seven of the top eight at Fannie Mae have left and are not getting these retention payments.

If we don't provide existing employees incentives to stay, we will have a serious problem. Remaining executives are receiving much less in compensation than they received in recent years. They received no bonuses for their 2008 performance. The value of their stock holdings and options are worthless. We are taking actions to ensure that these retention payments are not excessive. The retention incentive payments that FHFA approved went to more than 3,500 employees at Fannie Mae (average \$32,000, spread over the first year-and-a-half of the conservatorship) and 4,000 at Freddie Mac (average \$24,000, also spread over the first year-and-a-half). They are going to employees at all levels, not just top executives. Of course, while it is necessary for certain top executives to leave, we very much wanted others to stay. Some are receiving significant retention payments, but their overall compensation still has declined considerably.

I have discussed your request that FHFA rescind the previously-approved retention programs and prohibit any further payment of incentives to executives with both the new CEOs, who are not receiving retention payments, and with the Boards of Directors of the Enterprises. It is their strong belief that ending the retention program would be extremely detrimental to their ability to remediate these Enterprises and fulfill their mission. We believe that FHFA would be violating its duties as conservator to end the retention plans and allow Fannie Mae and Freddie Mac to be hollowed out. There are no other financial institutions that can replace them in this critical time for the nation's economy.

FHFA is working with the Boards of Directors on ongoing compensation issues. In this uncertain compensation environment, it is very difficult to hire people to fill vacancies. There are a large number of senior vacancies at both Enterprises, including the CEO, COO and CFO positions at Freddie Mac.

The retention programs at both Enterprises are designed to pay for efforts that are underway to meet national goals. FHFA will continue to work with Congress as we ensure that Fannie Mae and Freddie Mac can fulfill their critical missions.

Sincerely,



James B. Lockhart III
Director, Federal Housing Finance Agency
Chairman, FHF Oversight Board

FANNIE MAE

TAB 2

COMPENSATION AND RETENTION PLAN GUIDELINES

Compensation Guidelines

2008 Annual Compensation

Salaries (for all employees)

- Salary Management process continues as usual

Annual Bonuses (EVP and SVP)

- Due to performance, no bonus awards will be provided for FY 2008

Annual Bonuses (eligible employees below SVP)

- At the discretion of the businesses to evaluate performance against Scorecards. If Bonus is paid, it will count against Retention Plan funding

Long-term Incentives (LTI eligible employees)

- Long-term incentive awards for FY 2008 performance will not be provided



Compensation Guidelines

2009 Annual Compensation

Salaries (for all employees)

- Same Salary Management process as in the past

Annual Bonuses (Annual Bonus eligible employees)

- Executives will be eligible for a FY 2009 bonus, payable in early FY 2010, the measures and goals are TBD.

Long Term Incentives (LTI eligible employees)

- Long-term incentive grant in FY 2009 will be a "look-forward" performance-based deferred cash award
 - Awards will be fully performance based, the measures and goals are TBD
 - Awards will be granted in Feb. 2009 and will vest over 2 years at 50% per year
 - Awards will have a payout scale linked to actual performance ranging from 0% - 120% of target



Retention Plan Guidelines

Executive Level – EVP and SVP

Overall Objectives

- Needs to focus on retaining SVPs and EVPs over the next 18 Months (till early FY 2010)
- Needs to be a mix of service vested retention and performance based pay, using the performance based pay component to reinforce organizational strategic objectives
- Should not have that many pieces and should be easy to communicate and understand
- Should not create a windfall for Executives given the economic realities

Retention Plan Parameters

- Retention awards are calculated as a % of FY 2008 target bonus awards*. Retention pool is funded at 75% of the 2008 Target Incentive Amount
- Retention awards for any one individual can not exceed 150% of 2008 Target Incentive Amount
- Retention awards are performance-based and service-based over an 18 month period
 - 33% percent based on performance; 67% percent based on service
 - Service-based portion must be provided in at least 3 "back-ended" installments
 - Performance-based portion provided in March 2010

* Assumes target award amounts are in-line with the competitive market



Retention Plan Guidelines

Below the Executive Level

Overall Objectives

- Needs to focus on retaining Key Employees over the next 18 Months (till early FY 2010)
- Focus will be on service vested retention
- Should be flexible to provide the businesses with the ability to retain employees at any level if deemed critical
- Should be easy to communicate and understand

Retention Plan Parameters

- Retention award pool is funded as a fixed % of FY 2008 Target Total Direct Compensation* below the SVP level. Retention pool will take into consideration any 2008 bonuses paid based on Scorecard achievement. The specific % funding amount is TBD.
- Retention awards and 2008 bonus for any one individual can not exceed 100% of 2008 Target Incentive Amount
- Retention awards are service-based over an 18 month period
 - These must be provided in "back-ended" installments
 - A minimum of 3 installments must be used

* Assumes target amounts are in-line with the competitive market



FANNIE MAE

TAB 3

COMMUNICATIONS RELATING TO FORMULATION AND IMPLEMENTATION

Fannie Mae's Employee Compensation Statement

Special Messages from Herb Allison

Frequently Asked Questions



2008 Retention Award

Employee Compensation Statement

Employee Name
EVP Title

THE CONTENT PROVIDED BELOW IS STRICTLY PERSONAL AND
CONFIDENTIAL

PLEASE TREAT THIS WITH THE UTMOST CONFIDENTIALITY

Retention Award: For employees, managers, directors and vice presidents, retention awards will be awarded in three increments:
December 2008: 30%
April 2009: 30 %
November 2009: 40%

For senior and executive vice presidents, retention awards will be awarded in four increments:
December 2008: 20%
April 2009: 20%
November 2009: 27%
February 2010: 33% **

** The February 2010 payment is contingent on Fannie Mae meeting certain performance goals established and approved by the conservator.

