FAIRHOLME

FAIRHOLME CAPITAL MANAGEMENT

4400 BISCAYNE BLVD
MIAMI, FLORIDA 33137

TEL 305 358 3000

FOR IMMEDIATE RELEASE

FAIRHOLME CAPITAL MANAGEMENT

March 3, 2014

FAIRHOLME CAPITAL MANAGEMENT REQUESTS CORPORATE GOVERNANCE ACTIONS AT FANNIE MAE AND FREDDIE MAC

Encourages Boards of Directors to retain earnings, cease borrowing to pay voluntary dividends, review relevant financial information, provide accurate disclosure, and address conflicts of interest, including retaining independent advisors when FHFA is conflicted

MIAMI, FL – Fairholme Capital Management ("Fairholme") today released letters sent to the Boards of Directors of the Federal National Mortgage Association ("Fannie Mae") and the Federal Home Loan Mortgage Corporation ("Freddie Mac") requesting various fundamental corporate governance actions. Fairholme believes it is appropriate to release these letters in light of the significant number of investors in the publicly traded securities of Fannie Mae and Freddie Mac. Copies of the letters are available online at:
http://www.fairholmecapitalmanagement.com/gse.pdf

The letters urge the Directors to act in the best interests of each company and in accordance with accepted best practices for corporate governance. Specifically, Fairholme asks the Directors to conserve company assets and retain earnings to rebuild capital, cease borrowing for the purposes of paying voluntary dividends to the United States Treasury, review relevant financial information prior to decision-making, provide accurate disclosure, and proactively address conflicts of interest, including retaining independent professionals to advise each company when FHFA is conflicted.

The letters also request that each Board of Directors convene annual shareholder meetings and relist the companies on the New York Stock Exchange to ensure that trading of their securities occurs in an orderly and transparent manner.

"The conservatorship of Fannie Mae and Freddie Mac – now in its sixth year – is perpetuating the pre-crisis regulatory and management shortcomings of the companies," said Bruce R. Berkowitz, Managing Member and Chief Investment Officer of Fairholme Capital Management. "Any notion that the answer to Fannie and Freddie's pre-crisis problems is *more* government involvement is just as flawed as the idea that the United States economy can properly function without their core businesses."

Fairholme previously submitted a draft proposal for a group of investors to purchase the companies' core insurance business and operate it without any Federal subsidy, support, or affiliation. Fairholme's letters note that the proposal (available at https://clients.fairholme.net/GSEProposal_11_11_13.pdf) still stands and that there are other viable alternatives to restructure Fannie Mae and Freddie Mac, any of which "would be more constructive than maintaining the status quo, which is unfortunately but steadily eroding the Company's balance sheet and, in turn, weakening a cornerstone of the great American Dream."

Nothing contained in this release constitutes investment advice. No information or opinion contained in this release constitutes a solicitation, recommendation, or offer by Fairholme or its affiliates to buy or sell any securities, futures, options, or other financial instruments.

Contact: George Sard or Paul Scarpetta, Sard Verbinnen & Co. 212.687.8080

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February 28, 2014

Philip A. Laskawy, Non-Executive Chairman of the Board
Amy E. Alving
William T. Forrester
Brenda J. Gaines
Charlynn Goins
Frederick B. Harvey III
Robert H. Herz
Timothy J. Mayopoulos
Diane C. Nordin
Egbert L. J. Perry
Jonathan Plutzik
David H. Sidwell

Board of Directors
Federal National Mortgage Association
Office of the Secretary of the Corporation
3900 Wisconsin Avenue, NW (MS 1H 2S 05)
Washington, DC 20016-2892

Dear Ladies and Gentlemen of the Board:

I am writing to you on behalf of Fairholme Capital Management, LLC ("Fairholme"), a value-oriented, long-term focused investment adviser with approximately $11 billion in assets under management. Fairholme is a fiduciary to the Fairholme Funds, which have over 170,000 mutual fund shareholders – most of them retail investors. The Fairholme Funds own over 20 million shares of common stock and over 66 million shares of preferred stock of the Federal National Mortgage Association ("Fannie Mae" or the "Company"). In this respect, our shareholders are also your shareholders.

