

FEDERAL HOME LOAN MORTGAGE

Rating Analysis - 4/19/16
Debt: \$2.0Tr, Cash: \$20.1B

*EJR Sen Rating(Curr/Prj) A-/ N/A
*EJR CP Rating: A1
EJR's 3 yr. Default Probability: 1.7%
EJR 3 yr. Recov. Rate: 67.8%

Federal Home Loan Mortgage Corp's (the Company or FMCC) operating income were \$3.2B for the quarter ending December 2015 vs \$0.5B for the prior year. Net Income for the December 15 quarter was \$2.2B vs the prior year's \$0.2B income.

The recent court case is likely to enable FMCC to rebuild capital (a pos for credit quality) or confirm that it will continue to obtain govt support (also a pos). FMCC, aided by its derivate bets on interest rates, posted strong Q4 2015 profit. The Company netted a gain of \$135M on the value of interest rate derivatives vs. yr-ago loss of \$2.5B. Sequentially, FMCC's net income of \$2.2B and comprehensive income of \$1.6B increased \$2.6B and \$2.1B, resp., tracking steady Net Int income and Net Interest Yield levels - primarily reflect higher amortization income driven by increased prepayments during 2015. The qtr also saw benefit from credit losses of \$781M vs. \$528M benefit in Q3 2015 - aided by changes in loss severity and default probability.

Affirming with a dev watch.

CREDIT POSITION

	Annual Ratios		Ratios for 4 Rolling Quarters				
	Dec-15	PDec17*	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15
Fixed Chg Cov(x)	1.2	1.5	1.1	1.1	1.2	1.1	1.2
Return on Equity (%)	216.9	127.9	290.1	164.7	122.5	342.2	216.9
PT Ret. on Avg Assets(%)	0.5	1.2	0.6	0.3	0.5	0.3	0.5
Ret on Perm Cap (%)	0.5	1.3	0.3	0.3	0.5	0.4	0.5
T Debt/Cap(w Debt)(%)	99.9	99.3	99.9	99.9	99.7	99.9	99.9
Short Term Debt/ Total Debt (%)	8.7	8.8	7.0	6.0	4.8	6.4	8.7
Implied Sen. Rating	BBB+	A-	BBB+	BBB+	BBB+	BBB+	BBB+

INDUSTRY RATIOS

	AA	A	BBB	BB	B	CCC
Fixed Chg Cov(x)	2.3	1.8	1.3	0.9	0.7	0.5
Return on Equity (%)	4.5	4.0	3.5	3.0	2.5	2.0
PT Ret. on Avg Assets(%)	6.0	4.0	2.0	0.0	-2.0	-4.0
Ret on Perm Cap (%)	20.0	10.0	7.0	4.0	2.0	-2.0
T Debt/Cap(w Debt)(%)	85.0	90.0	95.0	97.0	98.2	100.0
Short Term Debt/ Total Debt (%)	47.5	62.2	75.3	84.9	90.7	94.2

PEER RATIOS	Other NRSRO Sen.	Fixed Charge Cov(x)	Return on Avg Assets ROE(%)	Return on Perm Cap(%)	Ratio- T Debt/ Cap(%)	Implied Rating*	
							ROE(%)
Federal National Mortgage Association	AAA	1.2	269.9	0.5	0.5	99.9	BBB-
Federal Home Loan Mortgage Corporation	AAA	1.2	216.9	0.5	0.5	99.9	BBB-
Countrywide Financial Corp.	BBB+	1.1	-4.8	-0.6	0.9	88.7	BB+
Doral Financial Corporation		0.4	0.0	-1.0	-2.1	78.2	B
Advanta CL B		0.3	0.0	0.7	-7.0	42.3	B+

Note, Annual Implied Sen. Ratings are smoothed

Rating Change Anticipator (1 is best, 100 worst): 33.1 Last EJR Sen.: A- Other NRSROs: AAA

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REVENUE & PROFITABILITY

The Company's revenues declined at an average annual rate of 6.5% over the last five years while operating margin rose to 5,501.14% for the fiscal year ending December 2016, above the 4,574.46% average over the prior four years. Return on Assets fell to 0.32%, below the 0.47% average for the prior years.