Payments are contingent upon continued employment with Fannie Mae.

2008 Retention Award

Retention Award: \$

Retention Award Payment Schedule

1st Payment (December 2008)	\$
2nd Payment (April 2009)	\$
3rd Payment (November 2009)	\$
4th Payment (February 2010)	\$



2008 Retention Award

Employee Compensation Statement

Employee Name
Employee Title

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December 2008: 30%
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For senior and executive vice presidents, retention awards will be awarded in four increments:
December 2008: 20%
April 2009: 20%
November 2009: 27%
February 2010: 33% **

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2008 Retention Award

Retention Award: \$

Retention Award Payment Schedule

1st Payment (December 2008)	\$
2nd Payment (April 2009)	\$
3rd Payment (November 2009)	\$

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HomeSite News

Special message from Herb on Retention Program

Mon Sep 15 2008

Dear Colleagues:

We have now finalized our employee retention program and have established the broad framework for our 2009 annual compensation program. I will share these with you today and we will come together for a Town Hall to discuss them further later in the week.

The details are below, but in short, all full-time employees, no matter what title or level, will be eligible for incentives to stay at the company to help us serve the market like never before. We worked closely with our conservator and compensation experts to develop programs that both achieve our retention goals and are fiscally responsible.

The retention program and 2009 compensation program are based on a few simple principles:

- We need to provide meaningful financial incentives for remaining at the company while recognizing that other companies in the mortgage business that survive this housing crisis are likely to be paying far less this year in non-salary compensation.
- We have decided to maintain current salaries and to provide cash awards and long term incentive awards that are structured to achieve our retention goals.
- Total individual compensation under these programs will be based on both your performance and the company's performance.

With these principles in mind, here are the changes, starting with 2008.

2008 Retention Awards

All full-time employees, as well as part-time employees eligible for the Annual Incentive Plan (AIP) or other cash bonuses, will be eligible to receive a cash Retention Award. Whether you receive a Retention Award and the amount of the award will be determined by your manager's evaluation of your performance and the criticality of your position.

For employees Level 1 through vice president, these awards will pay out in increments between now and the end of 2009. For senior and executive vice presidents, the awards will pay out in increments between now and the beginning of 2010, holding this group more accountable for the overall performance of the company during this time period.

The pool Fannie Mae has set aside for the Retention Awards will be funded at a level equal to 75 percent of the previously planned pools for 2008 for our various bonus programs. For participants in the AIP (Directors and above), the target for your award will be the same as your AIP target under the previous system.

Our conservator has reviewed the corporate goals established by our Board in early 2008 and has determined that those goals will not be met. Thus, the 2008 bonuses (for Levels 1-5) and 2008 AIP payments (for Directors and above) will not be paid. In addition, we will not be granting 2008 Long Term Incentive (LTI) restricted stock awards.

However, the cash Retention Awards – along with the incentives available under the 2009 compensation program described below, – provide meaningful and appropriate incentives for staying here, working hard, and performing well through next year and beyond.

Let's take a closer look at how the Retention Awards will work.

For Levels 1 thru vice president: The individual Retention Awards for this group will be determined approximately four weeks from now and they will be paid out over time, beginning with a 30 percent payment this coming December, another 30 percent in April 2009, and the final 40 percent in November 2009.

Here's a rough example. Let's say that your cash Retention Award is \$7,500. You would receive the first 30 percent (\$2,250) this December, the second 30 percent (\$2,250) next April, and the remaining 40 percent (\$3,000) next November. To receive these payments, you must stay in the job through each payout date. So, for example, if you voluntarily leave in January, you would not receive the April and November payouts.

For senior and executive vice presidents: The Retention Awards for this group will work the same way with one key difference. These individuals will have a third of their awards taken off the top and held back until February 2010 with payment contingent on Fannie Mae meeting certain performance goals established this fall and approved by the conservator.

2009 Annual Compensation Program

The 2009 compensation system will look more familiar with a structure that is similar to the previous compensation structure. It includes:

- Market-competitive salary and benefits.

Fannie Mae Links

- Breaking News
- Daily Clips
- eFannieMae.com
- fanniemae.com

Special message from Herb on Retention Program

- Cash award scheduled to pay out in early 2010. This award will operate similarly to your bonus or AIP award under the previous system. As under the previous system, we will establish targets for these awards at the beginning of the year and your actual payout in 2010 will vary based on your performance against your annual goals and the company's performance (which will determine the size of the funding pool).
- LTI deferred cash award. In early 2009, those employees eligible for LTI restricted stock awards under the previous system will be eligible for LTI deferred cash awards. This deferred cash award will replace the LTI restricted stock award you were eligible for under the previous system. We will establish targets for these awards at the beginning of the year and the awards will vest over two years. You'll have the opportunity to be paid roughly 50 percent of the award amount in early 2010 and again in early 2011, if you stay at the company through each payout date. The actual payouts will reflect the company's performance against goals that will be established in late 2008 or early 2009. Thus, your actual payout each year may be more or less than 50 percent of the LTI award amount.

