Freddie Mac

Mortgage Participation Certificates

Mortgage Participation Certificates

Freddie Mac issues and guarantees Mortgage Participation Certificates, or "**PCs.**" PCs are securities that represent interests in, and receive payments from, pools of one- to four-family residential mortgages.

Freddie Mac's Guarantee

We guarantee the payment of interest and principal on the PCs as described in this Offering Circular. We alone are responsible for making payments on our guarantee. Principal and interest payments on the PCs are not guaranteed by and are not debts or obligations of the United States or any federal agency or instrumentality other than Freddie Mac.

Tax Status and Securities Law Exemptions

The PCs are not tax-exempt. Because of applicable securities law exemptions, we have not registered the PCs with any federal or state securities commission. No securities commission has reviewed this Offering Circular.

The PCs may not be suitable investments for you. You should consider carefully the risks of investing in them. The *Risk Factors* section on pages 6 and 7 highlights some of these risks.

Offering Circular dated February 1, 2001

If you intend to purchase PCs, you should rely only on the information in this Offering Circular and in any related pool supplement (**"Pool Supplement"**), including the information in any disclosure documents that we incorporate by reference in this document or in a related Pool Supplement. You can find additional information about our PCs on our Internet Web-Site at www.freddiemac.com. We have not authorized anyone to provide you with different information.

This Offering Circular, any related Pool Supplement and any incorporated documents may not be correct after their dates.

We are not offering the PCs in any jurisdiction that prohibits their offer.

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Appendix I shows the page numbers where definitions of capitalized terms appear. *Appendix II* contains descriptions for various types of mortgages. *Appendix III* describes indices frequently used to adjust adjustable rate mortgages and PCs.

FREDDIE MAC

Freddie Mac was chartered in 1970 under the Federal Home Loan Mortgage Corporation Act (the **"Freddie Mac Act"**). Freddie Mac's statutory purposes are:

- To provide stability in the secondary market for residential mortgages.
- To respond appropriately to the private capital market.
- To provide ongoing assistance to the secondary market for residential markets (including mortgages on housing for low- and moderate-income families involving a reasonable economic return that may be less than the return earned on other activities).
- To promote access to mortgage credit throughout the United States (including central cities, rural areas and underserved areas) by increasing the liquidity of mortgage investments and improving the distribution of investment capital available for residential mortgage financing.

To meet these statutory purposes, we purchase mortgages and mortgage-related securities from lenders, other mortgage sellers and securities dealers. We finance our purchases of mortgages primarily by sales of guaranteed mortgage securities. Mortgages we retain are financed with debt securities, other liabilities and equity capital.

ADDITIONAL INFORMATION

We prepare an annual Information Statement that describes our business and operations and contains our audited financial statements. We also prepare quarterly Information Statement Supplements that include unaudited financial data and other information concerning our business and operations. As of any given date, this Offering Circular incorporates by reference the most recent Information Statement and any subsequent Information Statement Supplements.

You can obtain any of these documents, the Mortgage Participation Certificates Agreement (the **"Agreement"**) and disclosure documents for our PCs and other securities from:

Freddie Mac - Investor Inquiry
8200 Jones Branch Drive
McLean, Virginia 22102-3110
Telephone: 1-800-336-FMPC
(703-450-3777 within Washington, D.C. area)
E-mail: Investor_Inquiry@freddiemac.com
Internet Web-Site: www.freddiemac.com

SUMMARY

This summary highlights selected information about the PCs. Before buying PCs, you should read the remainder of this Offering Circular and any applicable Pool Supplement. You should rely on the information in an applicable Pool Supplement if it is different from the information in this Offering Circular.

Issuer and Guarantor .... Federal Home Loan Mortgage Corporation, or **"Freddie Mac,"** a shareholder-owned government-sponsored enterprise.

PCs .... PCs represent beneficial ownership interests in pools of Mortgages that we form (**"PC Pools"**).

Types of Mortgages .... The assets in each pool include mortgages or participation interests in mortgages that we have purchased (**"Mortgages"**). The Mortgages are secured primarily by first liens on one- to four-family residential properties and may be either fixed-rate Mortgages or adjustable rate Mortgages ("**ARMs**"). We describe characteristics of different types of Mortgages in *Appendix II.*

Types of PCs .... Each **"Gold PC"** represents an interest in a PC Pool consisting of fixed-rate, level payment, fully amortizing Mortgages or fixed-rate Balloon/Reset Mortgages.

Each **"ARM PC"** represents an interest in a PC Pool consisting of ARMs.

Payments .... We pay principal and interest monthly on each Payment Date beginning in (1) the month after issuance for Gold PCs or (2) the second month after issuance for ARM PCs. Payment Dates fall on or about the 15th of each month.

- **Interest** .... We pay interest on each PC at its applicable per annum interest rate ("**PC Coupon**"). Interest payable on a Payment Date accrues during (1) the preceding calendar month for Gold PCs or (2) the second preceding calendar month for ARM PCs.

- **Principal** .... We base PC principal payments on servicers' reports of payments received on the Mortgages and, for Gold PCs, our calculation of scheduled monthly principal payments. The Holders of PCs issued from the same PC Pool receive principal payments on a pro rata basis.

Guarantee .... For Gold PCs, we guarantee timely payment of interest at the applicable PC Coupon and the timely payment of scheduled principal, whether or not we receive these payments from the underlying Mortgages.

For ARM PCs, we guarantee timely payment of interest at the applicable PC Coupon, whether or not we receive these payments from the underlying Mortgages, and the full and final payment of principal no later than month following the Final Payment Date. We do not guarantee the timely payment of scheduled principal on ARM PCs.

PC Agreement .... We issue and administer PCs according to the Agreement, which we summarize in this Offering Circular. You should refer to the Agreement for a complete description of your rights and obligations and those of Freddie Mac.

Tax Status .... We will classify each PC Pool as a grantor trust. As an investor in PCs, you will be treated as the owner of a pro rata undivided interest in the ordinary income and the principal of the related grantor trust, and will be considered the owner of a pro rata undivided interest in each of the underlying Mortgages.

RISK FACTORS

Although we guarantee the payments on PCs, and so bear the associated credit risk, as an investor you will bear the other risks of owning mortgage securities. This section highlights some of these risks. The section of this Offering Circular entitled *Prepayment, Yield and Suitability Considerations* discusses them in more detail.

PCs May Not Be Suitable Investments for You. PCs are complex securities. You need to understand the risks of your investment, and you need to be able to analyze the information in the related offering documents as well as the economic and other factors that may affect your investment. If you require a definite payment stream, or a single payment on a specific date, PCs are not suitable investments for you. If you purchase PCs, you need to have enough financial resources to bear all of the risks related to your investment.

Principal Payment Rates Are Uncertain. Principal payment rates on PCs will depend on the rates of principal payments on the underlying Mortgages. Mortgage principal payments include scheduled payments and prepayments. Prepayment rates fluctuate continuously and (in some market conditions) substantially. In general, prepayments tend to increase when current interest rates decline, as more borrowers choose to refinance their existing Mortgages. As current interest rates increase, refinancings and prepayments generally decline.

We cannot predict the rate of prepayments on the Mortgages, which is influenced by a variety of economic, social and other factors, including local and regional economic conditions, homeowner mobility and the availability of alternative financing. Prepayments are also affected by servicing decisions and policies, such as decisions to pursue alternatives to foreclosure.

Prepayments Can Reduce Your Yield. Your yield on a PC will depend on its price, the rate of prepayments on its underlying Mortgages and the actual characteristics of those Mortgages. The Mortgages may be prepaid at any time, in most cases without payment of a premium. The yield on your PC could be lower than you expect if:

- You buy your PC at a discount to its principal amount and principal payments are slower than you expect.
- You buy your PC at a premium over its principal amount and principal payments are faster than you expect.

Reinvestment of Principal Payments May Produce Lower Yields. Mortgages tend to prepay fastest when current interest rates are low. When you receive principal payments in a low interest rate environment, you may not be able to reinvest them in comparable securities with as high a yield as your PC.

Index Values and Mortgage Characteristics Will Affect Yields of ARM PCs. If you invest in ARM PCs, and the index value used to adjust the interest rates on the underlying Mortgages is lower than you expect, the yield on your investment could be lower than you expect, especially if prepayments are slow. Even if the index value is high but prepayments are fast, your yield could be lower than you expect. ARM interest rate adjustments typically occur less frequently than monthly, and all adjustments occur later than the availability of the relevant index value. As a result, interest rates on the ARMs and the related ARM PCs may not reflect current index values. In addition, if you invest in Payment Capped ARM PCs, the application of payment caps may result in negative amortization or accelerated amortization, which may affect your yield.

PCs Are Subject to Market and Liquidity Risks. The market values of your PCs will vary over time, primarily in response to changes in prevailing interest rates. If you sell your PCs when their market values are low, you may experience significant losses. A secondary market for some types of PCs may not develop. Even if a market does develop, it may not be liquid enough to allow you to sell your PCs easily or at your desired price.

You May Not Be Allowed to Buy PCs. If you are subject to investment laws and regulations or to review by regulatory authorities, you may not be allowed to invest in some types of PCs or in PCs generally.

DESCRIPTION OF THE MORTGAGES

General

Mortgages typically are evidenced by mortgage notes secured by mortgages or deeds of trust or other similar security instruments creating liens on one- to four-family residential properties. Mortgages include both whole loans and participation interests in loans. They may have been originated for the purpose of purchasing, refinancing or rehabilitating the mortgaged properties. The mortgaged properties may be owner-occupied properties or non-owner occupied properties, such as second homes or investment properties.