	Dec-11	Dec-12	Dec-13	Dec-14	Dec-15	PDec16	PDec17
Interest Income (bill \$)	99	85	73	69	67	65	63
Growth Rate (%)		(14.55)	(14.18)	(4.43)	(3.44)	(2.79)	(2.79)
Net Interest Margin (%)	19.32	22.22	23.28	20.96	22.62	27.49	25.40
Loan Loss Coverage (%)	NMF	NMF	NMF	NMF	NMF	NMF	NMF
Pretax ROA (%)	(0.26)	0.46	1.28	0.56	0.47	0.47	1.22
Oper Return/ Earning Assets (%)	0.19	4,349.04	9,712.70	3,309.23	5,501.14	5.85	15.56
Non-Interest Inc/Revs	3.6	7.3	5.3	13.17	10.11	10.45	10.80
Efficiency Ratio (%)	12.2	32.5	0.2	59.71	50.76	43.15	48.82
Return on Assets (%)	(0.2)	0.6	2.5	0.40	0.32	0.31	0.84

LEVERAGE & ASSET LIQUIDITY

The Quick Asset Ratio has become weaker recently, slipping to 1.4:1 for the FYE December 2016, and Quick Assets/ ST Dep & Debt declined.

	Dec-11	Dec-12	Dec-13	Dec-14	Dec-15	PDec16	PDec17
Quick Asset Ratio (%)	2.7	1.8	1.6	1.5	1.4	1.9	2.0
Quick Assets/ ST Dep & Debt(%)	19.8	15.7	14.5	21.0	16.2	22.2	22.7
LT Debt/ Capital (%)	100.0	99.5	99.3	99.9	99.8	99.8	99.3
T Debt/Cap(w Debt)(%)	100.0	99.6	99.3	99.9	99.9	99.9	99.3

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Valuation Driver: Interest Income Growth:

Federal Home Loan Mortgage has seen a decline in interest income at 3.4% per annum in the last fiscal year which is disappointing. We expect Company's revenues will decline by approximately 2.8% per annum over the next couple of years and 0.5% per annum for the next couple of years thereafter.

Valuation Driver: Net Interest Margin:

Company's net interest margin has been more than its peers and we assumed no growth in net interest margin over the next two years.

Income Statement	Peer Median	Co. Avg.	Assumptions	
			Yr 1&2	Yr 3,4,5
Interest Income Growth%	(2.1)	(3.4)	(2.8)	0.5
Interest Expense (% of outstanding debt)	5.1	2.6	2.4	2.4
Net Interest Margin (% of earning assets)	1.0	8,513.7	8,513.7	7,662.3
Provisions for Loan Losses(% of earning assets)	0.8	(1,495.1)	(10.0)	(10.0)
Trading Account Profit Growth%	0.0	292.7	2.0	2.2
Commissions & Fees Earned Growth%	0.0	0.0		
Other Operating Income Growth%	(28.4)	(85.2)	(5.0)	(5.0)
Non-Interest Expense Growth%	0.0	(20.9)	1.0	1.0
Net Non-Operating Loss Growth%	(68.8)	(111.3)		
Income Tax Rate%	29.6	29.6	29.6	26.6
Special Items (billion \$)	0.0			
Cash & Near Cash Growth%	0.0	3.4	3.4	3.4
Accounts & Notes Receivable Growth%	(6.6)	(11.4)	(11.4)	(11.4)
Marketable Secs. & ST Investments Growth%	0.0	2,050.0	400.0	360.0
Loans & Mortgages Growth%	(0.4)	0.0		
Real Estate Investments Growth%	0.0	0.0		
Other Long-Term Investments Growth%	(2.9)	(6.1)	(6.1)	(6.1)
Long-Term Investments before Reserves Growth%	2.2	(6.1)	(6.1)	(6.1)
Loan Loss Reserves (% of Earn. Assets.)	0.9	0.0	5.0	5.0
Loans Net of Reserves Growth%	0.0			
Net Fixed Assets Growth%	(3.2)	0.0		
Other Assets Growth%	0.0	0.0		
Demand Deposits Growth%	0.0			
Short-Term Borrowings Growth%	(26.4)	28.0	28.0	25.2
Customer Deposits Growth%	8.0	0.0		
Other ST Liabilities Growth%	0.0	0.0		
Long-Term Borrowings Growth%	0.3	0.2	0.2	0.2
Deferred Tax Liability Growth%	0.0	0.0		
Other Long-Term Liabilities Growth%	6.7	(5.0)	(5.0)	(5.0)
Shares sold (% of shares out.)	0.0	(0.0)	(0.0)	(0.0)
Additional ST debt (1st year)(billions \$)	0.0	0.0		

