REPORT TO THE BOARD OF DIRECTORS

OF

THE FEDERAL HOME LOAN MORTGAGE CORPORATION

INTERNAL INVESTIGATION

OF

CERTAIN ACCOUNTING MATTERS

DECEMBER 10,2002 – JULY 21,2003

BY

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JULY 22,2003

TABLE OF CONTENTS

EXECUTIVE SUMMARY

A. INDEPENDENCE OF INVESTIGATION

This has been an independent investigation initiated by, and carried forward at the direction of, the Board of Directors. All employees of the Company were instructed by the Board to cooperate fully with our investigation. Our Firm had no prior attorney-client relationship with the Company, and did not represent any of the Directors at the time of our commencing this investigation.

B. SCOPE

No limitations have been placed on us in the conduct of our investigation – we have "followed the facts" where they have led and have talked to relevant employees as often as we considered appropriate. Although the Board asked us to investigate the transactions and matters discussed in Parts II and III of the Report, there was no limitation on the scope of our investigation. Thus, as additional matters were discovered by us or referred to us by the independent auditors or the Company, we were able to investigate these as we deemed appropriate.

Our investigation included (i) review of over 250,000 pages of hard copy documents (600 boxes of documents remain to be reviewed); (ii) over 200 interviews; (iii) review of electronic documents and files, including the imaging of hard drives, evaluations of e-mails, and conducting key word searches yielding two terabytes of electronic evidence; (iv) listening to over 11,000 minutes of tapes of telephone conversations; and (v) examinations of relevant employee performance reviews and personnel files.

C. ROLE OF THE BOARD

The Board has fully engaged with and supported this process. Between January 1 and July 21,2003, the Board and its independent committees have met over 40 times, of which at least 17 were entirely or partially in "executive session" with counsel. Since March 17, 2003, the Ad Hoc Committee on Financial Management has met weekly to oversee the progress of the restatements. Since May 13, 2003, the Governance Committee has met weekly to oversee the implementation of internal control and remediation efforts headed by Martin Baurnann, the new Chief Financial Officer.

D. ANONYMOUS LETTERS

Part II of the Report concerns our investigation into allegations of wrongdoing made in two anonymous letters. In general, we found that the more serious allegations in these letters were unfounded.

E. TRANSACTIONS AND ACCOUNTING POLICIES RELATING TO THE RESTATEMENTS

A separate phase of our investigation – discussed in Part III – involved a series of transactions and policies identified by the Company and its new auditors as involving possible accounting and financial reporting issues that may have gone beyond simple error. With respect to these transactions and policies, our investigation found issues of (i) accounting policy and financial reporting, (ii) internal control adequacy, (iii) former management's governance practices, and (iv) disclosure policy. More specifically, our findings may be summarized as follows:

1. Several of the transactions and policies (CTUG, Swaptions Portfolio Valuation, and J-Deals) were entered into in late 2000 and early 2001 in response to changes in accounting rules, most notably SFAS 133. These transactions and policies were entered into in order to defer income recognition and/or to avoid volatility in financial results. In general, these transactions and policies resulted in unintentional misapplications of GAAP, and were supported by Arthur Andersen. There were, however, disclosure shortcomings with respect to these transactions and policies. In addition, in the case of the Swaptions Portfolio Valuation, the misapplication of GAAP resulted from a results-oriented, reverse-engineered and opportunistic approach to achieving an accounting objective.

2. The Linked Swaps were entered into in late 2001. They had minimal business purpose beyond deferral of unexpected excess Net Interest Income into 2002 and

later periods. Other principal problematic issues with Linked Swaps are as follows:

- Arthur Andersen was not consulted prior to the trades being implemented.
- Trader tapes indicate an awareness of the lack of bona fide business purpose and a desire for secrecy.
- Management failed to unwind the transactions after becoming aware of the accounting controversy.
- There was inadequate disclosure both to the Board and to the public.