That's the basic outline of the retention program and the 2009 compensation program – meaningful, appropriate, performance-based incentives for all employees to stay here through next year and beyond, and a basic structure that is rooted in the previous compensation system.

These are important programs that represent a substantial investment in our talent and I want to make sure everyone understands them. I've covered a lot of ground here and I'm certain you have questions. Your managers will be meeting with you today and tomorrow to discuss the programs. If you have questions about how the programs will apply to your particular situation, please ask your manager or HR representative. We will seek to answer all your questions as quickly as possible. Then, later this week, we will have a Town Hall to check in and talk about the programs.

As I said at our first Town Hall, Fannie Mae is more critical than ever to the recovery of the housing finance system and health of our economy. It is vitally important to keep the talent needed to keep our business running and fulfill our mission. I want to thank our conservator, Chris Wolf, her team, and many others for working nights and weekends to put this program together quickly and thoughtfully. Getting this program completed has been my number one mission since I took this position – because millions of Americans, your Fannie Mae colleagues, and I all need you.

– Herb

Contact: [Katie Penole](#)

Last Updated: 09/15/2008

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HomeSite News

Message from Herb Allison to all employees on retention awards

Tue Oct 14 2008

Dear Colleagues:

As previously announced, managers will begin informing their team members of our retention award decisions this week. I want to describe the process of allocating awards and what to expect in the coming days.

First, you should know that the process of allocating retention awards has been difficult. Managers up to the highest levels have thoughtfully engaged with each other as they tried to reach the best result for members of their teams and, ultimately, for the company. There was spirited discussion and debate about the values and criteria we should apply to these decisions until, finally, we reached consensus.



To start the process, managers assessed their staffs and made recommendations based on several factors including but not limited to:

- Performance and potential;
- Criticality of the position;
- Versatility of skills; and,
- Difficulty of replacing those skills.

While everyone was eligible, as I've stated before, not everyone will be receiving an award. Among those receiving awards, amounts range based on the factors listed above.

The initial recommendations by managers were reviewed by senior leaders who contributed their own experiences and assessments while weighing each division's overall needs and available retention pool.

The Executive Committee then evaluated the recommendations from all areas to ensure appropriate differentiation of awards and consistent application of the criteria across the company.

Decisions are now final and employees will begin meeting with their managers sometime between the middle and the end of this week.

Regardless of your award, I want to thank you sincerely for your dedication and commitment to Fannie Mae and our mission.

Regards,

Contact: [Darrell Fearn](#)

Last Updated: 10/14/2008

HomeSite News

Fannie Mae's retention plan -- answers to frequently asked questions Thu Sep 18 2008

General

Q. How is the retention program related to the various planned 2008 bonus programs?
A. As was explained in the Monday HomeSite message, the 2008 bonuses (for Levels 1-5) and 2008 AIP payments (for Directors and above) will not be paid. In addition, Fannie Mae will not be granting 2008 Long Term Incentive (LTI) restricted stock awards. As a baseline, the retention program will have available an amount equal to 75 percent of the bonus program, including AIP pools, for 2008.

Q. What does the term criticality mean? How are Officers going to determine relative criticality of a job? Will they receive guidance on this?
A. The term "criticality" refers to an assessment of Fannie Mae's business functions based on our critical business initiatives and the goals of the conservatorship. Operating with that initial assessment as context, the officers within each business unit will consider key skills, impact on results, potential, etc. Bottom line: we will use our best business judgment and recommendations will be reviewed at the Executive Committee level across the organization.

Q. Will an employee only get a retention award if they performed well in 2008 AND their position is deemed critical? If the position is not deemed critical, then is it certain the employee will be let go?
A. There are a number of variables that will be considered in making the decision about whether to provide a retention award to an individual employee. At this point, the focus of the retention planning is to identify critical functions and roles within the company, so it is premature to attempt to anticipate the outcome of this exercise. Consideration will also be given for a number of variables including key skills, versatility, potential, and performance. In all cases, a retention award is intended to provide a meaningful financial incentive to motivate the recipients to stay employed by Fannie Mae. All employees, whether they receive a retention award or not, remain employed by Fannie Mae.

Q. Is the target for the long-term incentive (LTI) deferred cash award based upon corporate performance (and therefore, variable) or is it a fixed amount?
A. The LTI award for the 2009 performance year has a performance variable that would allow for 0-120 percent of the LTI award to be paid based on company performance against performance criteria (50 percent in February, 2010, and 50 percent in February, 2011). The performance criteria will be established in the 4th quarter of 2008 or very early in 2009.

Q. If an employee stays with the company, and then takes a severance package at some point, will their retention bonus be accelerated?
A. Employees who receive a severance package during the retention period will receive the remainder of their retention award as part of the severance package.

Eligibility

Q. Will every employee in the company receive a retention award?
A. The focus of retention planning is Fannie Mae's critical business initiatives and the goals of the conservatorship. Although all employees will be considered in the retention planning process, it is likely that many employees will not receive a retention award. Please recall that, as in our normal compensation planning cycles, not all employees receive awards and we would expect that to be true in this retention planning exercise as well.

Q. Is there a cut-off date for consideration of new employees for the retention award?
A. Employees who started with Fannie Mae as of September 15, 2008, will be considered in the retention planning process. Any retention award given to employees who work less than full time or who started during 2008 may have an adjustment made based on these factors when determining the amount of the retention award.