This is a critical time for the Company. Last week, the Board declared a $7.2 billion cash dividend to the United States Treasury ("Treasury"). With this quarterly dividend payment, Treasury will have recouped cash in excess of its preferred stock investment in the Company. Such corporate action is not sustainable. While the Company is profitable – with a book of business that is expected to remain strong for the foreseeable future – it must now retain earnings to build a fortress-like balance sheet and keep promises made to millions of homeowners and savers.

Fannie Mae's equity securities are currently valued by market participants at over thirty-six billion dollars. We estimate that the Company is worth many multiples of its current market value as a strong, going concern. At a minimum, we believe that the Company's intrinsic value is significantly greater than its current market value on a liquidation basis. This is superb news for all stakeholders, especially taxpayers via Treasury's economic ownership of 79.9% of the Company's common stock. Treasury's stake in the Company, which it received in 2008 as a commitment fee along with an incremental $1 billion in senior preferred stock, will easily rank as the largest commitment fee in financial history.

Last November, Fairholme submitted a draft proposal for a group of investors to purchase the guarantee business of the Company and operate it without any Federal government subsidy, support, or affiliation. That proposal still stands. There also exist alternative transactions that we believe could generate enormous value for the Company and all constituents. We are confident that any of these alternatives would be more constructive than maintaining the status quo, which is unfortunately but steadily eroding the Company's balance sheet and, in turn, weakening a cornerstone of the great American Dream.

At present, you remain the sole custodians of one of the most valuable public companies in America. You do not own the Company, but hold it in trust for others. We recognize that the unprecedented nature of the conservatorship complicates the legal situation and there are differing views on many details. Nonetheless, there are a number of important points on which we should all agree:

> *First*, Fannie Mae is a public company, not a government agency. It has thousands of stockholders, a large market capitalization, an active trading market, independently audited financial statements, and conducts business for its own account. In fact, Treasury itself recently asserted that it is not "the Government" in its dealings with the Company, but merely a "commercial actor" that has made an investment.
>
> *Second*, the Company – like all companies that operate for their own account – needs effective corporate governance and financial controls. This includes the maintenance of separateness from related entities, the receipt and review of business information by qualified fiduciaries as part of a deliberative decision-making process, and appropriate procedures to avoid actual, potential, or perceived conflicts of interest.
>
> *Third*, no one but you currently is in a position to provide the Company with effective corporate governance.

So, on behalf of our shareholders, we strongly encourage you to improve corporate governance at the Company. In this respect, allow us to highlight several areas of concern which should be addressed by the Company going forward:

Keep Promises: Maintain Sufficient Capital. Dividends are voluntary. The Company does not currently have, nor has it ever had, an obligation to pay cash dividends to Treasury, despite statements by the Federal Housing Finance Agency ("FHFA") to the contrary. According to the documentation for Treasury's senior preferred stock, dividends are payable only "if declared by

the Board of Directors, in its sole discretion, out of funds legally available therefor." If not declared, Treasury's liquidation preference is adjusted in lieu of a cash dividend. This adjustment has no effect on the Company (other than diluting other preferred and common stockholders) and does not decrease or otherwise diminish Treasury's commitment under the preferred stock purchase agreement.

Though we have not been privy to all of the considerations reviewed by the Board of Directors with respect to their decision to pay cash dividends, we would like to understand the Company's rationale for declaring such dividends. We are also unclear about the basis for the Board's determination that declaring cash dividends is in the best interests of the Company, or FHFA's determination that declaring cash dividends is consistent with the statutory requirements of conservatorship.

It is common sense that no Board should approve cash distributions without independent financial advice as to the effect of such payments on the Company's safety, soundness, and liquidity. Moreover, corporate laws generally prohibit the payment of dividends in many circumstances, imposing personal liability on Directors for illegal dividends – a liability that, pursuant to the *Housing and Economic Recovery Act of 2008*, is not assumed by the Conservator. In addition, FHFA's own regulations prohibit the Company from paying any dividend while in conservatorship in the absence of a finding by FHFA that a dividend will enhance the capital strength of the Company, and regulatory principles generally prohibit the approval of dividends from a regulated entity that is not in capital compliance.