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ANNUAL INCOME STATEMENTS

Below are Federal Home Loan Mortgage's annual income statements with the projected years based on the assumptions listed on page 3.

ANNUAL INCOME STATEMENTS (BILLIONS \$, EXCEPT PER SHARE AMOUNTS)

	Dec-12	Dec-13	Dec-14	Dec-15	PDec16	PDec17
Interest Income	84.7	72.7	69.5	67.1	65.2	63.4
Interest Expense	65.9	55.8	54.9	51.9	47.3	47.3
Net Interest Income	18.8	16.9	14.6	15.2	17.9	16.1
Provisions for Loan Losses	1.9			-2.7	0.0	-16.8
Trading Account Profit			-0.2	-0.9	-0.9	-0.9
Commissions & Fees Earned						
Other Operating Income	0.4	4.1	1.2	0.2	0.2	0.2
Non-Interest Expense	6.2	0.0	9.3	7.4	7.4	7.5
Operating Income	11.1	21.0	6.3	9.8	9.8	24.6
Net Non-Operating Loss	1.6	-4.4	-4.7	0.5	0.5	0.5
Income Tax Expenses	-1.5	-23.3	3.3	2.9	3.1	7.4
Income Before XO Items	11.0	48.7	7.7	6.4	6.2	16.7
Extraordinary Item Net of Tax						
Minority Interests					0.0	0.0
Net Income	11.0	48.7	7.7	6.4	6.2	16.7
Total Cash Preferred Dividends	13.1	52.2	10.0	6.4	6.4	6.4
Net Income	11.0	48.7	7.7	6.4	6.2	16.7
Common Dividends						
Total Revenues	85.1	76.8	70.5	66.4	18.1	16.3
Comprehensive Income per Share	0.0	0.0	0.0	0.0		
Basic EPS Before Abnormal Items	0.0	0.0	0.0	0.0	0.0	
Basic EPS Before XO Items	0.0	0.0	0.0	0.0	0.0	0.0
Basic EPS	0.0	0.0	0.0	0.0	0.0	0.0
EBITDA						

REVENUE & PROFITABILITY

Interest Income (bill \$)	84.7	72.7	69.5	67.1	65.2	63.4
Growth Rate (%)	-14.5	-14.2	-4.4	-3.4	-2.8	-2.8
Net Interest Margin (%)	22.2	23.3	21.0	22.6	27.5	25.4
Loan Loss Coverage (%)	0.0	0.0	0.0	0.0	0.0	0.0
Pretax ROA (%)	0.5	1.3	0.6	0.5	0.5	1.2
Oper Return/ Earning Assets (%)	4,349.0	9,712.7	3,309.2	5,501.1	5.9	15.6
Non-Interest Inc/Revs	7.3	5.3	13.2	10.1	10.4	10.8
Efficiency Ratio (%)	32.5	0.2	59.7	50.8	43.1	48.8
Return on Assets (%)	0.6	2.5	0.4	0.3	0.3	0.8

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ANNUAL BALANCE SHEETS

Below are Federal Home Loan Mortgage 's balance sheets with the projected years based on the assumptions listed on page 3. As of Dec17, the Company's total cash is assumed to increase from \$24B to \$32B while its Long-Term Borrowings is assumed to rise from \$1.9T to \$2.0T.