3. Other accounting policies and transactions, such as GSCC, PC Smoothing, and MODERNs, were determined (i) not to have been undertaken for the purpose of deferring income and (ii) to have resulted in good faith accounting errors.

4. The Blaylock trades involved a circumvention of internal controls in order to achieve favorable portfolio quality objectives.

5. Our investigation of the Round Robin Settlements revealed no accounting, business, or governance issues.

In several cases, such as CTUG, J-Deals and GSCC, had the transactions been structured or executed differently, it may have been possible to achieve the accounting objectives.

Notwithstanding the various accounting errors, we did not find that the Company entered into transactions having an effect on the timing of earnings recognition at the expense of the Company's risk management policies and practices.

F. RESERVES AND RESERVE ADJUSTMENTS

We also investigated practices with respect to reserves and reserve adjustments. Corporate Accounting made reserve adjustments and altered the models that supported reserve policy, with a view to presenting a steady, nonvolatile pattern of earnings growth. These reserve adjustments frequently did not comply with GAAP and were driven more by the desire to achieve earnings targets than by a balanced assessment of the underlying probable losses. One case - the SFAS 91 Reserve – involved a knowing use of a non-GAAP reserve. The loan loss reserve was maintained at a very conservative level, beyond permissible limits under SFAS 5.

G. Disclosure Processes

The Company's disclosure processes, especially as regards sensitive transactions such as Linked Swaps and those designed as a response to SFAS 133, tended to produce generalized disclosures of strategies, rather than transparent disclosures of transactions. As a result, disclosure processes and practices fell below the standards required of a registered public company.

H. Controls and Governance

With respect to several of the transactions and policies we investigated, in particular CTUG, Swaptions Portfolio Valuation, Linked Swaps, the Blaylock trades, and inputs to the SFAS 91 amortization engine, we found weaknesses in the Company's internal controls and governance processes.

I. Role of Arthur Andersen

In general, the Company's then-independent auditors, Arthur Andersen, were aware of the transactions, were closely involved in the planning and details, and agreed with the Company's accounting treatment. In that regard, the engagement partner and advisory partner cooperated with us, and we have had access to their workpapers. We found no pattern of systematic withholding of information from the auditors. In some cases, such as reserve adjustments, the Company's accounting decisions were viewed by both the Company and Arthur Andersen as simply not material. In all cases, the former engagement partner from Arthur Andersen stands by the Company's accounting, including one case (CTUG) in which he was unaware of a transactional short-cut in execution. During the period of late 2000 to late 2001, we believe the Company became overly reliant on Arthur Andersen with respect to basic accounting decisions and policies. Several former members of Arthur Andersen's audit team are now employees of the Company. We understand these employees are now supervised by the new Chief Financial Officer, Martin Baumann.

J. Role of Corporate Accounting

The errors in accounting that led to the restatements resulted in large part from (i) inadequacies of Corporate Accounting in responding to the complex accounting rules applicable to derivative transactions, most notably SFAS 133 and SFAS 125, and (ii) initiatives within Corporate Accounting, led by the Controller and overseen by the Chief Financial Officer, with respect to reserves. The lack of technical skill and depth in Corporate Accounting extended, during relevant periods, to the key offices of Controller and Chief Financial Officer. The challenge of achieving correct accounting was exacerbated by rapid growth in the Company's Retained Portfolio and sophisticated strategies utilized to manage the Retained Portfolio. This combination of events caused the Company to undertake complex transactions in order to achieve the Company's goal of reporting steady, nonvolatile earnings growth, which transactions the Company could not and did not account for correctly.

K. Role of F&I

The Funding and Investments Division ("F&I") designed, developed, and executed many of the transactions in question. While being aware that the objective of these transactions was to defer earnings, as well as understanding their relationship with reserve "fine-tuning" adjustments, F&I representatives in general, we believe, were relying in good faith on Corporate Accounting and/or Arthur Andersen to provide the necessary accounting advice and to ensure that transactions were accounted for in accordance with GAAP. We did observe instances of communications and controls failures at F&I.