Q. If an employee is provided with a retention award, and then takes a different job within Fannie Mae, will they receive the full 2008 retention payout?
A. If the employee remains with Fannie Mae they will receive the retention awards as they are paid out, no matter what position they are in.

Q. What if an employee is on leave during the retention planning process?
A. If an employee is taking job-protected leave (i.e. FMLA, ADA-related), the fact of that job-protected leave will not be used in the retention planning process.

Merit

Q. How will the retention plan impact merit increases? Will we have merit increases for 2008?
A. No decision has been made regarding merit increases at this point. This decision will be part of the 2009 business planning and budgeting process and won't be

Fannie Mae's retention plan -- answers to frequently asked questions

determined until mid-to-late 4th quarter. In addition, merit increases would be based on the normal performance management process (see below), not on the retention-planning outcomes.

Other Bonuses/Payouts

Q. What happens to the pending LTI grants that haven't yet vested?

A. LTI grants made in prior years (for example in early 2008 for 2007 performance) vest under their terms.

Performance Management Process for 2008

Q. Will we be going through the annual performance management process this year-end?

A. Yes, we will still be completing a full performance management process in late 4th quarter as the process has multiple applications beyond compensation planning.

Q. Are our individual goals still relevant in this new retention plan?

A. Individual goals are determined to make sure that work being completed is aligned with the overall objectives of the department, business unit, and Fannie Mae. They are still a critical ingredient in keeping focused on the critical initiatives to move the business forward. Though they are utilized in compensation planning they do serve other important purposes.

Q. How do we go about developing metrics for the future? How do we measure future success?

A. We will conduct our 2009 planning and budgeting process in the 4th quarter and an outcome of this work will be a listing of critical metrics and objectives.

New Compensation Structure

Q. Are we rolling out the new compensation structure for Levels 1-6 in 2009?

A. We continue to work through the components of the structure and will let you know when a timetable for implementation is determined.

Q. What was meant by the reference to "market competitive salary and benefits" under 2009 annual compensation program in Herb's HomeSite message?

A. There are no material changes to Health and Welfare benefits for 2009 and open enrollment will be completed in the normal timeframe. As always, we will continue to monitor our competitiveness in both pay and benefits over time and make changes as appropriate.

Contact: [Katie Penote](#)

Last Updated: 09/18/2008

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TAB 4

DOCUMENTS OUTLINING THE RETENTION PROGRAM

EVP and SVP Parameters Document

VP and Non-Officer Parameters Document

FHFA CONSERVATORSHIP RETENTION PROGRAM
Executive Vice President and Senior Vice President
Parameters Document
September 2008

Objective

To retain as many people as possible for 18 months (through March, 2010) in order to:

- Maintain maximum operational stability
- Allow time to evaluate the fundamental business model
- Fulfill Freddie Mac's goal of re-establishing stability and liquidity to the mortgage market

Retention Period

Retention Period runs from September 2008 through March 2010.

General Eligibility

All Senior Vice Presidents and Executive Vice Presidents who are employees of Freddie Mac on or after September 1, 2008 are eligible to participate in the program.

Retention Pool Size

The aggregate retention pool is equal to 75% of the eligible population's performance year 2008 annualized bonus target.

<i>Eligible population's performance year 2008 annualized bonus target</i>	<i>\$21,309,200</i>
<i>Multiplied by: Retention Pool Funding Multiplier</i>	<i>75%</i>
<i>Equals: Aggregate Retention Pool</i>	<i>\$15,981,900</i>

The aggregate retention pool will be calculated and fixed based on the eligible population as of September 1, 2008.

Any portion of the aggregate retention pool that is not allocated to eligible participants at the outset of the program may be subsequently allocated to individuals who did not previously receive a retention award under this program.

Award Levels

An individual's retention award amount will be determined based on criticality to the company. Absent approval from Federal Housing Finance Agency (FHFA), or if such approval authority is delegated to Freddie Mac's Chief Executive Officer or Executive Vice President - Human Resources and Corporate Services, an individual's retention award under this plan cannot exceed 150% of such individual's performance year 2008 annualized bonus target.

Payout Timing

The aggregate retention award for each individual will be paid in the regular payroll cycle occurring immediately after the following dates:

<i>Payment Number</i>	<i>Percentage of Aggregate Award Paid</i>	<i>Payment Date</i>
<i>1</i>	<i>20%</i>	<i>December 15, 2008</i>
<i>2</i>	<i>20%</i>	<i>August 1, 2009</i>
<i>3</i>	<i>25%</i>	<i>December 15, 2009</i>
<i>4</i>	<i>35%</i>	<i>March 15, 2010</i>

Payment Numbers 1, 2, and 3 will be based solely in the individual's continued employment with Freddie Mac the through the indicated payment dates.

Performance Requirements

Payment Number 4 will be conditioned upon achievement of specific performance objective(s) that will be determined during the upcoming business planning process.

Treatment of Award Upon Termination

Death and Long-Term Disability: If an individual terminated from Freddie Mac due to either death or long-term disability, all unpaid portions of the retention awards be paid as soon as administratively possible after the termination or disability date.

Retirement: If an individual terminates their employment due to retirement (as defined in Freddie Mac's Employees' Pension Plan), all unpaid portions of the award will be forfeited.

For Cause or Voluntary Termination: If an employee voluntarily terminates their employment or if Freddie Mac terminates an employee due to a non-severance eligible event, all unpaid portions of the award will be forfeited.