ANNUAL BALANCE SHEETS (BILLIONS \$, EXCEPT PER SHARE AMOUNTS)

Base Case

ASSETS

	Dec-12	Dec-13	Dec-14	Dec-15	PDec16	PDec17
Cash & Near Cash	23.1	23.5	19.5	20.1	31.2	32.2
Accounts & Notes Receivable	17.0	10.5	11.0	9.7	8.6	7.6
Marketable Secs. & ST Investments	0.1	0.0	0.0	0.0	0.2	1.1
Loans & Mortgages						
Real Estate Investments					0.0	0.0
Other Long-Term Investments	254.5	215.8	189.7	178.2	167.4	157.3
Long-Term Investments before Reserves	254.5	215.8	189.7	178.2	167.4	157.3
Loan Loss Reserves						
Loans Net of Reserves	254.5	215.8	189.7	178.2	167.4	157.3
Net Fixed Assets	4.4					
Other Assets					1,777.9	1,777.9
Additional Assets	1,690.8	1,717.2	1,725.4	1,777.9	0.0	
Total Assets	<u>1,989.9</u>	<u>1,967.0</u>	<u>1,945.5</u>	<u>1,986.1</u>	<u>1,985.3</u>	<u>1,976.1</u>
Earning Assets	0.3	0.2	0.2	0.2	167.6	158.3

LIABILITIES

Demand Deposits						
Short-Term Borrowings	233.5	219.8	134.6	172.3	172.3	172.3
Customer Deposits						
Other ST Liabilities					0.1	0.2
Long-Term Borrowings	1,733.6	1,720.9	1,794.9	1,798.1	1,798.4	1,779.4
Deferred Tax Liability		0.9				
Other Long-Term Liabilities	14.0	12.5	13.3	12.7	12.1	11.5
Other Liabilities						
Total Liabilities	<u>1,981.0</u>	<u>1,954.2</u>	<u>1,942.9</u>	<u>1,983.1</u>	<u>1,982.9</u>	<u>1,963.4</u>
Total Preferred Equity	86.4	86.4	86.4	86.4	86.4	86.4
Minority Interest						
Share Capital & APIC	0.0				0.0	0.0
Retained Earnings & Other Equity	-77.6	-73.6	-83.8	-83.5	-83.7	-73.4
Total Shareholders' Equity	<u>8.8</u>	<u>12.8</u>	<u>2.7</u>	<u>2.9</u>	<u>2.8</u>	<u>13.0</u>
Total Liabilities & Equity	<u>1,989.9</u>	<u>1,967.0</u>	<u>1,945.5</u>	<u>1,986.1</u>	<u>1,985.6</u>	<u>1,976.4</u>
Shares Outstanding			3,236.0	3,235.0	3,234.7	3,234.3

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Liquidaton Analysis based on a sale of assets (\$ billions)