L. ROLE OF SENIOR MANAGEMENT

It was well understood throughout the organization that the tone of "steady Freddie" came from its Chief Executive Officer: Employees in F&I, Corporate Accounting and other business units were expected to take actions that would help achieve the goal of steady, nonvolatile earnings growth. The Board was aware of this strategy, but the flow of information was controlled by former Chief Executive Officer Leland Brendsel and Vice Chairman David Glenn in such a way that the accounting challenges involved in executing this strategy were not fairly presented. This was a contributing factor to the accounting and disclosure problems. Finally, as Board and Audit Committee members became increasingly concerned over the depth and expertise in Corporate Accounting and the Board became increasingly direct and specific in its demands for action (in the fall of 2001 and spring of 2002), Brendsel and Glenn failed to take prompt corrective action. Glenn's alterations of his diaries have no bearing on our understanding of, or findings related to, the matters we have been investigating.

INTRODUCTION

This Report to the Board of Directors of the Federal Home Loan Mortgage Corporation ("Freddie Mac" or the "Company"), by Baker Botts L.L.P., contains the results of our investigation into certain accounting and financial reporting matters. We anticipate continuing our investigation substantially throughout the anticipated restatement by Freddie Mac of its 2000 and 2001 financial statements and the release of financial statements for 2002. To the extent that new information comes to light or additional issues are investigated, the Report will be modified appropriately. However, we believe the Report to be a thorough, complete, balanced, and fair discussion of the matters we were asked to investigate, based on the facts known to date.

The Report is divided into three parts: first, background information regarding our investigation and the Company; second, our investigation into allegations of wrongdoing made in two anonymous letters; and third, the investigation of certain accounting issues related to the restatements.

PART I. BACKGROUND AND REASONS FOR THE INTERNAL INVESTIGATION

A. Phase One: The Anonymous Letters

On December 6, 2002, the senior management of Freddie Mac received two anonymous letters alleging three separate accounting, public reporting, and internal control irregularities at Freddie Mac.[1] In general terms, the allegations were that (i) Freddie Mac had prepared its financial statements for 1999 using projections that overestimated its income by hundreds of millions of dollars; (ii) Freddie Mac had mishandled cash collateral posted by the counterparties to its derivative transactions; and (iii) Freddie Mac personnel had mishandled a billing error relating to the fees assessed to one of its customers, Bank of America.

On December 10,2002, Baker Botts was engaged by the Audit Committee of the Board to investigate the allegations made by the anonymous letters.[2] Baker Botts presented its findings to the Audit Committee on January 16,2003 and to the Board on January 21,2003. We reported to the Audit Committee that the allegations in the anonymous letters were false in most material respects. Our findings are described in detail in this Report.

During the course of the Phase One investigation, we also came across additional issues – mostly relating to elections by the Company to treat known, balance-sheet accounting errors by smoothing the reversals of the errors over the course of future periods – that we

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[1] The first anonymous letter came by facsimile from the Chairman and Chief Executive Officer of Fannie Mae, to Leland Brendsel, Chairman and Chief Executive Officer of Freddie Mac. Although the anonymous letters were dated October 23,2002, they were not received until December 6, 2002. Also, the anonymous letters indicate broad dissemination to government agencies, media, trade associations, and individuals. To date, however, we are not aware that a copy has been received directly by Freddie Mac or any of the other, indicated recipients, other than the Chairman and Chief Executive Officer of Fannie Mae and, with respect to the second letter, the Chairman and Chief Executive Officer of Bank of America.

[2] Baker Botts, in time, engaged FTI Consulting, Inc. ("FTI") as its forensic accounting consultants to assist in this investigation.

believed required further inquiry. Our findings on these additional issues were presented to the Audit Committee on February 1,2003 and to the Board on February 12,2003.