All of the Mortgages are either:

- **"Conventional Mortgages,"** which neither the United States nor any agency or instrumentality of the United States guarantees or insures.
- **"FHA/VA Mortgages,"** which the Federal Housing Administration, the Department of Veterans Affairs or the Rural Housing Service guarantees or insures.

Appendix II describes the types of Mortgages that we typically buy. If a PC Pool includes Mortgages that have materially different characteristics, we will describe them in an applicable Pool Supplement.

Mortgages bear interest at either a fixed or an adjustable interest rate. Most of the Mortgages we purchase are fixed-rate, fully amortizing, Conventional Mortgages with level monthly payments.

ARMs have original or modified terms to maturity of generally up to 30 years with interest rates that adjust periodically at specified intervals over the term of the Mortgage. An ARM has an initial fixed-rate period followed by an adjustable rate period. Some ARMs, known as "hybrid" ARMs, have relatively long initial fixed-rate periods of up to ten years. The adjusted interest rate on an ARM is equal to a fixed margin (the **"Margin"**) plus the value of a specified index (**"Index"**). The adjustment value of the Index is the most recent value available a specified number of days before the adjustment date. This interval, sometimes referred to as the "look-back" period, is 45 days in most cases. ARMs may have some combination of (a) limits on the amount the interest rate can adjust up or down on each adjustment date (adjustment caps), (b) maximum interest rates (lifetime ceilings) and (c) minimum interest rates (lifetime floors). *Appendix III* shows the most common Indices for the ARMs we purchase, as well as the current sources for various Indices.

Mortgages have payments that are due monthly or, in some cases, bi-weekly. We acquire Mortgages with various original terms to maturity. The actual period from origination to maturity of a Mortgage may be slightly longer than the stated term because the first payment of principal and interest on a Mortgage frequently is not due until the second month after origination.

Mortgage Purchase and Servicing Standards

General

Any Mortgages that we purchase must satisfy the mortgage purchase standards that are contained in the Freddie Mac Act. These standards require us to purchase Mortgages of a quality, type and class that meet generally the purchase standards imposed by private institutional mortgage investors. This means the Mortgages must be readily marketable to institutional mortgage investors.

The Guide

In addition to the standards in the Freddie Mac Act, which we cannot change, we have established our own mortgage purchase standards, credit, appraisal and underwriting guidelines and servicing policies. These are in our Single-Family Seller/Servicer Guide (the **"Guide"**). The Guide also contains forms of our mortgage purchase documents. You may obtain the Guide from us for a fee by contacting Investor Inquiry as shown on page 3.

We may waive or modify any of the Guide's purchase standards, guidelines or servicing policies when we purchase any particular Mortgages. We will describe any modifications in a Pool Supplement if we consider it likely that they will materially change the prepayment behavior of the Mortgages. We also reserve the right to change the provisions of the Guide at any time. This means that the Mortgages in a given PC Pool may not conform at any particular time to all of the provisions of the Guide, our mortgage purchase documents or this Offering Circular.

We summarize below certain of our purchase standards, guidelines and servicing policies. This summary, however, is qualified in its entirety by the Guide and by any applicable mortgage purchase documents, servicing agreements and supplemental disclosures.

Mortgage Purchase Standards

The Freddie Mac Act imposes limits, which are subject to an annual adjustment, on the maximum original principal amount of any one- to four-family mortgage that we may purchase. These limits are commonly referred to as "conforming loan limits." Currently, the conforming loan limits for first-lien conventional mortgages are: $275,000 (single-family); $351,950 (two-family); $425,400 (three-family) and $528,700 (four-family). The applicable conforming loan limits are 50% higher for mortgages secured by properties located in Alaska, Guam, Hawaii and the U.S. Virgin Islands. Conforming loan limits for second-lien mortgages are 50% of those for first-lien mortgages.

In general, a loan-to-value (**"LTV"**) ratio is a ratio of (a) the total principal balance of a Mortgage or the total mortgage indebtedness to (b) the value of the property securing the Mortgage. Under the Freddie Mac Act, we may not purchase a Conventional Mortgage if, at the time of purchase, the outstanding principal balance (if a first mortgage) or the total outstanding mortgage indebtedness (if a second mortgage) exceeds 80% of the value of the related mortgaged property unless one of several conditions is satisfied. These conditions generally require a level of protection, such as mortgage insurance or recourse to the seller, designed to offset any additional credit losses that may be associated with higher LTV ratios.

In general, the Mortgages we purchase under the Guide may not have LTV ratios exceeding 95%. However, we may reduce or increase the required LTV ratios based on a number of factors, such as the borrower's intended use of Mortgage proceeds, the type of property securing the Mortgage, the existence of special financing arrangements and the market in which the mortgaged property is located.

We use mortgage information available to us to determine which Mortgages we will purchase, the prices we will pay for Mortgages, how to pool the Mortgages we purchase and which Mortgages we will retain in our own portfolio. The information we use varies over time, and may include, among other things, LTV ratios, loan size and age, geographic distribution, weighted average interest rate, purpose or source of origination, borrower median income and credit scoring. We have discretion to determine whether the Mortgages we purchase will be securitized or held in our portfolio.

Eligible Sellers, Servicers and Warranties

We approve sellers and servicers of Mortgages based on a number of factors, including their financial condition, operational capability and mortgage origination and servicing experience. The seller or servicer of a Mortgage need not be the originator of that Mortgage.

When we purchase a Mortgage, we rely on representations and warranties of the seller with respect to certain matters, as is customary in the secondary mortgage market. These warranties cover such matters as:

- The accuracy of the information provided by the borrower.
- The accuracy and completeness of any third party reports prepared by qualified professionals.
- The validity of each Mortgage as a first or second lien, as applicable.
- The fact that payments on each Mortgage are current at the time of delivery to us.
- The physical condition of the mortgaged property.
- The originator's compliance with applicable state and federal laws.

Mortgage Servicing Policies

We generally supervise servicing of the Mortgages according to the policies in the Guide. Each servicer is required to perform all services and duties customary to the servicing of mortgages. Those responsibilities include all activities concerning the calculation, collection and processing of Mortgage payments and related borrower inquiries, as well as all Mortgage administrative responsibilities, including claims collection, workouts, foreclosures and reports.

Servicers service Mortgages, either directly or through approved subservicers, and receive fees for their services. We monitor a servicer's performance through periodic and special reports and inspections to ensure it complies with its obligations. Servicers remit payments to us under various arrangements, but these do not affect the timing of payments to investors. We invest payments remitted to us at our own risk and for our own benefit until we pass them through to investors.

Prepayments

A borrower may make a full or partial prepayment on a Mortgage at any time, generally without paying a premium. A borrower may partially prepay a Mortgage in order to reduce the number or size of future monthly payments, provided that the Mortgage is current and the prepayment will not result in an interest rate change or an extension of the term. A borrower may fully prepay a Mortgage for several reasons, including an early payoff, a transfer of the related mortgaged property or a refinancing of the Mortgage. We pass through all prepayments to the Holders of the related PCs.

We may repurchase and remove a Mortgage from a PC Pool, or allow or require the servicer to repurchase a Mortgage from a PC Pool, if:

- The seller or servicer materially breaches one of its warranties, representations or agreements with us.
- The mortgaged property is condemned or suffers a total physical loss.
- The repurchase is necessary to resolve an existing or impending delinquency or default, to maintain proper servicing of a Mortgage or to minimize loss.
- An event triggers a right of recourse to the seller or servicer.
- We make a payment under our guarantee of full and final payment of principal.

In determining whether a Mortgage should be repurchased, we consider various factors, including whether the repurchase will reduce our administrative costs or our possible exposure under our guarantees and our statutory and other legal obligations.

We always repurchase a Mortgage from its PC Pool shortly before:

- A Balloon/Reset Mortgage reaches its scheduled balloon payment date, regardless of whether the borrower decides to pay the Mortgage in full or extend it at a reset interest rate.
- A borrower with a convertible ARM exercises the conversion option.

We treat the proceeds of any repurchase in the same manner as if a full prepayment of the Mortgage had occurred.

Defaults and Delinquencies

In attempting to resolve an existing or impending delinquency or other mortgage default, we may take any of the following measures:

- Approve an assumption of a Mortgage by a new borrower.
- Allow a repayment plan or a forbearance period during which regular Mortgage payments may be reduced or suspended.
- Approve a modification of certain terms of the Mortgage if we determine that the borrower would be able to make all payments under the modified Mortgage terms.
- Pursue a refinancing of the Mortgage or a preforeclosure contract for sale of the underlying property.

- Charge off all or part of the unpaid principal balance of the Mortgage.

- Initiate a foreclosure proceeding.

When considering our options under the particular circumstances, we determine, in our sole discretion, whether to remove a Mortgage from a PC Pool. Removing a Mortgage from its PC Pool has the same effect on Holders as a prepayment. If we determine not to remove the Mortgage from its PC Pool, the measures we take may affect the timing of payments of principal to Holders.

We generally demand accelerated payment of principal and initiate foreclosure proceedings when a Mortgage has become 90 days' delinquent. However, we also continue to pursue alternative measures to resolve the delinquency before the conclusion of the foreclosure proceedings, if such measures appear likely to mitigate our potential losses. If, after demand for acceleration, a borrower pays all delinquent amounts or agrees with us to accept an arrangement for reinstatement of the Mortgage, we may terminate the foreclosure proceedings and withdraw our demand. If the borrower again becomes delinquent, we generally will make a new demand for acceleration and commence new foreclosure proceedings.

Generally, we repurchase from its PC Pool any Mortgage that has been delinquent for 120 consecutive days. We may repurchase delinquent Mortgages earlier, however, depending on the circumstances, including our assessment of the likelihood of default.