Don't Borrow from Peter to Pay Paul: Avoid Imprudent Borrowing. It is our understanding that dividends declared in 2013 were financed with incremental borrowings. The Company appears to have received no benefit from the incurrence of this unnecessary debt, the proceeds of which were paid to Treasury and lost to the Company. The Company should not borrow to pay dividends. As you know, the Company's core business is insurance. This type of leverage magnifies operating risks and usually causes ruin for an insurance company; such companies require a Fort Knox balance sheet to keep promises made. Indeed, as Benjamin Franklin once said, "it is hard for an empty sack to stand upright."

Act Like Owners: Conserve Assets. The Company's non-cash assets must be preserved or, if sold, replaced at fair value with cash. They cannot be wasted. We believe special care and expert knowledge are necessary to preserve the Company's valuable deferred tax assets, reserves, and litigation receivables. Certain changes in the capital structure of the Company could trigger significant reductions in asset values. We are also concerned about the preservation of, and continued investment in, the Company's intellectual property. For example, we would like to better understand the Board's deliberations regarding the fair value of any consideration received by the Company for participating in the Common Securitization Platform.

The Importance of Independence: Establish Procedures to Proactively Address Conflicts. We remain unable to find any evidence that a process has been implemented to proactively address conflicts of interest. It is not uncommon for a public company to have a controlling shareholder, though we are aware of no circumstance in which the controlling shareholder and its affiliates simultaneously act as director, regulator, conservator, supervisor, contingent capital provider,

and preferred stock investor. Nevertheless, the essential rules for dealing with the resulting conflicts of interest are widely understood. They involve the prompt and full disclosure of those conflicts to all shareholders, reliance on independent directors and, often, a special committee when negotiation with the controlling shareholder is required.

The conflicts of interest that have arisen for FHFA are deeply disturbing. While it appears unlikely that the panoply of conflicts can be eliminated prior to the cessation of conservatorship, they could certainly be better managed than they have been to date. The conservator is required by law to act in the best interests of the Company. However, as an agency of the United States Government, FHFA cannot be expected to impartially negotiate with Treasury regarding the terms of Treasury's investment in the Company. Similarly, FHFA as conservator of a solvent company cannot be expected to negotiate with FHFA as regulator with respect to the end of, or limits to, the conservatorship. And FHFA as conservator cannot be expected to negotiate with FHFA as advocate for affordable housing initiatives.

In each case, it is essential for there to be appropriate representation by independent directors or independent professionals who can have a seat at the table and represent all of the interests of the Company without conflict.

Know Thy Company: Be Informed. The solemn duty of any fiduciary is to be informed. According to the 2012 administrative record, FHFA has asserted that imposing the Net Worth Sweep was essential to maintaining Treasury's financial commitment and would not constitute a material change in the Company's relationship with Treasury. We would like to know whether the Board of Directors: (i) was informed of the Net Worth Sweep and the purported rationale prior to its being put into effect; (ii) examined how the Net Worth Sweep modified the terms of Treasury's financial support; (iii) asked for independent financial information concerning its effect on the Company, including whether the Net Worth Sweep would increase or decrease the Company's financing costs in various scenarios; (iv) reviewed that information with independent financial and legal advisors and evaluated potential alternative options, such as not declaring cash dividend payments to Treasury; and (v) resolved that replacing the senior preferred stock dividend with the Net Worth Sweep was in the best interests of the Company. As a matter of course, the Board of Directors and FHFA require adequate information before making decisions, including with respect to the Company's current business plan, the contribution of intellectual property to the Common Securitization Platform, private capital risk-sharing transactions (all of which appear to be based on the implied credit of the United States), and many other matters.

Accuracy and Adequacy: Provide Full Disclosure. The Company must provide adequate disclosure to the public markets in which the Company's securities are actively traded. Adequate disclosure requires accurate information about the legal rights of the Company as well as its common and preferred shareholders. The Board of Directors, whose members certify the accuracy of such disclosure, requires independent legal advice concerning these rights. It appears that the description of the Company and owner rights in public documents is materially inaccurate, including with respect to the rights of the Company under conservatorship, the process leading to the enactment of the Net Worth Sweep, the disputed legal validity of the Net Worth Sweep, and the fiduciary and statutory duties of the Board of Directors.