B. PHASE TWO: ACCOUNTING ISSUES RELATED TO THE RESTATEMENTS

Throughout the Phase One investigation, Baker Botts and FTI met with the Company's independent auditors, PricewaterhouseCoopers LLP ("PwC") to brief them on the evidence being developed and to share information regarding additional issues that might affect PwC's work on the 2002 audit. As our Phase One work was being completed, the Company made its decision to restate financial statements for 2001 and 2000.[3] PwC identified to the Audit Committee eight transactions or policies that might raise issues beyond simple accounting error.[4] These transactions are referred to as: (i) the Coupon Trade-Up Giant or "CTUG"; (ii) Swaptions Portfolio Valuation; (iii) the J-Deals; (iv) Linked Swaps; (v) SFAS 91 Reserve; (vi) Loan Loss Reserve; (vii) certain transactions involving the Government Securities Clearing Corporation ("GSCC"); and (viii) PC Smoothing. Three of these transactions – CTUG, Swaptions Portfolio Valuation, and J-Deals – related to the Company's efforts to implement SFAS 133 in 2000 and 2001. Two of them – the SFAS 91 and Loan Loss Reserve – related to the Company's practices concerning the creation and use of reserves to achieve reported earnings in the range of analysts' expectations. One of the issues – Linked Swaps – concerned efforts to affect reported operating earnings. The final two transactions – GSCC and PC Smoothing – concerned business practices that seemed reasonable and appropriate but which raised accounting questions.

[3] The Company announced its intention to restate financial statements for 2001 and possibly 2000 on January 27, 2003. A number of quantitatively significant "errors" that will be corrected in the restatement were not brought to our attention because they were not thought to raise any issue beyond accounting errors.

[4] Some of these transactions and policies had been discovered by Baker Botts and FTI during Phase One, others by PwC or the Company during the audit of the 2002 financial statements, as to which PwC has not yet opined.

On January 27, 2003, the outside Directors of Freddie Mac retained Baker Botts to investigate the circumstances surrounding these eight transactions and related accounting policies. On March 6,2003, Baker Botts and FTI made an interim report to the outside Directors on the matters being investigated, and we more fully reported our findings on the eight identified transactions and accounting policies to the Audit Committee on April 29, 2003 and to the Board on May 1, 2003. As detailed below, we concluded that six of these items – CTUG, Swaptions Portfolio Valuation, J-Deals, Loan Loss Reserve, PC Smoothing, and GSCC – involved the unintentional misapplication of generally accepted accounting principles ("GAAP") based at least in part on the advice and concurrence of the Company's prior auditor, Arthur Andersen LLP ("Arthur Andersen"). One of the issues – the SFAS 91 Reserve – involved a known departure from GAAP, which the Company and Arthur Andersen deemed immaterial. Linked Swaps involved a deliberate effort to smooth a non-GAAP metric, operating earnings, which had little practical effect on the Company's GAAP reporting.

During the course of our Phase Two investigation, we looked into several additional transactions and practices identified by PwC. These items are: MODERNs, the Blaylock trades, and Round Robin Settlements. As reported herein, none of these items appear to raise comparable accounting issues. MODERNs was a transaction designed to shift credit risk through an entity that the Company subsequently determined needed to be consolidated for financial reporting purposes. The Blaylock trades were a series of pre-arranged transactions designed to permit the transfer of attractive assets from the Company's Securities Sales and Trading Group ("SS&TG") to the Retained Portfolio. Round Robin Settlements are a net settlement method that is recognized within the industry, and they do not appear to raise any issues of substance.

Some common themes emerged that are essential to an understanding of almost all of the issues we investigated. The story that developed during our investigation is one replete with accounting error, often resulting from judgments and decisions by employees who lacked the expertise to appreciate the significance, gravity of, or rigor required by, the accounting decisions they were making. The events exhibit an approach by senior management to maintaining a public corporate image at the expense of good management practices and effectiveness of internal controls. The management approach also created an environment that interdicted transparent communication to the Board and, ultimately, to the public and the markets.[5] The result was a pattern of financial accounting and disclosure practices that fell below the standards required of a registered public company.