Sometimes the unpaid principal balance of a Mortgage exceeds the current value of the underlying property. Bankruptcy courts are permitted, under limited circumstances, to approve a borrower's plan reducing the borrower's obligation under such a Mortgage to the current value of the property and to treat the remaining amount of the Mortgage indebtedness as an unsecured obligation. We may treat the unsecured portion of the Mortgage as a partial prepayment and pass through that amount as a guarantee payment as early as the date of the court action.

Our Information Statement and Information Statement Supplements provide information regarding our overall delinquency, default and foreclosure experience.

Transfer and Assumption Policies

Most of the fixed-rate Conventional Mortgages that we purchase are not assumable because they contain "due-on-transfer" clauses permitting automatic acceleration of the Mortgage balance when the mortgaged property is transferred. We generally require servicers to enforce these due-on-transfer clauses and to demand full payment of the remaining principal balance of a Mortgage to the extent permitted under the mortgage documents and applicable state and federal law. We allow assumptions in other limited circumstances, such as transfers between certain related persons.

Fees

We or our servicers generally retain fees paid by borrowers, such as late payment fees, prepayment premiums, fees payable upon exercise of an ARM conversion option and review and transfer charges on assumptions. These fees are not passed through to Holders and are treated as additional compensation for services that we or the servicer provide.

DESCRIPTION OF THE PCs

General

We issue two types of PCs—Gold PCs and ARM PCs. Gold PCs have a payment delay (the delay between the time interest begins to accrue and the time the investor receives an interest payment) of approximately 45 days. ARM PCs have a payment delay of approximately 75 days.

Gold PCs are backed by fixed-rate, level payment, fully amortizing Mortgages or Balloon/Reset Mortgages. ARM PCs are backed by ARMs.

Each PC represents an undivided interest in the Mortgages contained in its related PC Pool. Once we have identified a Mortgage to a PC Pool, the Mortgage remains in that PC Pool unless it is paid in full, foreclosed upon, repurchased or replaced by a substitute Mortgage. The minimum original principal balance for a PC Pool is generally $1,000,000.

General Pooling Criteria

Some of our general pooling practices for Gold PC Pools and ARM PC Pools are summarized below. Our pooling practices are subject to change. We may also grant exceptions to these practices in our sole discretion.

Freddie Mac currently assigns a six-character, unique designation, or **"PC Pool Number,"** to each PC Pool. The first two (or three, in some instances) characters of a PC Pool Number are known as its **"Prefix."** The Prefix indicates some basic information about the PC Pool, such as its term and the general type of Mortgages within the PC Pool. Prefixes are subject to change (including modification, discontinuance or the addition of new ones) at any time. Our Internet Web-Site provides a current list of frequently used Prefixes.

Gold PC Pools

- The interest rates of the Mortgages in a Gold PC Pool are within a range from (a) the PC Coupon plus any minimum required servicing fee through (b) 250 basis points above the PC Coupon.
- Conventional Mortgages are pooled separately from FHA/VA Mortgages.
- Twenty-year Mortgages may be pooled with 30-year Mortgages, but 15-year Mortgages are pooled separately.
- Balloon/Reset Mortgages are pooled separately based on the original term to the balloon payment date.
- In general, Cooperative Share Mortgages, Extended Buydown Mortgages, Newly-Originated Assumable Mortgages or Relocation Mortgages may constitute up to 10% of the original principal balance of a Gold PC Pool without any special designation to reflect that fact, so long as these types of Mortgages, in combination, do not constitute more than 15% of the original principal balance of the PC Pool.

ARM PC Pools

- Usually, the Mortgages in an ARM PC Pool adjust based on the same Index and have the same initial and periodic adjustment caps, adjustment frequency and "look-back" period.

- We usually pool hybrid ARMs in their initial fixed-rate periods separately from other ARMs.

Pooling Criteria for Mortgages with Special Characteristics

Some of our Mortgages have special characteristics, which we describe in more detail in *Appendix II*. Typically, we pool these Mortgages only with Mortgages having the same characteristics. Some of these Mortgages, such as Second Mortgages, have special characteristics that do not change and that result in their being pooled separately on a permanent basis. Others, when their special characteristics no longer apply, may be pooled with the types of Mortgages that they then resemble. Examples include:

- Convertible ARMs, which are typically convertible into fixed-rate Mortgages during a specified period (usually the four-year period starting after the first year), may be pooled with non-convertible ARMs after their conversion terms have expired.

- Hybrid ARMs that adjust annually after three or five years, if within 18 months of adjustment, may be pooled with ARMs that adjust annually.

Pool Factors and Monthly Reporting Periods

Pool Factors

Each month we calculate and make available, including on our Internet Web-Site, the Pool Factor for each PC Pool. A **"Pool Factor"** is a truncated seven-digit decimal which, when multiplied by the original principal amount of a PC, will equal the remaining principal amount of the PC. The Pool Factor for any month reflects the remaining principal amount after the payment to be made on the Payment Date:

- In the same month for Gold PCs.

- In the following month for ARM PCs.

Currently, Pool Factors are available on or about:

- The first business day of each month for Gold PCs.

- The seventh business day of each month for ARM PCs.

The Pool Factor for a PC Pool for the month of its formation is always 1.0000000 and is not published. We have the right to change when the Pool Factors will be available and how we calculate them. We make payments on all PCs based on their applicable Pool Factors.

"Payment Capped ARM PCs," which are backed by Payment Capped ARMs may experience negative amortization, as *Appendix II* describes. When negative amortization occurs, we will indicate this in the following month:

- By publishing a Negative Amortization Factor for the PC Pool.
- By including a corresponding amount in the related Pool Factor.

A **"Negative Amortization Factor"** is a truncated seven-digit decimal number that reflects the amount of deferred interest added to the principal balance of the Mortgages in a PC Pool in the preceding month. When negative amortization has occurred, we will make interest payments to you at the applicable PC Coupon, less the deferred interest indicated by the Negative Amortization Factor published in the previous month. We make Negative Amortization Factors available at the same time and in the same manner as the related Pool Factors.

Use of Factors

For any Payment Date, you can calculate the principal payment on a PC by multiplying its original principal amount by:

- The difference between its Pool Factors for the preceding and current months in the case of a Gold PC.
- The difference between its Pool Factors for the two preceding months in the case of an ARM PC without a Negative Amortization Factor.
- The difference between its Pool Factors for the two preceding months, plus its Negative Amortization Factor, if any, for the preceding month, in the case of a Payment Capped ARM PC.

For any Payment Date, you can calculate interest payments on a PC (assuming no deferred interest) by multiplying its PC Coupon by 1/12th, and then multiplying that amount by the principal balance of the PC immediately before that Payment Date. For a Payment Capped ARM PC, the amount of interest paid will be reduced by the amount of any deferred interest.

Monthly Reporting Periods

Each month, servicers report payments to us, including all prepayments, on the Mortgages in a PC Pool for the applicable one-month reporting period, generally from the 16th of a month through the 15th of the next month (a **"Monthly Reporting Period"**). For any Payment Date, the applicable Monthly Reporting Period generally ends on:

- The 15th of the month preceding that Payment Date for Gold PCs.
- The 15th of the second month preceding that Payment Date for ARM PCs.

We have the right to change the Monthly Reporting Period for any PCs as provided in the Agreement. We also have the right to modify our procedures for passing through full or partial prepayments to Holders. For example, we may include, as part of the aggregate principal payment for each month, prepayments reported to us after the end of the related Monthly Reporting Period and before the publication of the applicable Pool Factor. In that case, the applicable Pool Factor would reflect these prepayments.

Payment Dates

We make payments to the Holders of PCs on each Payment Date beginning in:

- The month after issuance for a Gold PC.
- The second month after issuance for an ARM PC.

The **"Payment Date"** is the 15th of each month or, if the 15th is not a Business Day, the next Business Day. For this purpose, **"Business Day"** means a day other than:

- A Saturday or Sunday.
- A day when the offices of the federal government in the District of Columbia generally are closed.
- A day when Freddie Mac's main offices in Virginia are closed.
- A day when the Federal Reserve Bank of New York (or other agent acting as our fiscal agent) is closed or, as to any Holder, a day when the Federal Reserve Bank that maintains the Holder's account is closed.

Payments of Principal

General

We pay principal to the Holders of PCs on each applicable Payment Date. The principal balance of a PC Pool sometimes is different from the aggregate principal balance of the underlying Mortgages due to delays or errors in processing mortgage information, such as a servicer's failure to file an accurate or timely report of its collections of principal or its having filed a report that cannot be processed. We will account for any differences as soon as practicable by adjusting subsequent Pool Factors.

Calculation of Principal Payments for Gold PCs

The aggregate principal payment in any month on any Gold PC reflects:

- The scheduled principal payments due on the Mortgages in the related PC Pool for the Monthly Reporting Period ending in the current month.
- Prepayments on the related Mortgages as reported by servicers for the Monthly Reporting Period ending in the previous month.
- Any adjustments necessary to reconcile the principal balance of the PC Pool with the aggregate balance of the related Mortgages reported to us by servicers.

We calculate the scheduled principal due on the related Mortgages based upon the actual principal balance, interest rate and remaining term to maturity of each Mortgage in the Gold PC Pool. Our calculation of scheduled principal may not reflect actual payments on the Mortgages.

For example, we calculate scheduled principal payments on Gold PCs backed by Biweekly Mortgages without regard to their special payment characteristics, which periodically result in partial prepayments. A Holder of such a PC receives payments once a month, regardless of how many payments the borrower makes in a month, in accordance with the payment calculations for Gold PCs.