Professionals, Not Politicians: Hire and Listen to Experts. The Company should retain professionals – experts of its own who are independent of FHFA – with respect to the critical questions facing the Company. Who is currently advising the Company on potential resolution of the conservatorship? On the duties of the Board? On the rights and obligations of Treasury? On restructuring options to preserve enterprise value for the benefit of all stakeholders? As we look ahead, the Company may undergo one of the largest and most important corporate reorganizations (or liquidations) in American history. Where is the Company's voice?

Of course, we recognize that the Members of the Board of Directors have extensive public company experience and understand their fiduciary duties. Yet any informed observer is still compelled to ask: Why are the basic rules of corporate governance not being followed?

One possible answer is that the Board of Directors believes it does not have to pay attention to corporate governance matters unless specifically directed to do so by FHFA. This is false. Fiduciary duties do not disappear with conservatorship. Members of the Board are the only people with the experience and information to govern, and fiduciary duties are an inescapable consequence of custodianship. Directors must represent all owners. There is, literally, no one else to do so.

Another possible answer is that the Board believes it only owes a duty to the Government. This too is false. The Board has a duty to the Company for the benefit of all the Company's stakeholders. Treasury is but one of those stakeholders. FHFA made a deliberate choice in 2008 by maintaining Fannie Mae as a publicly traded, shareholder-owned corporation. Where the interests of Treasury conflict with those of the Company, the loyalty and duty of the Board is unambiguously to the Company.

Lastly, the Directors may feel that their actions are unimportant because all substantive issues will be decided by legislation or litigation. This is also false. Fairholme still hopes for prompt Congressional action, and our draft proposal for a group of investors to purchase the Company's insurance business was partly designed to complement the leading legislative proposals. However, legislative progress cannot be assured and no Congressional action is required for the Company to exit conservatorship. As for ongoing litigation, it is merely about the past, not the future. Litigation can help determine who owns which interests in the Company. But regardless of the contours of stakeholder ownership, the Board's duty to maximize the value of the Company and to protect all shareholders remains constant.

We believe that the current Board is perfectly capable of serving as an effective representative of the interests of the Company (even when those interests conflict with the interests of FHFA) – should it choose to do so. However, we also believe that shareholders should have a say in the Board of the Company, and such shareholder involvement would send the constructive message that the affairs of the Company can be determined in a "win-win" manner for everyone – especially U.S. taxpayers who own 79.9% of the company. Various solutions are simple, equitable, and need not be contentious.

Accordingly, Fairholme suggests that the Company take three concrete steps:

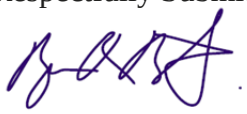
First, the Board of Directors should convene to discuss the contents of this letter and determine whether it is appropriate to establish a special committee of the Board with a designated mandate to review the legal rights of the Company, conduct negotiations with Treasury and FHFA with respect to the conservatorship, and evaluate strategic and restructuring options for the Company with the help of independent legal and financial advisors. We urge you to suspend further cash dividends to Treasury until you complete this review.

Second, the Company should announce and host an annual meeting of stockholders. Frankly, it has been a while. At that annual meeting, Fairholme suggests a process by which shareholders can be involved in the selection of the Board of Directors of the Company, provide input regarding executive compensation, and address other conventional matters consistent with the requirements for a public company registered with the Securities and Exchange Commission. It is worth noting that your shareholders have extensive experience in accounting, audit, capital allocation, corporate governance, finance, insurance, and restructuring.

Third, the Board of Directors should inform the conservator of the Company's desire to relist its common stock and preferred stock on the New York Stock Exchange. Given that Fannie Mae's financial performance, stock price, and average daily trading volume exceed the criteria set forth in the relevant listing requirements, it is appropriate for the Company to once again be registered on this national exchange. The Company's equity securities, which are held by thousands of investors, should trade on a transparent and orderly basis.

