



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT  
WASHINGTON, DC 20410-8000

APR 24 2008

ASSISTANT SECRETARY FOR HOUSING-  
FEDERAL HOUSING COMMISSIONER

Mr. Richard F. Syron  
Chairman and Chief Executive Officer  
Freddie Mac  
8200 Jones Branch Drive  
McLean, VA 22102-3107

Dear Mr. Syron:

In accordance with section 1336(b) (1) of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (FHEFSSA) and HUD's implementing regulation, 24 C.F.R. 81.21, the Department of Housing and Urban Development notified Freddie Mac by letter dated December 6, 2007, of a substantial probability that Freddie Mac would fail to meet the Low- and Moderate-Income Home Purchase Subgoal and the Special Affordable Home Purchase Subgoal in 2007. Freddie Mac responded by letter dated January 7, 2008, with information that Freddie Mac considered appropriate for the Secretary's consideration, including whether the subgoals were feasible. Freddie Mac stated that the two home purchase subgoals were not feasible, "because the targets exceed market origination levels in 2007 to an insurmountable degree."

By this letter the Department is notifying Freddie Mac of its final determination that there is a substantial probability of failure to meet the Low- and Moderate-Income Home Purchase Subgoal and the Special Affordable Home Purchase Subgoal in 2007. The Department, however, has also determined that achievement of the subgoals was not feasible. Freddie Mac, therefore, is not required to submit a Housing Plan to HUD pursuant to section 1336(c) of FHEFSSA for failure to meet the Special Affordable Home Purchase Subgoal, which subgoal is enforceable by HUD. Under FHEFSSA, no housing plan is required for failure to meet the Low- and Moderate-Income Home Purchase Subgoal.

In making its determination, HUD considered the information provided by Freddie Mac, including information indicating that the subgoal levels were not feasible in 2007. HUD finds that the information provided by Freddie Mac is consistent with its own research on market conditions. HUD's research shows that between 2004 and 2006 there was a downward trend in the shares of the conventional conforming primary home purchase market that would qualify for both the Low- and Moderate-Income and Special Affordable Home Purchase Subgoals. These downward market trends resulted in large part from the effects of rising home prices relative to incomes during this period, which made home purchases less affordable than in prior years. During 2007, market shares most likely declined below the levels observed in 2006 as the mortgage market began to experience considerable turmoil. Market turmoil has resulted in tightening of underwriting criteria utilized by conventional lenders and private mortgage insurers, reducing the availability of traditionally goal-rich high loan-to-value ratio home purchase loans. In addition, the recent collapse of the non-agency, or private label, secondary

mortgage market has further reduced the share of home purchase loans qualifying for the two income-based home purchase subgoals. HUD concurs with Freddie Mac that market conditions in 2007 have had a depressing effect on the affordable share of single-family owner-occupied home purchase loans. HUD also considered the financial stability of Freddie Mac in evaluating its ability to achieve the 2007 home purchase subgoal levels.

HUD stated in its 2004 final housing goals rule (69 FR 63580, 63866, November 2, 2004) which established the current subgoal levels, that even though the housing goal and subgoal levels were based on market share ranges that covered more adverse economic and market affordability conditions than existed at that time, changing economic conditions could decrease the size of the market during the years covered by the 2004 rule. HUD believes that actual economic conditions in the latter half of 2007 were not conducive to producing the number of subgoals-qualifying mortgages originally anticipated. Accordingly, HUD concludes that the levels of the Low-and Moderate-Income and the Special Affordable Home Purchase Subgoals were not feasible in 2007.

Sincerely,

A handwritten signature in black ink, appearing to read "BDM", is written over a faint, circular stamp or watermark.

Brian D. Montgomery  
Assistant Secretary for Housing—  
Federal Housing Commissioner

cc: The Honorable Christopher J. Dodd  
Chairman  
Committee on Banking, Housing, and Urban Affairs  
United States Senate

The Honorable Barney Frank  
Chairman  
Committee on Financial Services  
U.S. House of Representatives