We calculate the scheduled principal payment due on Gold PCs backed by Balloon/Reset Mortgages assuming the same (usually 30-year) term used to amortize the related Mortgages rather than the term to the balloon/reset date. The monthly payments made on these PCs reflect this amortization schedule, except for the final payment, which includes the remaining balloon payment.

Calculation of Principal Payments for ARM PCs

The principal payment in any month on an ARM PC reflects any principal payments on the related Mortgages reported by servicers for the Monthly Reporting Period that ended in the second preceding month. In the absence of reports from servicers, we do not adjust the related Pool Factor. Rather, we reconcile any differences between actual payments on the Mortgages and principal payments on the PCs as soon as practicable by adjusting subsequent Pool Factors.

Payments of Interest

General

Interest will accrue on each PC during each Accrual Period at the applicable PC Coupon. We compute interest on the basis of a 360-day year of twelve 30-day months. In the case of a fixed-rate PC, the PC Coupon is set at the time of issuance and does not change. In the case of an ARM PC, the PC Coupon adjusts periodically, as described below.

You can obtain the PC Coupons for ARM PCs for the current Accrual Period on our Internet Web-Site or from Investor Inquiry as shown on page 3. Absent clear error, our determination of the applicable Index values and our calculation of the PC Coupon for each Accrual Period will be final and binding.

Interest accrues on the principal amount of a PC as determined by its Pool Factor for:

- The month preceding the month of the Payment Date for Gold PCs.
- The second month preceding the month of the Payment Date for ARM PCs.

The **"Accrual Period"** relating to any Payment Date is:

- The calendar month preceding the month of the Payment Date for Gold PCs.
- The second calendar month preceding the month of the Payment Date for ARM PCs.

ARM PCs

ARM PCs have PC Coupons that are based on the weighted average interest rate of the Mortgages in the related PC Pool, minus applicable servicing and guarantee fees. The PC Coupon of an ARM PC is an exact decimal truncated to three places. *Appendix III* shows the Indices most often used to adjust ARMs and ARM PCs.

We calculate the PC Coupon of an ARM PC monthly and adjust it to reflect changes in the unpaid principal balances and interest rates of the related Mortgages. This monthly adjustment has no prescribed limit, although the related Mortgages will be subject to any applicable periodic adjustment caps, lifetime ceilings and, in some instances, lifetime floors.

The interest rates of the Mortgages underlying an ARM PC may adjust in different months and some, all or none of the Mortgages may adjust on a given date. As a result, the PC Coupon of an ARM PC may not fully reflect recent changes in the value of the applicable Index. In addition, disproportionate principal payments on the underlying Mortgages with different interest rates will affect the PC Coupon of an ARM PC.

ARM PCs backed by hybrid ARMs that have the same initial fixed rate receive interest at a fixed PC Coupon until the ARMs begin to adjust. After that occurs, the PC Coupon on these PCs adjusts in the same manner as other ARM PCs.

The PC Coupon on a Payment Capped ARM PC is calculated in the same way as on other ARM PCs. When negative amortization occurs, however, a Holder receives interest at the PC Coupon, less accrued deferred interest, which is added to the principal balances of the related Payment Capped ARM PCs. Interest accrues afterwards on the outstanding principal balance, including the added deferred interest, at the applicable PC Coupon.

Record Dates

We pass through payments on each Payment Date to Holders as of the related Record Date. The **"Record Date"** for any Payment Date is the close of business on the last day of (a) the preceding month for Gold PCs or (b) the second preceding month for ARM PCs.

Final Payment Date

The **"Final Payment Date"** of a PC is the first day of the latest month in which we will reduce the related Pool Factor to zero. The actual final payment on any PC will be made on a regular Payment Date, not on the first day of a month. Freddie Mac publishes the Final Payment Date upon formation of the related PC Pool. The final payment on any PC could occur significantly earlier than the month of its Final Payment Date.

Guarantees

We guarantee to each Holder of a PC:

- The timely payment of interest at the applicable PC Coupon.
- In the case of Gold PCs only, the timely payment of scheduled principal on the underlying Mortgages.
- The full and final payment of principal on the underlying Mortgages by the Payment Date that falls (a) in the month of its Final Payment Date for a Gold PC or (b) in the month after its Final Payment Date for an ARM PC.

For PCs subject to negative amortization, our guarantee of principal includes, and our guarantee of interest excludes, any deferred interest added to the principal balances of the related Mortgages.

Form of PCs, Holders and Payment Procedures

Form

PCs are issued, held and transferable only on the book-entry system of the Federal Reserve Banks. This means that PCs are not represented by certificates. The Department of Housing and Urban Development's regulations governing our book-entry securities (24 C.F.R.Part 81, Subpart H) and any procedures that we and a Federal Reserve Bank may adopt apply to the issuance and recordation of, and transfers of interests (including security interests) in, the PCs. Holders' individual accounts are governed by operating circulars and letters of the Federal Reserve Banks.

Each issue of PCs is identified by a unique nine-character designation, known as a **"CUSIP® Number."**

Holders

The term **"Holder"** means any entity that appears on the records of a Federal Reserve Bank as a holder of particular PCs. Only banks and other entities eligible to maintain book-entry accounts with a Federal Reserve Bank may be Holders of PCs. Investors who own PCs typically are not the Holders of those PCs. Investors ordinarily will hold PCs through one or more financial intermediaries, such as banks, brokerage firms and securities clearing organizations. For example, as an investor, you may hold a PC through a brokerage firm, which, in turn, holds through an entity eligible to maintain accounts with a Federal Reserve Bank. In that case, you would be the beneficial owner and that eligible entity would be the Holder.

A Holder that is not also the beneficial owner of a PC, and each other financial intermediary in the chain between the Holder and the beneficial owner, will be responsible for establishing and maintaining accounts for their customers. Neither we nor any Federal Reserve Bank will have a direct obligation to a beneficial owner of a PC that is not also the Holder.

The Federal Reserve Banks and we may treat the Holder as the absolute owner of a PC for the purpose of receiving payments and for all other purposes, regardless of any notice to the contrary. If you are not a Holder yourself, you may exercise your rights only through the Holder of your PCs.

Denominations

Holders must hold and transfer their PCs in minimum original principal amounts of $1,000 and additional increments of $1. A Holder may not transfer a PC if, as a result of the transfer, the Holder would have remaining in its account PCs of the same issue having an original principal amount of less than $1,000. A Holder of PCs will also have to comply with any Federal Reserve Bank minimum wire transfer requirements.

Payment Procedures

Federal Reserve Banks credit payments on PCs to the appropriate Holders' accounts. Each Holder and each other financial intermediary will be responsible for remitting payments to the beneficial owners of the PCs that it represents. The Agreement provides that if a principal or interest payment error occurs, we may correct it by adjusting payments to be made on future Payment Dates or in any other manner we consider appropriate.

PREPAYMENT, YIELD AND SUITABILITY CONSIDERATIONS

Prepayments

The rates of principal payments on the PCs will depend on the rates of principal payments on the underlying Mortgages. Mortgage principal payments may be in the form of scheduled amortization or partial or full prepayments. Prepayments include:

- Prepayments by the borrower.
- Liquidations resulting from default, casualty or condemnation.
- Payments we make under our guarantee of principal, other than payments of scheduled principal.

Mortgages may be voluntarily prepaid at any time, in most cases without payment of a premium.

Mortgage prepayment rates are likely to fluctuate significantly over time. Prepayment rates are influenced by many factors, which may exist in multiple combinations, including:

- The age, principal amount, geographic distribution and payment terms of Mortgages.
- Levels of current mortgage interest rates and borrower refinancing activity.
- Characteristics of the borrowers (such as credit status and income level) and their equity positions in their houses (whether the LTV ratio is high or low).
- The use of special financing arrangements, including buydown plans or other provisions that cause the amount of the borrower's payment to change during the term of the Mortgage.
- Changes in local industry and population migration and relocation as they affect housing turnover.
- Activity of lenders in soliciting refinancing, including refinancing without the payment of points or other significant transaction costs by the borrower.
- In the case of ARMs, fluctuations in the reference Index values, the extent of periodic adjustments on the underlying Mortgage interest rate, the extent to which the initial Mortgage interest rates are discounted from their fully indexed rates and the extent to which borrowers exercise conversion options on convertible ARMs.

Prevailing mortgage interest rates especially influence prepayment rates. In general, as mortgage interest rates decline, borrowers tend to refinance their current, higher rate mortgages, which results in faster prepayment rates on a mortgage pool. On the other hand, as mortgage interest rates increase, borrowers tend not to refinance their mortgages, which results in slower prepayment rates on a mortgage pool.

The characteristics of particular Mortgages may also influence their prepayment rates. For example:

- ARMs tend to have higher default rates than fixed-rate Mortgages.
- Payment Capped ARMs have weighted average lives that can lengthen if negative amortization occurs and shorten if accelerated amortization occurs.
- Biweekly Mortgages have weighted average lives that are shorter than those of otherwise similar monthly payment Mortgages.
- Prepayment Protection Mortgages may tend to prepay more slowly than Mortgages without prepayment premiums during the prepayment premium period.

Different types of Mortgages may be affected differently by the same factor, and some factors may affect prepayment behavior on only some types of Mortgages. For example:

- Extended Buydown Mortgages may experience higher default rates than other Buydown Mortgages because they provide for larger increases in the effective interest rates to borrowers.
- Second Mortgages may be more sensitive than first mortgages to the general cost of credit to borrowers.
- Relocation Mortgages could be more sensitive than other types of Mortgages to population migration, while Assumable Mortgages could be less sensitive to this factor.
- Prepayment premiums on Prepayment Protection Mortgages could deter borrowers from prepaying.