Fairholme remains optimistic about the Company's future – and with each passing month we grow more excited for homeowners, taxpayers, creditors, and shareholders. We strongly believe that the Company's core business is absolutely essential, profitable, and can be effectively disassociated from the regulatory and management shortcomings of the past. Finally, we encourage the Board to reiterate our gratefulness to the Company's talented employees for their continued hard work and our ongoing commitment to help preserve the core business they have spent decades building.

Respectfully Submitted,



Bruce R. Berkowitz
Managing Member

Cc: Melvin L. Watt
Director
Federal Housing Finance Agency

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MIAMI, FLORIDA 33137

TEL 305 358 3000

February 28, 2014

Christopher S. Lynch, Non-Executive Chairman
Carolyn H. Byrd
Richard C. Hartnack
Steven W. Kohlhagen
Donald H. Layton
Sara Mathew
Saiyid T. Naqvi
Nicolas P. Retsinas
Eugene B. Shanks, Jr.
Anthony A. Williams

Board of Directors
Federal Home Loan Mortgage Corporation
Office of the Corporate Secretary
8200 Jones Branch Drive (MS 200)
McLean, VA 22102

Dear Ladies and Gentlemen of the Board:

I am writing to you on behalf of Fairholme Capital Management, LLC ("Fairholme"), a value-oriented, long-term focused investment adviser with approximately $11 billion in assets under management. Fairholme is a fiduciary to the Fairholme Funds, which have over 170,000 mutual fund shareholders – most of them retail investors. The Fairholme Funds own over 17 million shares of common stock and over 52 million shares of preferred stock of the Federal Home Loan Mortgage Corporation ("Freddie Mac" or the "Company"). In this respect, our shareholders are also your shareholders.

This is a critical time for the Company. Yesterday, the Board declared a $10.4 billion cash dividend to the United States Treasury ("Treasury"). With this quarterly dividend payment, Treasury will have recouped cash in excess of its preferred stock investment in the Company. Such corporate action is not sustainable. While the Company is profitable – with a book of business that is expected to remain strong for the foreseeable future – it must now retain earnings to build a fortress-like balance sheet and keep promises made to millions of homeowners and savers.

Freddie Mac's equity securities are currently valued by market participants at almost twenty-one billion dollars. We estimate that the Company is worth many multiples of its current market value as a strong, going concern. At a minimum, we believe that the Company's intrinsic value

is significantly greater than its current market value on a liquidation basis. This is superb news for all stakeholders, especially taxpayers via Treasury's economic ownership of 79.9% of the Company's common stock. Treasury's stake in the Company, which it received in 2008 as a commitment fee along with an incremental $1 billion in senior preferred stock, will easily rank as the second largest commitment fee in financial history, behind only the similar commitment fee paid to Treasury by Fannie Mae.

Last November, Fairholme submitted a draft proposal for a group of investors to purchase the guarantee business of the Company and operate it without any Federal government subsidy, support, or affiliation. That proposal still stands. There also exist alternative transactions that we believe could generate enormous value for the Company and all constituents. We are confident that any of these alternatives would be more constructive than maintaining the status quo, which is unfortunately but steadily eroding the Company's balance sheet and, in turn, weakening a cornerstone of the great American Dream.

At present, you remain the sole custodians of one of the most valuable public companies in America. You do not own the Company, but hold it in trust for others. We recognize that the unprecedented nature of the conservatorship complicates the legal situation and there are differing views on many details. Nonetheless, there are a number of important points on which we should all agree:

> *First*, Freddie Mac is a public company, not a government agency. It has thousands of stockholders, a large market capitalization, an active trading market, independently audited financial statements, and conducts business for its own account. In fact, Treasury itself recently asserted that it is not "the Government" in its dealings with the Company, but merely a "commercial actor" that has made an investment.
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adjustment has no effect on the Company (other than diluting other preferred and common stockholders) and does not decrease or otherwise diminish Treasury's commitment under the preferred stock purchase agreement.

Though we have not been privy to all of the considerations reviewed by the Board of Directors with respect to their decision to pay cash dividends, we would like to understand the Company's rationale for declaring such dividends. We are also unclear about the basis for the Board's determination that declaring cash dividends is in the best interests of the Company, or FHFA's determination that declaring cash dividends is consistent with the statutory requirements of conservatorship.

