



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

ASSISTANT SECRETARY FOR HOUSING-
FEDERAL HOUSING COMMISSIONER

OCT 6 2005

Mr. Richard F. Syron
Chairman and Chief Executive Officer
Freddie Mac
8200 Jones Branch Drive
McLean, VA 22102-3110

Dear Mr. Syron:

By letter dated June 17, 2004, the Department requested that Freddie Mac provide information and documentation regarding its Employer-Assisted Housing (EAH) plans, including the internal EAH benefit for Freddie Mac employees (the internal EAH plan) and the external EAH plan for corporate customers (the external EAH plan). Freddie Mac responded to the Department's request by letter dated July 16, 2004. I am writing to advise you that the Department has completed its review of Freddie Mac's internal and external EAH plans.

The Department has determined that the internal plans operated by Freddie Mac on behalf of its employees are authorized under section 303(c) of the Freddie Mac Act which grants Freddie Mac authority and discretion in compensating employees, including providing employee-related benefits, such as the EAH plan. However, even though Freddie Mac is authorized to offer an internal EAH plan benefit under its charter, the internal EAH plan is still subject to the explicit prohibition on mortgage origination as set forth in section 305(a)(5) of the Freddie Mac Act.

Based on the information provided by Freddie Mac, the internal EAH plan does not violate the charter prohibition on mortgage origination. Information provided by Freddie Mac stated that its "Home Benefit Program" for employees will offer interest-free, forgivable grants that may be used to pay the down payment, closing costs, or the loan origination fee and/or discount points for first-time homebuyers. Further, because these grants, which would be subject to reimbursement only if the employee terminates employment before a prescribed period, are not loans, they are not mortgages that would be subject to the limitation in the Freddie Mac Act.

HUD also reviewed Freddie Mac's charter authority to offer external EAH plans. An activity is consistent with Freddie Mac's Charter Act only if (a) it is authorized by, or directly related to, the express powers under the Freddie Mac Act, and (b) it furthers one or more of the purposes set forth in section 301 of the Freddie Mac Act. Based on the information reviewed, HUD determined that the EAH plans are expressly designed to promote homeownership by facilitating employees' access to new sources of capital (i.e., the employer) for the purposes of obtaining residential mortgages. Some of these mortgages may be eligible for purchase by Freddie Mac. Accordingly, the Department finds that the external EAH plans are authorized under the Freddie Mac Act.

While the Department has determined that Freddie Mac is authorized to market external EAH plans to employers and to educate lenders regarding these plans, some activities associated with this marketing may be inconsistent with the Freddie Mac Act, and Freddie Mac must exercise caution in the level of assistance it provides to both lenders and employees. For example, providing direct origination assistance to select lenders by including them in consultation meetings with employers (even if the lender requested that Freddie Mac arrange the meeting), recommending preferred lenders for inclusion in an EAH plan, arranging opportunities for lenders to originate mortgages to employees, referring employees to one or more specific lenders, or similar marketing practices are prohibited activities pursuant to section 305(a)(5) of the Freddie Mac Act.

By this letter the Department is notifying Freddie Mac that it must re-evaluate its current marketing practices and immediately discontinue those practices that constitute direct origination assistance as described herein.

Periodically the Department will continue to review Freddie Mac's external EAH plan to ensure that Freddie Mac is managing and marketing the plan in a manner that is fully consistent with its charter authorities.

Sincerely,

A handwritten signature in black ink, appearing to read "B. Montgomery", written in a cursive style.

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