The rate of defaults and resulting repurchases of the Mortgages in a PC Pool will also affect the prepayment behavior of that PC Pool. Defaults may increase during periods of declining property values or increased use of secondary financing or as a result of other factors that decrease borrowers' equity.

In addition, mortgage servicing decisions, including seeking alternatives to foreclosure, may impact the prepayment behavior of particular PC Pools. In approving alternatives to foreclosure and in determining whether or when Mortgages should, or must, be repurchased from a PC Pool, we consider a variety of factors, including whether such steps will reduce our administrative costs or increase our possible exposure under our guarantee.

The rate of principal payments on a PC Pool may fluctuate significantly from month to month as a result of fluctuations in the principal payment rates of its underlying Mortgages. A PC Pool may experience payment behavior that is similar to or different from that experienced by other PC Pools consisting of similar Mortgages. In addition, any PC Pool could experience payment behavior that is significantly different from other PC Pools, particularly if it contains a relatively small number of Mortgages, contains Mortgages from only one seller or has been formed specifically to emphasize one or more specific loan characteristics, such as borrower income, credit rating or loan size. We can make no representation concerning the particular effect that any factor may have on Mortgage prepayment behavior, or the prepayment rates for any type of Mortgage as compared to other kinds of Mortgages.

Yields

General

In general, your yield on any PCs will depend on several variables, including:

- The price you paid for the PCs.
- The rate of principal prepayments on the underlying Mortgages.
- The actual characteristics of the underlying Mortgages.
- The payment delay of your PCs.
- In the case of ARM PCs, the levels of the applicable Index.

- In the case of ARM PCs, the effect of any periodic interest rate and payment adjustments (and any associated periodic adjustment caps, lifetime ceilings and lifetime floors) on the underlying ARMs.

- In the case of Payment Capped ARM PCs, whether your PC experiences negative or accelerated amortization.

You should carefully consider the yield risks associated with PCs, including these:

- If you purchase a PC at a discount to its principal amount and the rate of principal payments on the underlying Mortgages is slower than you expect, you will receive payments over a longer period than you expect, so the yield on your investment will be lower than you expect.

- If you purchase a PC at a premium over its principal amount and the rate of principal payments on the underlying Mortgages is faster than you expect, you will receive payments over a shorter period than you expect, so the yield on your investment will be lower than you expect.

- In general, the rate of Mortgage prepayments early in your investment has the greatest effect on your yield to maturity. A negative effect on your yield produced by principal prepayments at a higher (or lower) rate than you expect in the period immediately following your purchase of a PC is not likely to be offset by an equivalent reduction (or increase) in that rate in later periods.

- Mortgages tend to prepay fastest when prevailing interest rates are low. When this happens, you may not be able to reinvest your principal payments in comparable securities at as high a yield.

Yields of ARM PCs

If you invest in ARM PCs, you should consider the following additional risks:

- If the Index values used to adjust the interest rates of underlying ARMs are lower than you expect, the yield on your investment could be lower than you expect.

- PC Coupons for ARM PCs generally adjust monthly based on a weighted average of the interest rates on the underlying Mortgages. Several factors will affect these PC Coupons:

  - Disproportionate principal payments, including prepayments, on the underlying Mortgages that have relatively low, or high, interest rates compared to the other Mortgages in the same PC Pool will affect the level of the PC Coupon for the related ARM PCs, even if the interest rates on the remaining Mortgages do not change.

  - The underlying Mortgage interest rates may adjust on various dates and at various intervals. Moreover, there is a gap of several months from the publication of an applicable Index value until the PC Coupon reflects the value of such adjustments. As a result, the PC Coupon of your ARM PCs may not fully reflect current interest rates or Index values.

- - Although there are generally no limits on the monthly PC Coupon adjustments for ARM PCs, interest rates on the underlying ARMs may be subject to adjustment caps, lifetime ceilings and, in some cases, lifetime floors.

- When mortgage interest rates are generally low, which usually results in faster prepayments, the applicable Index value may be high. On the other hand, when mortgage interest rates are generally high, which usually results in slower prepayments, the applicable Index value could be low. Either of these scenarios could result in a lower than expected yield on the ARM PCs.

- No Index will remain constant at any value. Even if the average value of an Index is consistent with your expectations, the timing of any changes in that value may affect your actual yield. In general, the earlier a change in the value of the applicable Index, the greater the effect on your yield. As a result, a negative effect on your yield produced by an Index value that is higher (or lower) than you expect early in your investment is not likely to be offset by an equivalent reduction (or increase) in that value in later periods.

- Treasury Indices and LIBOR reflect current market rates, and their values may be more volatile than the value of COFI, which reflects averages of rates in effect over longer periods of time.

Payment Delay

The effective yield on any PC will be less than the yield that its PC Coupon and purchase price would otherwise produce, because:

- On its first Payment Date, 30 days' interest will be payable on the PC even though interest began to accrue approximately 45 days earlier, in the case of Gold PCs, or 75 days earlier, in the case of ARM PCs.

- On each Payment Date after the first, the interest payable on the PC will accrue during its Accrual Period, which will end approximately 15 or 45 days before that Payment Date (for Gold PCs and ARM PCs, respectively).

Suitability

PCs may not be suitable investments for you. You should consider the following before you invest in PCs.

- PCs are not appropriate investments if you require a single lump sum payment on a date certain, or if you require an otherwise definite payment stream.

- A market may not develop for the sale of some types of PCs after their initial issuance. Even if a market develops, it may not continue. As a result, you may not be able to sell your PCs easily or at prices that will allow you to realize your desired yield.

- The market values of your PCs are likely to fluctuate, primarily in response to changes in prevailing interest rates. Such fluctuations may result in significant losses to you.

- The secondary markets for some PCs have experienced periods of illiquidity in the past, and can be expected to do so again in the future. Illiquidity can have a severely negative impact on the prices of PCs, especially those that are particularly sensitive to prepayment or interest rate risk.

- PCs are complex securities. Before investing in a PC, you should be able, either alone or with a financial advisor, to evaluate the information contained and incorporated in this Offering Circular and in any related Pool Supplement. You should evaluate the information in the context of your personal financial situation and your views on possible and likely interest rate and economic scenarios.

This Offering Circular does not describe all the possible risks of an investment in PCs that may result from your particular circumstances, nor does it project how PCs will perform under all possible interest rate and economic scenarios. You should purchase PCs only if you understand and can bear the prepayment, yield, liquidity and market risks associated with your investment under a variety of interest rate and economic scenarios. If you purchase PCs, you need to have sufficient financial resources to bear all the risks related to your PCs.

THE AGREEMENT

We form PC Pools and create and sell PCs under the Agreement dated the same date as this Offering Circular. The following summary describes various provisions of the Agreement. This summary is not complete. You should refer to the Agreement if you would like further information about its provisions. You can obtain copies of the Agreement from our Internet Web-Site or by contacting Investor Inquiry as shown on page 3. Your receipt and acceptance of a PC, without any signature or other indication of assent, constitutes your unconditional acceptance of all the terms of the Agreement.

Transfer of Mortgages to PC Pool

The Mortgages in each PC Pool will be identified to that PC Pool. We will hold the Mortgages, directly or through our agent, for the benefit of the Holders of each related PC Pool as required by the Agreement.

Under certain circumstances, we may repurchase or substitute eligible Mortgages for those originally included in a PC Pool. We will make any repurchase or substitution in accordance with applicable laws in effect at the time of repurchase or substitution. The rate of principal payments on the related PCs may be faster or slower than if the PC Pool had originally included the substitute or repurchased Mortgages.

Various Matters Regarding Freddie Mac

We and our directors, officers, employees and agents will not be liable to Holders for any action taken or omitted in good faith or for errors in judgment. However, neither we nor they will be protected against any liability that results from willful misfeasance, bad faith, gross negligence or reckless disregard of obligations.

We are required to hold and administer Mortgages in a PC Pool using the same standards as we use for similar mortgages that we own. Holders will not be able to direct or control our actions under the Agreement, unless an Event of Default occurs.

Except for our guarantee obligations or other payment obligations, we will not be liable for any Holder's direct damages unless we fail to exercise the same degree of ordinary care that we exercise in the conduct of our own affairs. We will not be liable for any Holder's consequential damages.

In addition, we do not need to appear in any legal action that is not incidental to our responsibilities under the Agreement and that we believe may result in any expense or liability. However, we may undertake any legal action that we believe is necessary or desirable in the interests of the Holders. We will bear the legal costs of any such action.

We may acquire PCs. PCs we hold will be treated the same as PCs held by other Holders.

The Agreement will be binding upon any of our successors.

Events of Default

"Events of Default" under the Agreement are:

- Our failure to pay principal or interest that lasts for 30 days.
- Our failure to perform in any material way any other obligation under the Agreement, if the failure lasts for 60 days after we receive notice from the Holders of at least 65% of the outstanding principal amount of any affected PC Pool.
- Specified events of bankruptcy, insolvency or similar proceedings involving us (but not including the appointment of a conservator or similar official for us).

Rights Upon Event of Default

If an Event of Default under the Agreement is not remedied, the Holders of a majority of the outstanding principal amount of any affected PC Pool may remove us and nominate a successor as to that PC Pool, except as to our guarantee obligations. That nominee will replace us unless we object within ten days after the nomination. In that event, either we or anyone who has been a bona fide Holder of an affected PC for at least six months may ask a court to appoint a successor. The court may then appoint our successor except as to our guarantee obligations.

Amendment

We may amend the Agreement without the consent of any Holders to:

- Cure any ambiguity or correct or add to any provision in the Agreement, if the amendment does not adversely affect Holders in any material way.
- Maintain the qualification of any PC Pool as a grantor trust for federal income tax purposes.
- Avoid the imposition of any state or federal tax on a PC Pool.
- Modify our procedures for calculating payments to Holders or passing through prepayments.