Horizon (years): 3

	Book Value	Base Case		Optimistic Case		Pessimistic Case	
		MV %	Market Value	MV %	Market Value	MV %	Market Value
Cash & Near Cash	33	100	\$33	100	\$33	100	\$33
Accounts & Notes Receivable	7	96	6	101	7	91	6
Marketable Secs. & ST Investments	5	91	5	96	5	86	4
Loans & Mortgages	-						
Real Estate Investments	0						
Other Long-Term Investments	148	87	128	92	135	82	121
Long-Term Investments before Reserves	148				135		121
Loan Loss Reserves	-						
Loans Net of Reserves	148	77	114	82	121	72	106
Net Fixed Assets	-						
Other Assets	1,778	82	1,454	87	1,543	77	1,365
	-						
Total Assets	1,971		1,612		1,709		1,515
Check	1,971						
MV/ Adjusted Book Value of Total Assets (1)			81.8%		86.7%		76.9%
Priority Claims:							
Deferred Tax Liability	-	100	-	100	-	100	0
Other	-	100	-				
Admin. and Liq. Costs at 3% of Assets	59	100.0	59	100.0	59	100.0	59
Sum Priority Claims	59		59		59		59
Remaining Corpus			1,553		1,649		1,456
Demand Deposits	172		172		172		172
	1,764		1,764		1,764		1,764
Time Deposits							
Other LT Liabilities	11		11		11		11
Other			-		-		0
Off-balance Sheet Liab.			0		0		0
Sum Senior, Unsecured Claims			1,947		1,947		1,947
Recovery (Corpus/ Sum Sen. Claims)			79.7%		84.7%		74.8%
PV at 1.5 years			67.8%		72.0%		63.6%
Sub. Debt	0		0		0		0
Sub. Debt Recovery							
Check: Sum Claims less Liquidation Costs			1,947				
Liabilities			1,947				

Comparative Book Value Analysis (based on FYE financials)(2)

Ticker	FMCC	FNMA	FMCC	CFC	DRL
Share Price in local currency	1.68	1.81	1.68	0.00	0.19
Shares Outstanding (millions)	650	1,158	650		7
Com. Stock MV in local currency (B)	1	2	1	-	0
plus Preferred Stock Book Value (B)	86	136	86	2	0
Adjusted Equity Value	88	138	88	2	0
Total Assets (B)	1,986	3,222	1,986	214	8
Equity Value/ Total Assets	4.4%	4.3%	4.4%	0.9%	4.2%

Notes

1. The Estimated Market Value of Assets divided by Total Assets. This item should be compared to footnote #2.
2. The Equity Market Value divided by the Total Assets

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Liquidation Analysis using going concern value (\$B except per share amt.)

Horizon (years): 3

	Dec-14	Dec-15	PDec16	PDec17	PDec18	PDec19	PDec20
Net Income at FYE	8	6	6	17	17	17	18
Total Shareholders' Equity	3	3	3	13	24	35	47
Total Revenues	70	66	18	16	17	18	18
Debt	1,930	1,970	1,971	1,952	1,936	1,935	1,998
Preferred Stock	86	86	86	86	86	86	86
Shares (millions)		650	650	650	649	649	649
Share Valuation (see below pages)		1.68					
Current Market Cap Est. (B)		1			3		
Net Income Multiple (see below)		0.1			0.2		

	Base	Best	Worst
Assumed Value of common stock as of PDec18	3	3	3
Adjusted Assumed Value of stock at 95%	3	3	3
Plus 80% of net debt, pfd. shares, and excess cash as of Dec, 2016	1,633	1,633	1,633
Enterprise value	1,636	1,636	1,636

Priority Claims:

Deferred Tax Liability

Other				
Admin. and Liq. Costs at 3% of Assets	59			
Sum Priority Claims	59	59	59	59
Remaining Corpus		1,577	1,577	1,577
Demand Deposits	172	172	172	172
	1,764	1,764	1,764	1,764
Time Deposits				
Other LT Liabilities	11	11	11	11
Other				
Off-balance Sheet Liab.				
Sum Senior, Unsecured Claims		1,947	1,947	1,947
Recovery (Remaining corpus/ Sen. Claims)		81.0%	81.0%	81.0%
PV at 1.5 years		64.8%	64.8%	64.8%

Sub. Debt

Sub. Debt Recovery

Check: Sum Claims less Liquidation Costs 1,947

Liabilities 1,947

Comparative Going Concern Analysis (based on FYE financials)(1)