Severance Eligible Termination: If an employee is terminated by Freddie Mac and is eligible to receive severance, all unpaid portions of the retention award will be paid as soon as administratively possible after the termination date.

General

Retention amounts paid pursuant to this plan are considered compensation for purposes of the tax qualified Thrift/401(k) Savings Plan, the tax qualified Employees' Pension Plan and the non-qualified Supplemental Executive Retirement Plan.

Nothing in this program is intended to create a contract to employ any employee for any particular term or period of time or otherwise abrogate Freddie Mac's right to terminate an employee at any time for any reason.

Freddie Mac reserves the right to terminate this program or modify its provisions at anytime for any reason at the corporation's sole discretion.

FHFA CONSERVATORSHIP RETENTION PROGRAM
Vice President and Non-Officer
Parameters Document
September 2008

Objective To retain as many people as possible for 18 months (through March, 2010) in order to:

- Maintain maximum operational stability
- Allow time to evaluate fundamental business model
- Fulfill Freddie Mac's goal of re-establishing stability and liquidity to the mortgage market

Retention Period Retention Period runs from September 2008 through March 2010.

General Eligibility All vice presidents and non-officers who are employees of Freddie Mac on or after September 1, 2008 are eligible to participate in the program.

Retention Pool Size The aggregate retention pool is equal to 15% of the eligible population's performance year 2008 target total direct compensation (i.e., sum of annualized base salary, annualized target bonus, and annualized target long-term incentive)¹.

The aggregate retention pool will be calculated and fixed based on the eligible population as of September 1, 2008.

Eligible population's performance year 2008 annualized target total direct compensation	\$578,000,000
Multiplied by: Retention Pool Funding Multiplier	15%
Equals: Aggregate Retention Pool	\$86,700,000

The aggregate retention pool available for awards will be decreased by the amount actually funded for the vice president and non-officer performance year 2008 corporate bonus.²

The following tables illustrate the potential impact of the corporate bonus pool funding on the Vice President and Non-Officer Retention Program.

Hypothetical Scenario 1 – 60% Bonus Funding	
Aggregate Retention Pool	\$86,700,000
Less: Corporate Bonus Pool Funding @ 60% of Aggregate Vice President and Non-Officer Bonus Target	\$48,400,000
Equals: Retention Pool Available for Distribution	\$38,300,000

Hypothetical Scenario 2 – 50% Bonus Funding	
Aggregate Retention Pool	\$86,700,000
Less: Corporate Bonus Pool Funding @ 50% of Aggregate Vice President and Non-Officer Bonus Target	\$40,300,000
Equals: Retention Pool Available for Distribution	\$46,400,000

¹ Total direct compensation from employees participating in the Single Family, Multi-Family, and Underwriter's incentive programs are excluded from the calculation of the aggregate retention pool. This was done in order for employees to remain as participants in their existing functional incentive program and retain their incentive targets for the balance of 2008 and all of 2009. If these employees were not excluded from the calculation of the aggregate retention pool, the figure for the eligible population's performance year 2008 annualized target total direct compensation would increase by approximately \$17,000,000.

² The amounts illustrated for corporate bonus pool funding are for illustrative purposes only. The actual amount cannot be determined until the first quarter of 2009.

Any portion of the aggregate retention pool that is not allocated to eligible participants at the outset of the program may be subsequently allocated to individuals who did not previously receive a retention award under this program.

Award Levels

An individual's retention award level will be determined based on their criticality to the company.

Absent approval from Federal Housing Finance Agency (FHFA), or if such approval authority is delegated to Freddie Mac's Chief Executive Officer or Executive Vice President – Human Resources and Corporate Services, the sum of an individual's (1) a retention award provided under this plan and (2) actual bonus for performance year 2008, cannot exceed 150% of such individual's performance year 2008 annualized bonus target.

Payout Timing

The aggregate retention award for each individual will be paid on the regular payroll cycle occurring immediately after the following dates:

<i>Payment Number</i>	<i>Percentage of Aggregate Award Paid</i>	<i>Payment Date</i>
<i>1</i>	<i>30%</i>	<i>December 15, 2008</i>
<i>2</i>	<i>30%</i>	<i>August 1, 2009</i>
<i>3</i>	<i>40%</i>	<i>December 15, 2009</i>

Payment Numbers 1, 2, and 3 will be based solely on the individual's continued employment with Freddie Mac through the indicated payment dates.

Treatment of Award Upon Termination

Death and Long-Term Disability: If an individual terminates from Freddie Mac due to either death or long-term disability, all unpaid portions of their retention award will be paid as soon as administratively possible after the termination or disability date.

Retirement: If an individual terminates their employment due to retirement (as defined in Freddie Mac's Employees' Pension Plan), all unpaid portions of the award will be forfeited.

For Cause or Voluntary Termination: If an employee voluntarily terminates their employment or if Freddie Mac terminates an employee due to a non-severance eligible event, all unpaid portions of the award will be forfeited.

Severance Eligible Termination: If an employee is terminated by Freddie Mac and is eligible to receive severance, all unpaid portions of the retention award will be paid as soon as administratively possible after the termination date.

General

Retention amounts paid pursuant to this plan are considered compensation for purposes of the tax qualified Thrift/401(k) Savings Plan, the tax qualified Employees' Pension Plan and the non-qualified Supplemental Executive Retirement Plan.