With the consent of the Holders of a majority of the outstanding principal amount of any affected issue of PCs, we also may amend the Agreement in any other way. However, unless each affected Holder consents, we may not amend the Agreement to impair the rights of a Holder to receive payments (including guarantee payments) when due or to sue for any payment that is overdue.

Governing Law

The Agreement is to be interpreted in accordance with federal law. If there is no applicable federal precedent and if the application of New York law would not frustrate the purposes of the Freddie Mac Act, the Agreement or any transaction under the Agreement, then New York law will be deemed to reflect federal law.

CERTAIN FEDERAL INCOME TAX CONSEQUENCES

General

The following is a general discussion of the material federal income tax consequences relating to the purchase, ownership and transfer of PCs. It does not address all the federal income tax consequences that may apply to particular categories of investors. Some investors may be subject to special rules. **The tax laws and other authorities for this discussion are subject to change or differing interpretations, and any change or interpretation may apply retroactively. You should consult your own tax advisors to determine the federal, state, local and any other tax consequences that may be relevant to you.**

Although we are a government-sponsored enterprise, neither the PCs nor the income received from them is exempt from federal income, estate or gift taxes under the Internal Revenue Code of 1986, as amended (the **"Code"**). Further, neither the Code nor the Freddie Mac Act exempts the PCs or income on them from taxation by any state, any United States possession or any local taxing authority.

If you deliver Mortgages under our MultiLender Swap Program in exchange for PCs, you should be aware that you may be required to recognize gain or loss on all or a portion of such PCs.

Tax Status

The arrangement under which a PC is created and sold and the related PC Pool is administered will be classified as a grantor trust under subpart E, part I of subchapter J of the Code and not as an association taxable as a corporation. As an investor in a PC, you will be treated for federal income tax purposes as the owner of a pro rata undivided interest in the underlying Mortgages.

If you own PCs, you must report on your federal income tax return your pro rata share of the entire income from the Mortgages in the related PC Pool, in accordance with your method of accounting. Income will include gross interest income at the interest rates on the Mortgages and incidental fees, if any.

You generally will be able to deduct, under Section 162 or 212 of the Code, your pro rata share of servicers' fees or any of our guarantee fees, including incidental fees paid by the borrowers and retained by the servicer or us and all administrative and other expenses of the PC Pool, in accordance with your method of accounting. The Code limits the deductions for these miscellaneous itemized deductions for some investors.

PCs will be considered to represent "real estate assets" within the meaning of Section 856(c)(5)(B) of the Code. Interest income from the PCs will be considered to represent "interest on obligations secured by mortgages on real property" within the meaning of Section 856(c)(3)(B) of the Code.

PCs will constitute "loans... secured by an interest in real property which is... residential real property" within the meaning of Section 7701(a)(19)(C)(v) of the Code for purposes of determining whether an institution qualifies as a "domestic building and loan association."

Buydown or Extended Buydown Mortgages

It is not clear for federal income tax purposes whether buydown funds advanced by the originator of the Mortgage would be treated as funds of the borrower, with the borrower correspondingly treated as obligated for the full stated interest rate on the Mortgage. We plan to report for federal income tax purposes using the stated interest rate on the Mortgage. If the Internal Revenue Service (the **"Service"**) were to view the borrower's obligation on a net basis, you would be treated as owning two separate debt instruments, one an obligation of the borrower and the other a separate obligation of the originator for the "bought down" amounts. In such event, you would recognize some acceleration of taxable income to the period of the buydown accounts and the obligation of the originator may fail to qualify for the special treatments described under *Tax Status* above.

Discount and Premium

If you purchase a PC, you will be treated as purchasing an interest in each of the underlying Mortgages at a price determined by allocating the purchase price paid for that PC among the Mortgages in proportion to their fair market values at the time of purchase. To the extent that the portion of the purchase price allocated to a Mortgage is less than or greater than the portion of the principal balance of the Mortgage allocated to the PC, the interest in the Mortgage will be deemed to have been acquired with discount or premium, respectively. The treatment of any discount will depend on whether the discount represents original issue discount or market discount.

You should consult your own tax advisors to determine whether Section 1272(a)(6) of the Code, as expanded by the Taxpayer Reform Act of 1997, could affect the accrual of discount or amortization of premium on your PCs or otherwise affect the tax accounting for your PCs.

If you recognize gain or loss attributable to discount or premium that is not characterized as original issue discount, market discount or amortizable bond premium (described below), your gain or loss will be treated as capital gain or loss.

Original Issue Discount

You will be required to report as ordinary income your pro rata share of any original issue discount related to the Mortgages underlying the PC pursuant to Sections 1271-1273 and 1275 of the Code. Original issue discount may arise as a result of initial incentive or "teaser" interest rates on ARMs or points charged at origination. You will be required to accrue original issue discount into current income only if it exceeds a *de minimis* amount. The Mortgages also would be subject to the original issue discount rules if, as discussed below, the "stripped bond" provisions of the Code were determined to be applicable. We intend to treat deferred interest on a Payment Capped ARM as original issue discount, which you will be required to include in income in the period in which such deferred interest accrues.

Market Discount

The market discount rules of Sections 1276-1278 of the Code will apply to treat market discount in excess of a *de minimis* amount as ordinary income. You must recognize accrued market discount to the extent of gain realized on disposition or to the extent of principal payments that you receive. The market discount rules provide that:

- Market discount will be considered to accrue under a straight-line method unless you elect to calculate it under a constant interest method.

- Interest that you paid or that accrues on indebtedness that you incurred or continued to purchase or carry mortgages acquired at a market discount will be allowed as a deduction only to the extent that such interest, reduced by the interest on the mortgages includible in income, including original issue discount, is greater than the market discount that accrued but was not taken into account during the taxable year such interest was paid or accrued. Any such interest expense that is deferred will, in general, be allowed as a deduction when the related market discount income is recognized.

- Alternatively, you may elect to include market discount in income currently, under either a straight-line method or a constant interest method, on all market discount obligations you hold except those acquired in taxable years before the year of the election. An election to include market discount as income currently can be revoked only with the Service's consent. In this event, the rules about ordinary income on disposition and interest deferral discussed above will not apply.

The exact application of the market discount rules is not clear.

Premium

If you have purchased your interest in any Mortgage at a premium, the premium may be amortizable under a constant interest method at your election under Section 171 of the Code. The premium is treated as an offset to interest income includable with respect to the Mortgage. An election to amortize premium will apply to all debt instruments you hold at the beginning of the tax year for which you make the election and to all such instruments acquired after the election. An election to amortize premium can be revoked only with the Service's consent.

Constant Yield Method

You may elect to include in gross income all interest that accrues on a Mortgage by using the constant yield method. For purposes of this election, interest would include stated interest, *de minimis* original issue discount, original issue discount, *de minimis* market discount and market discount, as adjusted by any premium. You should consider the relationship between this election and the elections described above under *Market Discount* and *Premium.*

Sale or Exchange of a PC

If you sell a PC, you will recognize gain or loss equal to the difference between your adjusted tax basis in the PC and the amount you realized in the sale (not including amounts attributable to accrued and unpaid interest, which will be treated as ordinary interest income).

In general, your adjusted tax basis in the PC will equal what you paid for the PC, plus the amount of any discount income you previously reported on the PC, less the amount of any premium you previously offset against interest income on the PC and the amount of any principal payments you received on it.

You must report accrued but unrecognized market discount as ordinary income, but your gain or loss otherwise will be a capital gain or loss if you held the PC as a capital asset. The capital gain or loss will be long-term or short-term, depending on whether you owned the PC for the long-term capital gain holding period (currently more than one year).

Application of the Stripped Bond Rules

When we issue a PC, Revenue Ruling 71-399, 1971-2 C.B. 433, issued to us by the Service, indicates that any difference between interest payable at the mortgage interest rate and the sum of (a) interest payable at the class coupon plus (b) fees applicable to the Mortgages (servicers' fees or any of our guarantee fees) should be accounted for as discount income or premium expense. If such sum exceeds the mortgage interest rate, the difference is characterized as "discount" and considered additional gross income. If such sum is less than the mortgage interest rate, the net difference is characterized as "premium expense."

In Revenue Ruling 71-399, the Service ruled that discount income is to be included as ordinary income in accordance with the beneficial owner's method of accounting, and that premium expense may be deductible in accordance with applicable rules. The Service, however, may contend that by reason of enactment of the stripped bond rules of Section 1286 of the Code (or its predecessor, Section 1232B), Revenue Ruling 71-399 is no longer applicable in characterizing such difference.

The Service has issued guidance taking the position that, when Mortgages are sold and the servicer is entitled to receive amounts that exceed reasonable compensation for the mortgage servicing to be performed, the Mortgages are treated as stripped bonds within the meaning of Section 1286 of the Code. If this treatment applies, you would not be treated as having a pro rata undivided interest in the underlying Mortgages, but rather you would be treated as owning "stripped bonds" to the extent of your share of principal payments and "stripped coupons" to the extent of the class coupon plus reasonable servicing fees and guarantee fees. Under Section 1286, you would be treated as if the payments to be received in respect of your ownership interest in the Mortgages were purchased at an original issue discount equal to the difference between the price at which you are considered to have paid for such payments and the total amount of such payments. You would include in income such original issue discount in accordance with the rules for original issue discount under the Code. Effectively, you would report both interest and discount on the Mortgages as ordinary income as income accrues under a constant yield method under Series 1271-1273 and 1275 of the Code.