Ticker	FMCC	FNMA	FMCC	CFC	DRL	
Share Price	1.68	1.81	1.68	0.00	0.19	
Shares Outstanding (M)	650	1,158	650		7	
Common Stock Market Value (M)	1	2	1	-	0	
Preferred Stock Book Value	86	136	86	2	0	
Adj. Enterprise Cost	88	138	88	2	0	
Net Income at FYE (B)	6	11	6	-1	0	Medians
Market Cap/Net Income	0	0.2	0.2	NMF	NMF	0.1
Total Shareholders' Equity	3	4	3	15	1	
Adj. Enterprise Cost/Total Shareholders' Equity	30	34.1	29.8	0.1	0	15.1
Revenues	66	112	66	24	0	
Adj. Enterprise Cost/ Revenues	1.3	1.2	1.3	0.1	0.8	1.0

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Comments on the Difference between the Model and Assigned Rating

In this case, there has been little change in the recent results and therefore we have used our best judgement in making adjustments which are reflected in the results for the projected ratings. We have assigned a rating of "A-" whereas the ratio-implied rating for the most recent period is "BBB+"; the median rating for the peers is significantly higher than the Company's rating.

Changes in Industry Ratios

We have not made any adjustment in the industry ratios at this time.

CUSIPs and EJR rating

3137EADQ9 rated A-; 3137EADN6 rated A-; 3137EADL0 rated A-; 3137EADJ5 rated A-; 3137EADH9 rated A-; 3137EADF3 rated A-; 3137EADD8 rated A-; 3137EADC0 rated A-; 3137EADA4 rated A-; 3137EACZ0 rated A-; 3137EACY3 rated A-; 3137EACX5 rated A-; 3137EACW7 rated A-; 3137EACV9 rated A-; 3137EACU1 rated A-; 3137EACT4 rated A-; 3137EACR8 rated A-; 3137EACM9 rated A-; 3137EACL1 rated A-; 3137EACH0 rated A-; 3137EACD9 rated A-; 3137EACB3 rated A-; 3137EABX6 rated A-; 3137EABS7 rated A-; 3137EABM0 rated A-; 3137EABA6 rated A-; 3137EAAY5 rated A-; 3137EAAS8 rated A-; 3137EAAM1 rated A-; 3137EAAJ8 rated A-; 3137EAAG4 rated A-; 3137EAAD1 rated A-; 3134G4BB3 rated A-; 3134G4BA5 rated A-; 3134G4B49 rated A-; 3134G4B23 rated A-; 3134G4AZ1 rated A-; 3134G4AV0 rated A-; 3134G4AT5 rated A-; 3134G4AP3 rated A-; 3134G4AN8 rated A-; 3134G4AL2 rated A-; 3134G4AJ7 rated A-; 3134G4AH1 rated A-; 3134G4AC2 rated A-; 3134G4AB4 rated A-; 3134G4A81 rated A-; 3134G4A40 rated A-; 3134G47L6 rated A-; 3134G46W3 rated A-; 3134G46G8 rated A-; 3134G46A1 rated A-; 3134G45U8 rated A-; 3134G45L8 rated A-; 3134G45A2 rated A-; 3134G44R6 rated A-; 3134G44N5 rated A-; 3134G44M7 rated A-; 3134G44F2 rated A-; 3134G43Y2 rated A-; 3134G43U0 rated A-; 3134G43S5 rated A-; 3134G43R7 rated A-; 3134G43P1 rated A-; 3134G43E6 rated A-; 3134G42Z0 rated A-; 3134G42Y3 rated A-; 3134G42V9 rated A-; 3134G42Q0 rated A-; 3134G42N7 rated A-; 3134G42M9 rated A-; 3134G42L1 rated A-

SEC Rule 17g-7(a) Disclosure

Below are the disclosures as required by Paragraph (a) of Rule 17g-7.

1. The symbol in the rating scale used to denote the credit rating categories and notches within categories and the identity of the obligor, security, or money market instrument as required by Paragraph (a)(1)(ii)(A) of Rule 17g-7:

For the issuer FEDERAL HOME LOAN MORTGAGE with the ticker of FMCC we have assigned the senior unsecured rating of A-. There are three notches in our rating categories (e.g., A-, A, and A+) other than those deep into speculative grade; for CC, C, and D there are no notches.