It is common sense that no Board should approve cash distributions without independent financial advice as to the effect of such payments on the Company's safety, soundness, and liquidity. Moreover, corporate laws generally prohibit the payment of dividends in many circumstances, imposing personal liability on Directors for illegal dividends – a liability that, pursuant to the *Housing and Economic Recovery Act of 2008*, is not assumed by the Conservator. In addition, FHFA's own regulations prohibit the Company from paying any dividend while in conservatorship in the absence of a finding by FHFA that a dividend will enhance the capital strength of the Company, and regulatory principles generally prohibit the approval of dividends from a regulated entity that is not in capital compliance.

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The Importance of Independence: Establish Procedures to Proactively Address Conflicts. We remain unable to find any evidence that a process has been implemented to proactively address conflicts of interest. It is not uncommon for a public company to have a controlling shareholder, though we are aware of no circumstance in which the controlling shareholder and its affiliates simultaneously act as director, regulator, conservator, supervisor, contingent capital provider, and preferred stock investor. Nevertheless, the essential rules for dealing with the resulting conflicts of interest are widely understood. They involve the prompt and full disclosure of those

conflicts to all shareholders, reliance on independent directors and, often, a special committee when negotiation with the controlling shareholder is required.

The conflicts of interest that have arisen for FHFA are deeply disturbing. While it appears unlikely that the panoply of conflicts can be eliminated prior to the cessation of conservatorship, they could certainly be better managed than they have been to date. The conservator is required by law to act in the best interests of the Company. However, as an agency of the United States Government, FHFA cannot be expected to impartially negotiate with Treasury regarding the terms of Treasury's investment in the Company. Similarly, FHFA as conservator of a solvent company cannot be expected to negotiate with FHFA as regulator with respect to the end of, or limits to, the conservatorship. And FHFA as conservator cannot be expected to negotiate with FHFA as advocate for affordable housing initiatives.

In each case, it is essential for there to be appropriate representation by independent directors or independent professionals who can have a seat at the table and represent all of the interests of the Company without conflict.

Know Thy Company: Be Informed. The solemn duty of any fiduciary is to be informed. According to the 2012 administrative record, FHFA has asserted that imposing the Net Worth Sweep was essential to maintaining Treasury's financial commitment and would not constitute a material change in the Company's relationship with Treasury. We would like to know whether the Board of Directors: (i) was informed of the Net Worth Sweep and the purported rationale prior to its being put into effect; (ii) examined how the Net Worth Sweep modified the terms of Treasury's financial support; (iii) asked for independent financial information concerning its effect on the Company, including whether the Net Worth Sweep would increase or decrease the Company's financing costs in various scenarios; (iv) reviewed that information with independent financial and legal advisors and evaluated potential alternative options, such as not declaring cash dividend payments to Treasury; and (v) resolved that replacing the senior preferred stock dividend with the Net Worth Sweep was in the best interests of the Company. As a matter of course, the Board of Directors and FHFA require adequate information before making decisions, including with respect to the Company's current business plan, the contribution of intellectual property to the Common Securitization Platform, private capital risk-sharing transactions (all of which appear to be based on the implied credit of the United States), and many other matters.

Accuracy and Adequacy: Provide Full Disclosure. The Company must provide adequate disclosure to the public markets in which the Company's securities are actively traded. Adequate disclosure requires accurate information about the legal rights of the Company as well as its common and preferred shareholders. The Board of Directors, whose members certify the accuracy of such disclosure, requires independent legal advice concerning these rights. It appears that the description of the Company and owner rights in public documents is materially inaccurate, including with respect to the rights of the Company under conservatorship, the process leading to the enactment of the Net Worth Sweep, the disputed legal validity of the Net Worth Sweep, and the fiduciary and statutory duties of the Board of Directors.

Professionals, Not Politicians: Hire and Listen to Experts. The Company should retain professionals – experts of its own who are independent of FHFA – with respect to the critical

questions facing the Company. Who is currently advising the Company on potential resolution of the conservatorship? On the duties of the Board? On the rights and obligations of Treasury? On restructuring options to preserve enterprise value for the benefit of all stakeholders? As we look ahead, the Company may undergo one of the largest and most important corporate reorganizations (or liquidations) in American history. Where is the Company's voice?