The Service has also issued guidance providing that a purchaser of a Mortgage that is a stripped bond must treat it as a market discount bond if the amount of original issue discount on the stripped bond is considered to be zero after application of the *de minimis* rule of Section 1273(a)(3) of the Code or if the annual stated rate of interest payable on the stripped bond is 100 basis points or less below the annual stated rate of interest payable on the Mortgage. These conditions apparently are based on the premise that the interest payments which remain associated with the stripped bond are treated, for purposes of the original issue and market discount provisions of the Code, as stated interest payable with respect to the stripped bond. If these conditions are met, you would be required to account for any market discount in accordance with the rules for market discount as described above under *Discount and Premium.*

It is unclear whether the position taken by the Service in the guidance would be upheld if challenged.

Backup Withholding, Foreign Withholding and Information Reporting

If you are a U.S. Person, you may be subject to backup withholding tax under Section 3406 of the Code on payments on your PCs, unless you comply with applicable information reporting procedures or are an exempt recipient. Any such amounts withheld would be allowed as a credit against your United States federal income tax.

Payments made to an investor who is not a U.S. Person, or to a Holder on behalf of such an investor, generally will not be subject to United States federal income tax or withholding tax if:

- The Mortgages underlying the investor's PCs all were originated after July 18, 1984.
- The PC is not held by the investor in connection with a trade or business in the United States.
- The investor is not with respect to the United States a personal holding company or corporation that accumulates earnings in order to avoid United States federal income tax.
- The investor provides a statement signed under penalties of perjury that includes its name and address and certifies that it is not a U.S. Person in accordance with applicable requirements.

Payments to an investor who is not a U.S. Person that represent interest on Mortgages originated before July 19, 1984 may be subject to United States withholding tax at the rate of 30 percent or any lower rate provided by an applicable tax treaty.

Regardless of the date of origination of the Mortgages, backup withholding tax will not apply to payments on a PC made to an investor who is not a U.S. Person if the investor furnishes an appropriate statement of non-U.S. status.

The Treasury Department has issued new regulations which make certain modifications to the withholding, backup withholding and information reporting rules. You should consult your tax advisors regarding these regulations.

We will make available to each Holder of a PC, within a reasonable time after the end of each calendar year, information to assist Holders and investors in preparing their federal income tax returns. The information made available to you may not be correct for your particular circumstances.

For these purposes, the term "**U.S. Person**" means one of the following:

- A citizen or resident of the United States.
- A corporation, partnership or other entity organized under the laws of the United States, any state or the District of Columbia, other than a partnership that is not treated as a U.S. Person under Treasury Department regulations.

- An estate whose income is subject to United States income tax, regardless of its source.
- A trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. Persons have the authority to control all substantial decisions of the trust.
- To the extent provided in Treasury Department regulations, certain trusts in existence on August 20, 1996, and treated as U.S. Persons prior to such date, that elect to be treated as U.S. Persons.

LEGAL INVESTMENT CONSIDERATIONS

You should consult your own legal advisors to determine whether PCs are legal investments for you and whether you can use PCs as collateral for borrowings. In addition, financial institutions should consult their legal advisors or regulators to determine the appropriate treatment of PCs under any applicable risk-based capital and similar rules.

If you are subject to legal investment laws and regulations or to review by regulatory authorities, you may be subject to restrictions on investing in some types of PCs or in PCs generally. Institutions regulated by the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Office of Thrift Supervision, the National Credit Union Administration, the Treasury Department or any other federal or state agency with similar authority should review applicable regulations, policy statements and guidelines before purchasing or pledging PCs.

DISTRIBUTION ARRANGEMENTS

We purchase Mortgages from eligible sellers under various purchase programs. Among our programs, we purchase Mortgages for cash and form PC Pools consisting of those Mortgages. We may offer the related PCs through any of the following methods:

- Auction.
- Competitive bid offering.
- Allocation to members of a recognized group of dealers that purchase or sell PCs in accordance with agreements with us.
- Direct placement with securities dealers or investors.

We also acquire Mortgages in exchange (swap) transactions with Mortgage sellers. Under our **"Guarantor Program,"** we purchase Mortgages from a single seller and, in exchange, deliver PCs representing interests in those same Mortgages. Under our **"MultiLender Swap Program,"** we purchase Mortgages from one or more sellers and, in exchange, deliver PCs throughout the month with a principal balance equal to the aggregate principal balance of the purchased Mortgages. In such a case, the PCs delivered to a particular seller may or may not represent interests in any of the Mortgages we purchased from that seller.

We purchase Mortgages under these programs on a daily basis in accordance with terms contained in our Guide. Our issuance of PCs in exchange for these Mortgages is conditioned on the seller's compliance with the applicable terms and conditions of our Guide and other applicable mortgage purchase documents, including the seller's obligations to timely deliver acceptable

Mortgages in the agreed upon amount, and to make available to investors all required offering documents.

SECONDARY MARKETS AND MARKET SUPPORT ACTIVITIES

Certain dealers, including our Securities Sales & Trading Group (**"SS&TG"**), may buy, sell and make a market in PCs. The secondary market for PCs may be limited. If a dealer sells a PC, currently the dealer is required to confirm the sale; notify the purchaser of the settlement date, purchase price, concessions and fees; and make available, by electronic means or otherwise, a copy of this Offering Circular and any applicable Pool Supplement to the purchaser.

You can obtain prices for PCs by contacting the securities dealers selling and making a market in those PCs, including SS&TG (outside the Washington, D.C. metropolitan area, phone 800/424-5401; within the Washington, D.C. metropolitan area, phone 703/903-3300). You can obtain a list of PC dealers by contacting Investor Inquiry as shown on page 3.

We support the market for our PCs in several ways:

- We may purchase or sell PCs for market support reasons, for our portfolio and for various other corporate purposes.
- We regularly acquire PCs, usually from investment banking firms that have purchased such PCs in the market, in order to issue structured securities backed by those PCs.
- Through SS&TG, we regularly buy, sell and make a market in certain PCs and actively participate in the dollar roll market.
- We engage external money management firms to buy and sell PCs.
- We promote to dealers and investors the merits of trading and investing in PCs and provide incentives to improve inter-dealer PC liquidity.
- We produce new mortgage-related securities products backed by PCs.
- We continuously make available to the market updated information regarding PC Pools and their related Mortgages.

Our activities relating to our PCs may, among other things, increase the market prices and reduce the yields of PCs and, indirectly, reduce Mortgage interest rates. We may increase, reduce or eliminate such activities, or initiate new ones, at any time.

INDEX OF TERMS

The following is a list of defined terms used in this Offering Circular and the pages where their definitions appear. See *Appendix II* for descriptions of the types of Mortgages referred to in this Offering Circular.

TYPES OF MORTGAGES

Following is a description of the various types of Mortgages we most frequently purchase and securitize.

Fixed-Rate Mortgages

- **Level Payment Mortgages** have original or modified terms to maturity of up to 15, 20 or 30 years and provide for equal scheduled monthly payments of principal and interest that will fully amortize the principal balance of the Mortgage over its original term and pay interest as due. These Mortgages may include Mortgages that have been converted from an adjustable to a fixed interest rate.
- **Balloon/Reset Mortgages** have original terms to maturity of generally five or seven years, and require level monthly payments of principal and interest based on an amortization schedule of up to 30 years. The amount of the monthly payment remains constant until the end of the five- or seven-year term. At that time the borrower may either pay the outstanding principal balance of the Mortgage (as a balloon payment) or, subject to certain conditions, extend and reset the loan at a rate that will produce a then-current market rate for a 30-year, fixed-rate mortgage.

Adjustable Rate Mortgages (ARMs)

- **ARMs** bear interest at a fixed rate for a specified initial period, typically up to 18 months, followed by periodic interest rate adjustments. Each interest rate adjustment is subject to one or more limitations, which may include (a) an adjustment cap, which is the maximum number of basis points by which the interest rate may adjust up or down in a single adjustment, (b) a lifetime ceiling, which is the maximum interest rate allowed on that Mortgage and (c) a lifetime floor, which is the minimum interest rate allowed on that Mortgage. Other than Payment Capped ARMs, ARMs are not subject to negative amortization — any excess over, or any deficit under, the interest rate that would be in effect if no adjustment caps or lifetime ceilings or floors were applied will not be added to, or subtracted from, amounts due to be paid by the borrower in subsequent periods. After the initial fixed-rate period, the monthly payment is adjusted to a fully amortizing level each time the interest rate is adjusted. There is no limit to the amount of the adjusted monthly payment on an ARM, other than a Payment Capped ARM.

  Many ARMs are convertible into fixed-rate Mortgages during a specified time period. The originator of a convertible ARM determines the specific procedures regarding the exercise of the conversion option, including its timing and the beginning of the fixed rate.

- **"Hybrid" ARMs** have relatively long initial fixed-rate periods, typically of two, three, five, seven or ten years, as specified. (The different types of hybrid ARMs having these fixed-rate periods, with annual adjustments thereafter, are sometimes referred to as "2/1," "3/1," "5/1," "7/1" and "10/1" ARMs.) After the fixed-rate period expires, the fixed rate converts to an adjustable rate for the remaining term of the Mortgage. The initial adjustment, as well as subsequent periodic adjustments, are subject to adjustment caps. The initial adjustment cap on this type of ARM may be larger than subsequent adjustment caps. The interest rates and monthly payment amounts usually adjust in the same manner as other ARMs.

- **Payment Capped ARMs** bear interest at a rate that adjusts periodically based on a specified Index. The amount of any interest rate adjustment is limited by a lifetime ceiling and may be limited by an adjustment cap and/or a lifetime floor. The interest rate on the Payment Capped ARM usually adjusts monthly, while the borrower's scheduled monthly payment adjusts annually. A "payment cap" equal to 7.5% of the previous scheduled monthly payment limits the amount of any single increase or decrease in the scheduled monthly payment. This payment cap typically applies to each payment adjustment, other than the adjustment in the fifth year after origination and every fifth year thereafter and, in some cases, the final payment adjustment.