Nothing in this program is intended to create a contract to employ any employee for any particular term or period of time or otherwise abrogate Freddie Mac's right to terminate an employee at any time for any reason.

Freddie Mac reserves the right to terminate this program or modify its provisions at anytime for any reason at the corporation's sole discretion.

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TAB 5

COMMUNICATIONS RELATING TO FORMULATION AND IMPLEMENTATION

Freddie Mac's Compensation Statement

2008-2009 Compensation Planning Statement – Non-Officers

Conservatorship Retention Award Template – EVPs and SVPs

Conservatorship Retention Award Template – VP and Below



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CONFIDENTIAL COMMERCIAL INFORMATION

To	Date <Recipient>
From	Subject Compensation Statement

Your 2008 performance ratings and recent compensation actions are shown below.

EMPLOYEE PERFORMANCE MANAGEMENT (EPM) RATINGS

Business Results Rating (BRR)	Leadership Effectiveness Rating (LER)

COMPENSATION ACTIONS

The following provides a summary of the recently approved compensation actions.

Base Salary Action –

Your new base salary is effective March 1, 2009, and will be reflected in your pay advice on or about March 15, 2009.

Current Salary	Salary Increase %	\$ Salary Increase	New Base Salary

Performance Year 2008 Short-Term Incentive –

The Compensation Committee of Freddie Mac's Board of Directors has determined that, given the entire set of facts and circumstances affecting our business during 2008 and up to the present, it would not be appropriate to fund the short-term incentive pool for 2008. Therefore, you will not be receiving an incentive award for 2008 performance.

2009 Long-Term Incentive (LTI) Deferred Cash Award Opportunity –

The 2009 LTI award, shown below, will be delivered entirely in cash and is scheduled to vest 50% on each of the first and second anniversaries of the grant date. The grant date will be March 16, 2009. The amount of the award that actually vests and is paid will be based on the achievement of performance measures approved by the Compensation Committee of Freddie Mac's Board of Directors and can range from 0% to 120% of the award value.

The award will be subject to achieving at least one performance objective, and in some cases two performance objectives, during 2009 and 2010.

2009 LTI Target \$	2009 LTI Award \$	LTI Award Payout Opportunity Range (0% - 120% of the LTI award granted)

Within a few weeks after the grant date, you will receive additional information on the terms, conditions, and performance measure(s) for this award, including the process for accessing and accepting your award agreement.



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RETENTION PAYMENT

Pursuant to the plan announced on September 15, 2008 in connection with the establishment of Conservatorship, Freddie Mac will provide you with a retention payment. This payment is in recognition of your remaining at Freddie Mac since the announcement of the Conservatorship and the contributions you have made to Freddie Mac during the period of Conservatorship, as well as those contributions we anticipate you will be making for the balance of 2009. The payment will be made in two installments, less legal deductions, as outlined in the table below.

Payment Number	Payment Date	Dollar Amount Paid
1	March 16, 2009	
2	October 1, 2009	

Treatment of Retention Payment in the Event of Termination of Employment

Severance Eligible Termination: If Freddie Mac terminates your employment as a result of a severance eligible event and you receive severance pay, all unpaid portions of the retention award will be paid as soon as administratively possible after the termination date.

Non-Severance Eligible Termination or Voluntary Termination (Including Retirement): If you voluntarily terminate your employment for any reason other than death or disability or if Freddie Mac terminates your employment due to a non-severance eligible event, all unpaid portions of the award will be forfeited.

Retirement: If you terminate your employment due to retirement (as defined in Freddie Mac's Employees' Pension Plan), all unpaid portions of the award will be forfeited.

Death or Long-Term Disability: If you terminate employment due to either death or long-term disability, all unpaid portions of the retention awards be paid as soon as administratively possible after the termination or disability date.

Under no circumstances are you obligated to repay Freddie Mac any portion of the retention award that you received prior to your termination date.

General

Receipt of this retention award does not preclude you from receiving an award under any other element of Freddie Mac's compensation program.

Amounts paid pursuant to this retention agreement are considered compensation for purposes of the tax qualified Thrift/401(k) Savings Plan, the tax qualified Employees' Pension Plan and the non-qualified Supplemental Executive Retirement Plan. However, amounts paid pursuant to this retention agreement are not included as short-term incentive eligible earnings for purposes of calculating any short-term incentive payment made by Freddie Mac except as required by applicable law.



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ADDITIONAL OUTSTANDING CASH COMPENSATION

Conservatorship Retention Program

The following amounts are scheduled to be paid under the Conservatorship Retention Program, which was communicated to you previously.

Payment Date	Amount
Total	

These amounts are in addition to the retention payment described on page 2.



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YEAR-OVER-YEAR COMPENSATION OPPORTUNITY COMPARISON (2009 versus 2008)

The following 2009 Total Compensation Opportunity has been approved. Consistent with our pay-for-performance philosophy, your performance year 2009 STI (paid in 2010) can range from 0% to 200% of your STI target, based on company and individual performance. Your 2009 LTI (granted in 2009) can vary from 0% to 120% of your LTI target, based on achievement of the designated performance measure(s).

Please note that, for comparison purposes, your target compensation has been annualized in the table below. Your actual STI opportunity will be calculated based on short-term incentive eligible earnings, as opposed to your annualized base salary, when 2009 actual STI awards are determined.