At this writing, the story is not one of rampant criminal misconduct, or abuse of authority for personal gain, but of serious failures by senior management to discharge responsibilities entrusted to and placed upon them by the Board. Specifically, senior management encouraged the use of complex, capital-market transactions and, to a lesser extent, reserve adjustments, for purposes of achieving strong, steady earnings growth and reported earnings that were within 2¢-3¢ a share of analyst expectations. Senior management also knew that Corporate Accounting lacked the necessary skill and resources to assure that the Company's activities in this regard remained within the bounds of GAAP.[6]

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[5] The Company's senior management at all relevant times included Leland Brendsel, Chairman and Chief Executive Officer, David Glenn, Vice Chairman and Chief Operating Officer, and the Chief Financial Officer, who was in control of financial reporting and disclosure policy. During this period, the Chief Financial Officers were: Richard Daniels, 1994-96; John Gibbons, 1996-2000; and Vaughn Clarke, 2000-03.

[6] David Glenn's diaries document concerns over the Company's accounting capabilities. According to Glenn's diaries, Arthur Andersen expressed directly to Glenn their concerns that Corporate Accounting lacked expertise and depth. Moreover, the notes of Glenn's Chief of Staff, Robert Ryan, quote the following concerns expressed by Arthur Andersen at meetings attended by Glenn on April 3 and 5, 2001: (i) Arthur Andersen having taken over details of corporate accounting; (ii) compensation levels too low for critical talent; (iii) complacency in the closing process; (iv) the stigma of working in Corporate Accounting; (v) turnover in the department; (vi) lack of leadership; and (vii) "not much depth in skills and personnel."

C. THE FACT-FINDING INVESTIGATION

This internal investigation has been a fact-finding investigation. That is, we have examined documents and interviewed participants to inquire into circumstances surrounding transactions and accounting. The Board has directed us to perform this internal investigation without placing limitations on where it might lead. We were instructed to "follow the facts" with respect to the transactions that concerned the independent auditors and the Company and potentially raised issues beyond simple disagreements between accountants. Our purpose has not been to test whether the accounting was correct because the Company has already determined that the accounting was in error. Nor have we characterized conduct by the legal consequences that regulatory authorities or courts might consider. Instead, the Board has sought a complete picture of the facts and circumstances surrounding the transactions in question, including such matters as the purpose of the transactions, the cause of the errors, the persons involved and the nature of their relationship to the transactions, the tone from the top and the management processes that led to the transactions, relative levels of responsibility, and any other factor that would influence the Board's judgment about remediation and the future direction of the Company.

Our investigation had five major components: (i) review of hard copy documents; (ii) review of electronic documents and files; (iii) interviews with relevant parties; (iv) analysis of trader tapes; and (v) examination of personnel files. With respect to hard copy documents, we reviewed over 250,000 pages, consisting largely of documents provided to us by Freddie Mac employees. FTI conducted a forensic accounting analysis of financial documentation obtained from Corporate Accounting and other business units. In addition to Company documents, we reviewed Arthur Andersen workpapers from 1999, 2000 and 2001. Part of our ongoing investigation includes the review of all Freddie Mac-related documents secured from numerous employee offices from June 9 through June 20, 2003.[7]

The electronic evidence process similarly included several elements. First, we imaged the hard drives of numerous Freddie Mac employees who were involved in the eight transactions and reviewed the files and e-mails from those hard drives. Second, we evaluated the e-mails of those employees, which the Company stored on its network servers.[8] Finally, we obtained access to the F&I, Legal and Corporate Accounting servers. Through the use of various keyword searches, we were able to identify numerous relevant memoranda, presentations, and other files from these servers. In sum, the total amount of data included in the electronic evidence portion of our investigation was two terabytes.