  The timing of the payment adjustments, combined with the payment cap, can give rise to either negative amortization or accelerated amortization:

  - Negative amortization occurs in any month when the monthly payment amount is insufficient to pay all of the monthly interest due on the Mortgage. This unpaid interest is then deferred and added to the principal amount of the Mortgage. A Payment Capped ARM may be subject to a "deferred interest limit," which may be set by the terms of the Mortgage or by state law. A deferred interest limit does not allow a mortgage balance to increase above a specified level, typically 110% or 125% of the original principal balance of the Mortgage, as a result of the amount added to the principal balance of a Mortgage due to negative amortization. Deferred interest may result from (a) increases in the Mortgage interest rate due to an increase in the applicable Index during a period when the scheduled monthly payment remains fixed or (b) payment caps that limit the amount of increase in the scheduled monthly payment, which results in the monthly payment amount being less than the amount of interest accruing each month.

  - Accelerated amortization occurs in any month when the scheduled monthly payment exceeds the amount needed to pay the principal and interest on the Mortgage on a level-payment, fully amortizing basis. Accelerated amortization may result from (a) limitations on decreases in the amount of the scheduled monthly payment or (b) decreases in the interest rate of the Payment Capped ARM during a period when the scheduled monthly payment remains fixed. Accelerated amortization may shorten the term of a Payment Capped ARM and result in the final payment of its outstanding principal amount prior to its stated maturity date.

Special Mortgage Characteristics

We purchase a variety of fixed-rate Mortgages and ARMs with special characteristics. These Mortgages may prepay differently than the standard fixed-rate Mortgages and ARMs just described. The following types of Mortgages have special characteristics:

- A **Biweekly Mortgage** requires the borrower to make payments every 14 days rather than monthly. The borrower's biweekly payment is equal to one-half of the monthly payment that would be required on the basis of a monthly amortization schedule. The borrower makes 26 (or sometimes 27) payments each year, which is the equivalent of 13 (or sometimes 13½) monthly payments. A Biweekly Mortgage will remain outstanding for a shorter term than an otherwise identical monthly payment Mortgage. For example, a 30-year, fixed-rate, level payment Mortgage with an interest rate of 7.5% would be paid in full in approximately 23 years under a biweekly payment arrangement. Some Biweekly Mortgages are convertible, permitting the borrower and/or the servicer to terminate the biweekly payment arrangement under certain circumstances. If a Biweekly Mortgage is converted, subsequent payments are required to be made monthly, which results in a slower rate of amortization after the conversion.

- A **Cooperative Share Mortgage** is secured by a first mortgage, lien or other security interest on (a) the stock or membership certificate (or similar arrangement) issued to a tenant-stockholder or resident-member by a cooperative housing corporation (a "Cooperative") and (b) the proprietary lease, occupancy agreement or right of tenancy granting the tenant-stockholder or resident-member rights to occupy a specific dwelling unit in the building owned by the Cooperative. Ownership interests and occupancy rights in a Cooperative generally are subject to restrictions on transfer, and also are subject to claims by the Cooperative for unpaid maintenance charges. The Cooperative, as owner of the building, is responsible for its management and typically pays certain costs. If there is a blanket mortgage on the building, the Cooperative is responsible for payments on that mortgage. Generally, tenant-stockholders or resident-members of the Cooperative make monthly payments to the Cooperative for their pro rata share of maintenance charges, including payments on the blanket mortgage, real property taxes, insurance, maintenance costs and other capital and ordinary expenses. The lien of a Cooperative Share Mortgage on the ownership interest and right of tenancy of a tenant-stockholder or resident-member is subject to the lien of the Cooperative for unpaid maintenance and to the lien of the blanket mortgage on the building.

- A **Buydown Mortgage** is originated with special payment arrangements by which the borrower, lender and/or third party deposits funds in a separate account and uses those funds to pay a portion of the scheduled monthly payment on the Mortgage for a "buydown period," usually 18 to 36 months. Using a buydown account effectively reduces the interest rate paid by the borrower during the buydown period. Throughout that period, the borrower's monthly payment increases at periodic intervals until it reaches its fully amortizing level. Frequently, the interest rate on a Buydown Mortgage exceeds the rate the same borrower would have paid on a similar Mortgage without a buydown. An **Extended Buydown Mortgage** is a Buydown Mortgage for which (a) the buydown period is longer than two years or (b) the effective interest rate during the buydown period is more than two percentage points below the interest rate of the Mortgage, regardless of the length of the buydown period.

- A **Relocation Mortgage** is made to a transferred employee to finance a home purchase at a new job location. The Relocation Mortgage usually requires an employer contribution to mortgage funding, which may be significant. These Mortgages usually are originated by agreement between the employer and the lender under a relocation program administered by the employer or its agent.

- An **Assumable Mortgage** is one that can be assumed by a creditworthy purchaser of the related mortgaged property at the applicable interest rate for the remaining term of the Mortgage, or one that does not contain an enforceable due-on-transfer clause permitting automatic acceleration upon the transfer of the property regardless of the creditworthiness of the transferee. Typically, ARMs and FHA/VA Mortgages are Assumable Mortgages. Most fixed-rate Conventional Mortgages are not Assumable Mortgages. Some ARMs have initial fixed-rate periods during which they cannot be assumed. A **Newly-Originated Assumable Mortgage** is a fixed-rate Assumable Mortgage that was originated less than one year before the month of formation of the related PC Pool.
- A **Second Mortgage** is a Mortgage that is subordinate only to a first lien on the mortgaged property, which, in the case of Second Mortgages we acquire, generally must be occupied by the borrower as the borrower's principal residence.
- A **Home Equity Line of Credit (HELOC)** is a Mortgage on which interest is calculated and payable monthly on its average daily outstanding principal balance. Before the applicable draw period expires, the borrower may borrow additional principal amounts on the HELOC, up to a maximum amount. During the applicable draw period, the borrower is obligated to pay only the amount of interest which accrues on the HELOC during the billing cycle, but may choose to pay all or a portion of the principal. After the draw period ends, the borrower must make regularly scheduled monthly principal and interest payments. Most HELOCs are Second Mortgages.
- **Prepayment Protection Mortgages** require fees, or prepayment premiums, to be paid whenever prepayments made within a specified time period exceed a specified percentage of the original principal balance of the Mortgage. On Mortgages that we acquire, the requirement to pay prepayment premiums may last for three or five years, but not longer than five years. For prepayment premiums that lapse after three years, the assessment is two percent on prepaid amounts exceeding 20 percent of the Mortgage's original principal balance, but not more than six months' advance interest at the then-current interest rate on the Mortgage. For prepayment premiums that lapse after five years, the assessment is six months' advance interest at the then-current interest rate on the Mortgage on prepaid amounts exceeding 20 percent of the original principal balance. Servicers have the option not to enforce prepayment premiums if they result from a sale of the mortgaged property, but otherwise will enforce prepayment premiums according to the terms of the Mortgage and applicable law. Currently, the servicer retains all prepayment premiums.

INTEREST RATE INDICES

The following are the Indices most often used in the ARMs we pool. The Treasury Index, LIBOR and COFI are the Indices used most frequently. We make no representation as to the continuing availability of any Index or source of Index values.

The interest rate on a Mortgage will adjust based on the most recent Index value available a specified number of days (usually 45) before the effective date of that adjustment. This interval is sometimes referred to as the "look-back" period. For adjustment purposes, an Index value is available as of the date the information is released or publicly available.

If an Index becomes unavailable, we will designate a new one based upon comparable information and methodology.

- **CD Index:** The weekly average of dealer offering rates on nationally traded 6-month certificates of deposit as provided in the Federal Reserve Statistical Release H.15(519) (the **"H.15 Release"**), which is available on the Federal Reserve's website at www.federalreserve.gov/releases/H15.
- **Contract Rate Index:** The "National Average Contract Interest Rate for the Purchase of Previously Occupied Homes by Combined Lenders" as released by the Federal Housing Finance Board.
- **COFI:** The weighted average cost of funds for member savings institutions of the Eleventh District of the Federal Home Loan Bank as released by the Federal Home Loan Bank of San Francisco.
- **Federal COF Index:** The average of the interest rates for marketable U.S. Treasury bills and notes, as calculated and released by Freddie Mac.
- **LIBOR:** The arithmetic mean of the London interbank offered quotations for Eurodollar deposits with a maturity of one month, three months, six months, one year or some other maturity, as reported in *The Wall Street Journal.*
- **National COF Index:** The "Monthly Median Annualized Cost of Funds for Savings Association Insurance Fund ("SAIF")-Insured Institutions" as released by the Office of Thrift Supervision.
- **Prime Rate:** The prime lending rate of major banks as specified in the applicable Pool Supplement.
- **Semi-annual Secondary Market Treasury Index:** The weekly average discount prevailing in weekly secondary market trading of 6-month U.S. Treasury bills as provided in the H.15 Release, as calculated from composites of quotations reported by five leading U.S. government securities dealers to the Federal Reserve Bank of New York.
- **Treasury Index:** (a) The auction average (investment) yield on three-month or six-month U.S. Treasury bills, which is available on the Internet at www.publicdebt.treas.gov/servlet/OFBills or (b) the weekly average yield on U.S. Treasury securities adjusted to a constant maturity of three, five, seven, ten or thirty years or to some other constant maturity as provided in the H.15 Release.

Freddie Mac