2. The version of the procedure or methodology used to determine the credit rating as required by Paragraph (a)(1)(ii)(B) of Rule 17g-7:

We are using the methodology available in our Form NRSRO Exhibit #2 dated Nov. 10, 2015 available via egan-jones.com under the tab at the bottom of the page "Methodologies".

3. The main assumptions and principles used in constructing the procedures and methodologies used to determine the credit rating as required by Paragraph (a)(1)(ii)(C) of Rule 17g-7:

The credit rating assigned reflects our judgement regarding the future credit quality of the issuer. Regarding the specific assumptions used, please refer to page 3 of this Rating Analysis Report.

4. The potential limitations of the credit rating as required by Paragraph (a)(1)(ii)(D) of Rule 17g-7:

Our rating pertains solely to our view of current and prospective credit quality. Our rating does not address pricing, liquidity, or other risks associated with holding investments in the issuer.

5. Information on the uncertainty of the credit rating as required by Paragraph (a)(1)(ii)(E) of Rule 17g-7:

Our rating is dependant on numerous factors including the reliability, accuracy, and quality of the data relied used in determining the credit rating. The data is sourced from publicly-available 10Q and 10K statements, quarterly reports, 8K filings, earnings reports, and other similar sources. In some cases, the information is limited because of issues such as short operating histories, the lack of reported data, a delay in reporting data, restatements, inaccurate accounting, and other issues. Such shortcomings are not always readily apparent. EJR aims to identify such shortcomings and make adjustments using its best judgement.

6. Whether and to what extent third-party due diligence services have been used in taking the rating action as required by Paragraph (a)(1)(ii)(F) of Rule 17g-7:

EJR does not utilize third-party due diligence services.

7. How servicer or remittance reports were used, and with what frequency, to conduct surveillance of the credit rating as required by Paragraph (a)(1)(ii)(G) of Rule 17g-7:

Servicer or remittance reports normally pertain to structured finance issuers; this report does not pertain to a structured finance issuer (EJR is not an NRSRO for structured finance or sovereigns/ municipal issuers). Regarding surveillance, the minimum time period for corporation issuers is normally one year.

8. A description of the data that were relied upon for the purpose of determining the credit rating as required by Paragraph (a)(1)(ii)(H) of Rule 17g-7:

EJR uses 10Q and 10K statements, quarterly reports, 8K filings, earnings reports, and other similar sources for ratings on publicly-traded issuers. In the case of private issuers, EJR relies on information provided mainly by issuers.

9. A statement containing an overall assessment of the quality of information available and considered in the credit rating as required by Paragraph (a)(1)(ii)(I) of Rule 17g-7: The information is generally high quality and readily avail.**10. Information relating to conflicts of interest as required by Paragraph (a)(1)(ii)(J) of Rule 17g-7:**

This rating is unsolicited.

FEDERAL HOME LOAN MORTGAGE

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*EJR Sen Rating(Curr/Prj) A-/ N/A
*EJR CP Rating: A1
EJR's 3 yr. Default Probability: 1.7%
EJR 3 yr. Recov. Rate: 67.8%

11. An explanation or measure of the potential volatility of the credit rating as required by Paragraph (a)(1)(ii)(K) of Rule 17g-7:

Our rating aims to assess the probability of the payment of obligations in full and on-time. Factors which affect such probability, and in turn our rating, include changes in the operating performance of the issuer, changes in capital structure, and merger and acquisition events.

12. Information on the content of the credit rating as required by Paragraph (a)(1)(ii)(L) of Rule 17g-7:

Regarding the historical performance of the credit rating, our rating transition matrix is available in our Form NRSRO, exhibit 1. The expected probability of default and the expected loss in the event of default is listed on the first page of this report.