Compensation Component	2008	2009 Approved	2009 Percentage Change
Base Salary			
Target Short-Term Incentive (STI):			
As a Percentage of Base Pay			
Target Dollar Amount			
STI Payout Opportunity Range (0% to 200% of your STI Target)			
Target Total Cash Compensation			
Target Long-Term Incentive (LTI):			
As a Percentage of Base Pay (Approximate)			
Target Dollar Amount			
LTI Payout Opportunity Range (0% to 120% of your 2009 LTI Grant)			
Target Total Direct Compensation			

¹ The target dollar amount illustrated is based on your annualized base salary and rounded up to the nearest thousand dollars. Actual target dollar amount for STI is based on actual base salary earned.

CONFIDENTIAL COMMERCIAL INFORMATION



**Freddie Mac
2008-2009 Compensation Planning Statement
(Confidential)**

Employee Name: _____ **Employee Number:** _____
Job Title: _____ **Grade:** _____

The following information provides an overview of the compensation actions resulting from the Compensation Planning Process for 2008-2009

EMPLOYEE PERFORMANCE MANAGEMENT (EPM) RATINGS		
Business Results Rating (BRR):		X
Leadership Effectiveness Rating (LER):		X
 BASE COMPENSATION		
Base Salary as of December 31, 2008		\$XXX,XXX
 <u>Effective March 1, 2009</u>		
Merit Increase:	<u>Percent</u>	<u>Amount</u>
Total March 1 Increases:	X.XX%	\$X,XXX
	X.XX%	\$X,XXX
New Base Salary - March 1, 2009		\$XXX,XXX
 RETENTION PAYMENT		
Retention Payment Amount		\$X,XXX
 2009 LONG-TERM INCENTIVE (LTI) DEFERRED CASH AWARD OPPORTUNITY		
LTI Award Value		\$XX,XXX

Please Note:

Your salary increase will be effective March 1, 2009 and will be reflected in your March 15, 2009 pay advice. This information will also be reflected on the Total Rewards site beginning March 18. You can access the Total Rewards site at: www.freddie_rewards.com

Salary increases are based on a number of factors including (but not limited to): available budget, performance against objectives, contribution relative to peers, experience, critical skills, competencies, value to Freddie Mac and the value of your role in the external marketplace.

Pursuant to the plan announced on September 15, 2008 in connection with the establishment of Conservatorship, Freddie Mac will provide you with a retention payment. This payment is in recognition of your remaining at Freddie Mac since the Conservatorship and the contributions you have made to Freddie Mac during the Conservatorship as well as those contributions we anticipate you will be making for the balance of 2009. The amount indicated above is the total amount of the award. The Retention Payment will be made in two installments. Each payment will represent 50% of the total Retention Payment and will be made on March 16 and October 1, 2009. Please refer to the Retention Payment terms and conditions document for additional details.

The 2009 LTI award will be delivered entirely in cash and is scheduled to vest over two years - 50% on each of the first and second anniversaries of the grant date, which will be on or about March 16, 2009. The amount of the award that actually vests and is paid will be based on the achievement of performance measures approved by the Compensation Committee of Freddie Mac's Board of Directors and can range from 0% to 120% of the award value. The award will be subject to achieving at least one and in some cases two performance objectives during 2009.

Within a few weeks of the grant date, you will receive additional information on the terms and conditions of this award, including the process for accessing and accepting your award agreement.

Supervisor:XXXXXXXXXX
Department:XX - XXXXXXXXXXXXXXXX

Division:XX - XXXXXXXXXXXXXXXX
Unit:XXX - XXXXXXXXX



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CONFIDENTIAL COMMERCIAL INFORMATION

Corporate Headquarters
8200 Jones Branch Drive
McLean, VA 22102

Memorandum

Date
September 25, 2008

To
<Retention Recipient>

From
David Moffett

Subject
Conservatorship Retention Award

Your past and anticipated contributions are critical to Freddie Mac's ability to maintain maximum operational continuity and re-establish stability and liquidity in the mortgage market. In recognition, you have been selected to receive a special retention award. The attached letter describes the award in more detail.

We recognize that you and your family have made many personal sacrifices in order to help Freddie Mac meet continuing challenges. We appreciate your dedication and recognize that it is because of your special efforts and contributions that we will be have been able to successfully continue operations despite a highly volatile market. Thank you for your ongoing commitment to moving Freddie Mac forward.

Attachment



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Corporate Headquarters
3200 Jones Branch Drive
McLean, VA 22102

Memorandum

CONFIDENTIAL

Date
September 25, 2008

To
<Retention Recipient>

From
David Moffett

Subject
Conservatorship Retention Award

This memorandum sets forth Freddie Mac's agreement to provide to you a cash retention award pursuant to the terms set forth below.

I. Cash Retention Payment

You are eligible to receive a cash retention award of \$XX,XXX, (which is approximately equal to XX% of your annualized 2008 target bonus), minus legal deductions. The award will be paid in four installments, occurring in the regular payroll cycles immediately after the following payment dates.

Payment Number	Payment Date	Percentage of Award Paid	Dollar Amount Paid
1	December 15, 2008	20%	\$XX,XXX
2	August 1, 2009	20%	\$XX,XXX
3	December 15, 2009	25%	\$XX,XXX
4	March 15, 2010	35%	\$XX,XXX

Payment numbers 1, 2, and 3 will be based solely on your continued employment with Freddie Mac through the indicated payment dates.