Baker Botts and FTI conducted over 200 interviews of Freddie Mac employees, senior management and members of the Board.[9] Given the nature of the investigation, many employees were interviewed several times, particularly after relevant documents were identified during the document review process. We continue to interview employees for issues discovered more recently.

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[7] We have secured all files from the Office of the Chairman and the Office of the Vice Chairman and others. These 600 boxes of documents from approximately 20 offices are stored in secure conference rooms, accessible only by Baker Botts and FTI, at Freddie Mac. As of the date of this report, this review is ongoing and will be complete by the end of August. There are three outstanding document issues. First, we are completing our review of the 600 boxes of documents secured from the 20 employee offices as described above. Second, on June 17,2003, we sent an e-mail to each person interviewed inquiring whether that person "maintained a diary, notebook, journal or other record of your business activities (including notes of meetings you have attended)." The e-mail also requested any other "documents or notes that may be relevant to the issues we discussed with you during your interview." Approximately 60% of people responded that they may have some responsive documents. We expect the process of collecting these documents to begin shortly. Finally, we have received a 2000-page index of files stored offsite. We will review this list to determine whether any of these files are relevant. Those files will be retrieved from offsite storage and reviewed.

[8] Because the Company only archives e-mails for 60 days and most of the investigated transactions occurred several years earlier, very few relevant e-mails were identified beyond those which had been printed out contemporaneously.

[9] All employees interviewed were informed that Baker Botts had been retained by the Audit Committee and that the conversations were covered by the attorney-client privilege which was waivable by the Audit Committee.

We also listened to recordings of telephone conversations by traders at F&I and SS&TG who were involved in a number of the transactions under investigation. We reviewed all tapes available and transcribed those tapes most relevant to our investigation. In total, we reviewed over 11,000 minutes of trader tapes.

The investigative team also examined relevant employee performance reviews and personnel files. These documents, which include compensation information, were analyzed to determine whether employees had a personal financial motivation to engage in the transactions at issue.

Our findings rely heavily on our mental impressions and judgments, which are based on facts gathered without judicial process. The investigative team did not have the authority to take sworn testimony or compel production of documents. Nor have our forensic tools included the scientific testing of documents, signatures, alterations and the like. Our assessment of the demeanor and credibility of persons has, on the other hand, influenced our findings. On the whole, and with exceptions noted below (some of which have received extensive publicity), we have received the full cooperation of the Company and its management.

D. ROLE OF THE BOARD

The Board has been fully engaged throughout this process, and we have enjoyed the cooperation of the outside Directors. Between January 1 and July 21, 2003, the non-management members of the Board and/or their independent committees met over forty times, at least seventeen of which were entirely or partially in "executive session" with counsel. Since March 17, 2003, the Ad Hoc Committee on Financial Management has met weekly to oversee progress of the reaudit. Since May 13, 2003, the Board's Governance Committee also has met weekly to oversee the implementation of internal controls and governance reforms proceeding under the new Chief Financial Officer, Martin Baumann. In addition, we had frequent access to the Lead Director, George Gould, the Chairman of the Audit Committee, Thomas W. Jones, and Shaun O'Malley, who became the Non-Executive Chairman of the Board on June 6,2003. Other Board members have been available to us whenever needed.

With respect to the involvement of the Board in the issues we investigated, we found that senior management's approach to governance was such that the information flow to the Board was tightly scripted and controlled. In those instances where information relevant to the investigated transactions was contained in Board materials, the information was delivered in a manner tending to ensure that it escaped notice and would not generate questions. Accounting issues were always presented to the Board in a manner that represented, expressly or by clear implication, that they were in compliance with GAAP.