13. Information on the sensitivity of the credit rating to assumptions as required by Paragraph (a)(1)(ii)(M) of Rule 17g-7:

Below is a summary of the impact of the 5 assumptions which independently would have the greatest impact on our "ratio-implied rating":

	Assumptions			Resulting Ratio-Implied Rating		
	Base	Optimistic	Pessimistic	Base	Optimistic	Pessimistic
Interest Income Growth%	(2.8)	1.2	(6.8)	A-	A-	BBB+
Interest Expense (% of outstanding debt)	2.4	(0.6)	5.4	A-	BBB-	BBB
Provisions for Loan Losses(% of earning assets)	(10.0)	(13.0)	(7.0)	A-	A-	BBB+
Commissions & Fees Earned Growth%		0.1	2.0	A-	A-	A-
Loan Loss Reserves (% of Earn. Assets.)	5.0	3.0	7.0	A-	A-	A-

14. If the credit rating is assigned to an asset-backed security, a description of: (i) the representations, warranties, and enforcement mechanisms available to investors; and (ii) how they differ from the representations, warranties, and enforcement mechanisms in issuances of similar securities, as required by Paragraph (a)(1)(ii)(N) of Rule 17g-7:

This credit rating is not assigned to an asset-backed security.

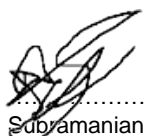
ATTESTATION FORM

In compliance with the US Securities and Exchange Commission (SEC) Rule 17g-7(a), the Egan-Jones analyst who published the report is responsible for the rating action and to the best knowledge of the person:

- 1) No part of the credit rating was influenced by any other business activities,
- 2) The credit rating was based solely upon the merits of the obligor, security, or money market instrument being rated, and
- 3) The credit rating was an independent evaluation of the credit risk of the obligor, security, or money market instrument.

Analyst Signature:

Today's Date

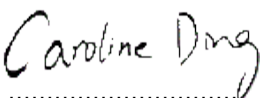


April 19, 2016

Subramanian NG
Senior Rating Analyst

Reviewer Signature:

Today's Date



April 19, 2016

Caroline Ding
Rating Analyst

FEDERAL HOME LOAN MORTGAGE

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*EJR Sen Rating(Curr/Prj) A-/ N/A
*EJR CP Rating: A1
EJR's 3 yr. Default Probability: 1.7%
EJR 3 yr. Recov. Rate: 67.8%

Sovereign Rating Methodology (Non-NRSRO)

Scope and Limitations: Sovereign Issuer Credit Quality Ratings (CQR) are a forward-looking assessment of a sovereign's capacity and willingness to honor its existing and future obligations in full and on time. Sovereigns are assigned two CQRs: a Local-Currency CQR, which reflects the likelihood of default on debt issued and payable in the currency of the sovereign, and a Foreign-Currency CQR, which is an assessment of the credit risk associated with debt issued and payable in foreign currencies.

Key Rating Drivers: EJR's approach to sovereign risk analysis is a synthesis of quantitative and qualitative judgments. The quantitative factors EJR uses are:

- Debt in relation to GDP.
- Surplus or deficit in relation to GDP.
- Debt plus potential under-funding of major banks in relation to GDP.
- Interest expense in relation to taxes.
- GDP growth.
- Foreign reserves in relation to debt.

Debt levels for many sovereign issuers have increased at an accelerating rate over the past decade, affecting implied ratings. EJR also considers unemployment levels and funding costs. EJR recognizes that no model can fully capture all the relevant influences on sovereign creditworthiness, meaning that the its sovereign ratings can and do differ from those implied by the rating model. Some of the qualitative factors that impact its ultimate assessment of credit quality include the flexibility, stability and overall strength of the economy, efficiency of tax collection, acceptance of contract law, ease of doing business, trade balances, prospects for future growth and health and monetary policy, and economic freedom. These subjective and dynamic qualitative issues are not captured by the model but affect sovereign ratings

For additional information, please see Exhibit 2: Methodologies in EJR's Form NRSRO.