Of course, we recognize that the Members of the Board of Directors have extensive public company experience and understand their fiduciary duties. Yet any informed observer is still compelled to ask: Why are the basic rules of corporate governance not being followed?

One possible answer is that the Board of Directors believes it does not have to pay attention to corporate governance matters unless specifically directed to do so by FHFA. This is false. Fiduciary duties do not disappear with conservatorship. Members of the Board are the only people with the experience and information to govern, and fiduciary duties are an inescapable consequence of custodianship. Directors must represent all owners. There is, literally, no one else to do so.

Another possible answer is that the Board believes it only owes a duty to the Government. This too is false. The Board has a duty to the Company for the benefit of all the Company's stakeholders. Treasury is but one of those stakeholders. FHFA made a deliberate choice in 2008 by maintaining Freddie Mac as a publicly traded, shareholder-owned corporation. Where the interests of Treasury conflict with those of the Company, the loyalty and duty of the Board is unambiguously to the Company. Indeed, the *Code of Conduct for Members of Freddie Mac's Board of Directors* mandates that Directors shall not "act other than in the best interests of Freddie Mac."

Lastly, the Directors may feel that their actions are unimportant because all substantive issues will be decided by legislation or litigation. This is also false. Fairholme still hopes for prompt Congressional action, and our draft proposal for a group of investors to purchase the Company's insurance business was partly designed to complement the leading legislative proposals. However, legislative progress cannot be assured and no Congressional action is required for the Company to exit conservatorship. As for ongoing litigation, it is merely about the past, not the future. Litigation can help determine who owns which interests in the Company. But regardless of the contours of stakeholder ownership, the Board's duty to maximize the value of the Company and to protect all shareholders remains constant.

We believe that the current Board is perfectly capable of serving as an effective representative of the interests of the Company (even when those interests conflict with the interests of FHFA) – should it choose to do so. However, we also believe that shareholders should have a say in the Board of the Company, and such shareholder involvement would send the constructive message that the affairs of the Company can be determined in a "win-win" manner for everyone – especially U.S. taxpayers who own 79.9% of the company. Various solutions are simple, equitable, and need not be contentious.

Accordingly, Fairholme suggests that the Company take three concrete steps:

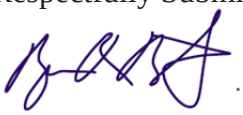
First, the Board of Directors should convene to discuss the contents of this letter and determine whether it is appropriate to establish a special committee of the Board with a designated mandate to review the legal rights of the Company, conduct negotiations with Treasury and FHFA with respect to the conservatorship, and evaluate strategic and restructuring options for the Company with the help of independent legal and financial advisors. We urge you to suspend further cash dividends to Treasury until you complete this review.

Second, the Company should announce and host an annual meeting of stockholders. Frankly, it has been a while. At that annual meeting, Fairholme suggests a process by which shareholders can be involved in the selection of the Board of Directors of the Company, provide input regarding executive compensation, and address other conventional matters consistent with the requirements for a public company registered with the Securities and Exchange Commission. It is worth noting that your shareholders have extensive experience in accounting, audit, capital allocation, corporate governance, finance, insurance, and restructuring.

Third, the Board of Directors should inform the conservator of the Company's desire to relist its common stock and preferred stock on the New York Stock Exchange. Given that Freddie Mac's financial performance, stock price, and average daily trading volume exceed the criteria set forth in the relevant listing requirements, it is appropriate for the Company to once again be registered on this national exchange. The Company's equity securities, which are held by thousands of investors, should trade on a transparent and orderly basis.

Fairholme remains optimistic about the Company's future – and with each passing month we grow more excited for homeowners, taxpayers, creditors, and shareholders. We strongly believe that the Company's core business is absolutely essential, profitable, and can be effectively disassociated from the regulatory and management shortcomings of the past. Finally, we encourage the Board to reiterate our gratefulness to the Company's talented employees for their continued hard work and our ongoing commitment to help preserve the core business they have spent decades building.

Respectfully Submitted,



Bruce R. Berkowitz
Managing Member

Cc: Melvin L. Watt
Director
Federal Housing Finance Agency