The Board's primary sources of independent information on the condition of Corporate Accounting were Arthur Andersen's annual Management Letters and the quarterly reports of Freddie Mac's internal auditor. An August 2000 internal audit report touching on the particular issues discussed herein downgraded controls from "satisfactory" to "marginal" based in part on the Company's preparation for Y2K and SFAS 133. In response to the report, the Audit Committee demanded a management response, which included a commitment from the Company's Controller, Greg Reynolds, to develop and implement a comprehensive solution to these control issues by December 2000.

During the relevant period, Arthur Andersen's Management Letters did not note any material deficiencies. The Management Letter addressing Fiscal Year 2001, dated March 1, 2002, notes a "reportable condition"[10] regarding the reconciliation of the Company's Guaranteed Mortgage Securities ("GMS"), but states that the condition had been rectified prior to December 31, 2001. By the time this letter was received, Corporate Accounting's failure to respond adequately to questions from the Audit Committee on the GMS issue had already caused the Board to take action. Members of the Audit Committee became vocal in their views that Corporate Accounting required improvement and that senior management should be judged on their improvement of the control environment." As a result, management was directed to "make significant improvement in data quality, accounting and reporting." Moreover, senior management made a "no surprises" commitment, which included a representation that "All External Disclosures Will Be Complete and Accurate." More specifically, management made a written presentation to the Board which stated:

> The CEO, President and Chief Financial Officer will be responsible for strengthening and clarifying accountabilities and competency levels in the area of financial reporting and controls.
>
> Approximately 25% of the senior management [2002] bonuses will be determined by success in meeting these initiatives, as assessed by the Audit Committee.

Senior management's failure to meet these expectations, as evidenced by the reaudit announcement in January 2003, resulted in no bonuses being paid to them for 2002.

E. REGARDING THE COMPANY

An outsider approaching Freddie Mac, as the investigative team did, with the means and intention of gaining some insight into its institutional processes and corporate culture,

[10] A "reportable condition" is a significant deficiency in the design or operation of the internal control structure that, in the auditor's judgment, could adversely affect the Company's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

[11] The current Chair of the Audit Committee, Thomas W. Jones, was in large part responsible for the Board's decision to tie senior management incentive bonuses to improvements in the controls environment.

finds a strong sense of mission.[12] We were often told that "managing risk is job one." In that regard, the Company prides itself on managing interest rate risk and credit (or counterparty) risk. In that regard also, the transactions and accounting policies at issue were, at the time, considered by many employees of the Company at various levels of responsibility to be important, but not the core business of Freddie Mac. Employees proved generally willing to discuss the transactions and accounting policies that were the subject of our investigation, and generally expressed the view that, at the time, the Company believed it was effecting, booking, and reporting its financial condition and results of operations in compliance with GAAP and with the appropriate involvement of its then-outside auditors, Arthur Andersen.

F. DAVID GLENN'S NOTEBOOKS

We believed we were substantially completed with our investigation of the original eight transactions or policies and well underway with respect to certain additional issues at the time of the highly publicized events of June 4-6,2003, and the ensuing senior management changes.[13] Although we had no evidence that alteration or destruction of relevant materials extended beyond one senior executive, out of an abundance of caution we secured the offices of 20 Freddie Mac employees. This action has resulted in our coming into possession of an extensive amount of additional documentary material, which is still being reviewed at the time of

[12] The Company's mission prominently stated in its Annual Report is as follows:

> A shareholder-owned corporation whose people are dedicated to improving the quality of life by making the American dream of decent, accessible housing a reality. We accomplish this mission by linking Main Street to Wall Street—purchasing, securitizing and investing in home mortgages, and ultimately providing homeowners and renters with lower housing costs and better access to home financing. Since our inception, Freddie Mac has achieved 31 consecutive years of profitability and financed one out of every six homes in America.

[13] Exhibit A describes Glenn's alterations of his diaries and missing pages.

this Report. Although we expect that the vast majority of this material will be irrelevant to our investigation, and have no reason to believe that our findings will change significantly as a result of any relevant material that is found, this Report is subject to change as a result. We also continue to follow up on leads that may yield significant findings.