Payment number 4 will be conditioned upon achievement of a performance goal(s) that is expected to be established prior to the end of this calendar year.

II. Treatment of Award in the Event of Termination of Employment

Severance Eligible Termination: If Freddie Mac terminates your employment as a result of a severance eligible event and you receive severance pay, all unpaid portions of the retention award will be paid as soon as administratively possible after the termination date.

Non-Severance Eligible Termination or Voluntary Termination (Including Retirement): If you voluntarily terminate your employment for any reason other than death or disability or if Freddie Mac terminates your employment due to a non-severance eligible event, all unpaid portions of the award will be forfeited.

Retirement: If you terminate your employment due to retirement (as defined in Freddie Mac's Employees' Pension Plan), all unpaid portions of the award will be forfeited.

Death or Long-Term Disability: If you terminate employment due to either death or long-term disability, all unpaid portions of the retention awards be paid as soon as administratively possible after the termination or disability date.

Under no circumstances are you obligated to repay Freddie Mac any portion of the retention award that you received prior to your termination date.

III. General

Receipt of this retention bonus does not preclude you from receiving a short-term cash incentive bonus attributable to performance year 2009 (paid in 2010) or from receiving an award under any other element of Freddie Mac's compensation program.

Amounts paid pursuant to this retention agreement are considered compensation for purposes of the tax qualified Thrift/401(k) Savings Plan, the tax qualified Employees' Pension Plan and the non-qualified Supplemental Executive Retirement Plan, but will not be included as bonus-eligible earnings for purposes of calculating any bonus or short-term incentive payment made by Freddie Mac except as required by applicable law.

The provisions of this Agreement shall be construed and enforced in accordance with the laws of the Commonwealth of Virginia, without regard to its conflict-of-laws principles. Nothing in the Agreement shall be construed or interpreted to be a contract of employment for any specified duration and you and Freddie Mac each have the right to terminate the employment relationship at any time for any lawful reason.

If you have any questions regarding this special retention plan, do not hesitate to contact Tammy Heller, your HR Business Partner, at 703-918-5407 for assistance.



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CONFIDENTIAL COMMERCIAL INFORMATION

Corporate Headquarters
8200 Jones Branch Drive
McLean, VA 22102

Memorandum

Date
September 25, 2008

To
<Retention Recipient>

From
David Moffett

Subject
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We recognize that you and your family have made many personal sacrifices in order to help Freddie Mac meet continuing challenges. We appreciate your dedication and recognize that it is because of your special efforts and contributions that we will be have been able to successfully continue operations despite a highly volatile market. Thank you for your ongoing commitment to moving Freddie Mac forward.

Attachment



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Memorandum

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Date
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To
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From
David Moffett

Subject
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I. Cash Retention Payment

You are eligible to receive a cash retention award of \$XX,XXX, (which is approximately equal to XX% of your annualized 2008 target bonus), minus legal deductions. The award will be paid in four installments, occurring in the regular payroll cycles immediately after the following payment dates.

Payment Number	Payment Date	Percentage of Award Paid	Dollar Amount Paid
1	December 15, 2008	20%	\$XX,XXX
2	August 1, 2009	20%	\$XX,XXX
3	December 15, 2009	25%	\$XX,XXX
4	March 15, 2010	35%	\$XX,XXX

Payment numbers 1, 2, and 3 will be based solely on your continued employment with Freddie Mac through the indicated payment dates.

Payment number 4 will be conditioned upon achievement of a performance goal(s) that is expected to be established prior to the end of this calendar year.

II. Treatment of Award in the Event of Termination of Employment

Severance Eligible Termination: If Freddie Mac terminates your employment as a result of a severance eligible event and you receive severance pay, all unpaid portions of the retention award will be paid as soon as administratively possible after the termination date.

Non-Severance Eligible Termination or Voluntary Termination (Including Retirement): If you voluntarily terminate your employment for any reason other than death or disability or if Freddie Mac terminates your employment due to a non-severance eligible event, all unpaid portions of the award will be forfeited.

Retirement: If you terminate your employment due to retirement (as defined in Freddie Mac's Employees' Pension Plan), all unpaid portions of the award will be forfeited.

Death or Long-Term Disability: If you terminate employment due to either death or long-term disability, all unpaid portions of the retention awards be paid as soon as administratively possible after the termination or disability date.

Under no circumstances are you obligated to repay Freddie Mac any portion of the retention award that you received prior to your termination date.

III. General

Receipt of this retention bonus does not preclude you from receiving a short-term cash incentive bonus attributable to performance year 2009 (paid in 2010) or from receiving an award under any other element of Freddie Mac's compensation program.

Amounts paid pursuant to this retention agreement are considered compensation for purposes of the tax qualified Thrift/401(k) Savings Plan, the tax qualified Employees' Pension Plan and the non-qualified Supplemental Executive Retirement Plan, but will not be included as bonus-eligible earnings for purposes of calculating any bonus or short-term incentive payment made by Freddie Mac except as required by applicable law.

The provisions of this Agreement shall be construed and enforced in accordance with the laws of the Commonwealth of Virginia, without regard to its conflict-of-laws principles. Nothing in the Agreement shall be construed or interpreted to be a contract of employment for any specified duration and you and Freddie Mac each have the right to terminate the employment relationship at any time for any lawful reason.

If you have any questions regarding this special retention plan, do not hesitate to contact Tammy Heller, your HR Business Partner, at 703-918-5407 for assistance.