The Mortgage Corporation
Federal Home Loan Mortgage Corporation

Mortgage Participation Certificates

April 1, 1980

Federal Home Loan Mortgage Corporation

OFFERING CIRCULAR

FOR

MORTGAGE PARTICIPATION CERTIFICATES

(Guaranteed)

Sales of Mortgage Participation Certificates are conducted by the Federal Home Loan Mortgage Corporation on a continuous basis. Terms of current offerings may be obtained by contacting the Mortgage Corporation. (See pages 5 and 23-26.)

This Offering Circular contains important information concerning the Mortgage Corporation and the Mortgage Participation Certificates offered herein and should be read carefully by prospective purchasers.

OFFERING CIRCULAR DATED APRIL 1, 1980

No salesman, dealer, bank, or other person has been authorized to give any information or to make any representation not contained in this Offering Circular in connection with the offer or sale of the Mortgage Participation Certificates described herein; and, if given or made, such information or representation must not be relied upon as having been authorized by the Federal Home Loan Mortgage Corporation (the "Mortgage Corporation" or "FHLMC"). The delivery of this Offering Circular at any time does not imply that the information given herein is correct at any time subsequent to the date hereof.

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SUMMARY: MORTGAGE PARTICIPATION CERTIFICATES

The following is a summary of certain pertinent information concerning the Federal Home Loan Mortgage Corporation's offerings of Mortgage Participation Certificates (also referred to as "PCs") and is qualified in its entirety by the detailed information found elsewhere herein.

The PCs	The PCs represent undivided interests in specified first lien residential conventional mortgages in groups normally aggregating at least $100 million underwritten and owned by the Mortgage Corporation. Fees may be paid to purchasers under certain programs as described at pages 5 and 23-24.
Interest	Passed through monthly at the Certificate Rate. See "Interest and Principal Payments", pages 28-29, and "Group Factors", pages 27-28.
Principal	Passed through monthly. See "Interest and Principal Payments", pages 28-29, and "Group Factors", pages 27-28.
Prepayment Fees	Passed through when and if received as additional income over and above interest at the Certificate Rate. See page 29.
Guarantees	The Mortgage Corporation unconditionally guarantees the timely payment of interest at the Certificate Rate and the collection of principal. See "Guarantees", pages 29-30.
Remittances	One itemized check per month containing principal, interest and prepayment fees is normally mailed five business days prior to the fifteenth day of each month. A purchaser of a PC will receive his first remittance on or before the fifteenth day of the second month following the month in which the purchaser becomes a registered holder of the PC on the records of the Mortgage Corporation.
Denominations and Registration	$100,000, $200,000, $500,000, $1,000,000 and $5,000,000; fully registered only.
Federal Tax Status	PCs owned by institutions that qualify as "domestic building and loan associations" constitute "loans secured by an interest in real property" within the meaning of Section 7701(a)(19)(C)(v) of the Internal Revenue Code; PCs also constitute "qualifying real property loans" within the meaning of Section 593(d) of the Code with respect to certain thrift institutions.
FHLBB Regulatory Matters	The Federal Home Loan Bank Board has adopted certain rules applicable to PCs held by institutions the deposits or accounts of which are insured by the Federal Savings and Loan Insurance Corporation or held by federally-chartered savings and loan associations. See "FHLBB Regulatory Matters", page 34.
Secondary Market	Certain securities dealers make a market in PCs. The Mortgage Corporation may also repurchase PCs. See "Secondary Market", page 32.

The Mortgage Corporation guarantees to each registered holder of a PC the timely payment of interest at the applicable Certificate Rate on the unpaid principal balance outstanding on the Mortgages (hereinafter defined) to the extent of such holder's pro rata share thereof. The unpaid principal balance on which interest is remitted by the Mortgage Corporation is an estimated amount. See "Group Factors", pages 27-28. The Mortgage Corporation also guarantees to each registered holder of a PC collection of all principal on the Mortgages, without any offset or deduction, to the extent of such holder's pro rata share thereof.

The PCs are not guaranteed by the United States or by any Federal Home Loan Bank and do not constitute a debt or obligation of the United States or any Federal Home Loan Bank.

FEDERAL HOME LOAN MORTGAGE CORPORATION

The Mortgage Corporation is a corporate instrumentality of the United States created pursuant to an Act of Congress on July 24, 1970 (Title III of the Emergency Home Finance Act of 1970, as amended, 12 U.S.C. §§ 1451-1459, hereinafter referred to as the "FHLMC Act"). The Mortgage Corporation was established primarily for the purpose of increasing the availability of mortgage credit for the financing of urgently needed housing. It seeks to provide an enhanced degree of liquidity for residential mortgage investments primarily by assisting in the development of secondary markets for conventional mortgages.

While the Mortgage Corporation believes that the maintenance of a reasonable level of profit is necessary to the accomplishment of its statutory objectives, its activities and operations are not necessarily over the long term conducted with a view toward maximizing profits. The Mortgage Corporation's status as a corporate instrumentality of the United States may lead it to maintain its mortgage purchase and financing activities despite adverse economic conditions. Furthermore, by action of the Congress and the President, the FHLMC Act and other Federal legislation bearing on the Mortgage Corporation may be amended in a fashion that could materially affect the scope and results of the Mortgage Corporation's activities and operations. In addition, the Corporation's Board of Directors may implement policies which might have similar effects without the necessity for any statutory amendments.

Neither the United States nor any agency or instrumentality of the United States nor any Federal Home Loan Bank is obligated, either directly or indirectly, to fund the mortgage purchase and financing activities of the Mortgage Corporation. For a more complete description of the Mortgage Corporation and its activities, see "The Mortgage Corporation—History and Business", pages 8-21.

The principal office of the Mortgage Corporation is located at 1700 G Street, N.W., Washington, D.C. 20006 (telephone 202-789-4700). It has established five regions for administrative purposes, with offices located in Arlington, Virginia; Atlanta, Georgia; Chicago, Illinois; Dallas, Texas and Los Angeles, California.

PURPOSE OF THE OFFERING

The proceeds to be received by the Mortgage Corporation from the sale of the Mortgage Participation Certificates described herein will provide funds for the Mortgage Corporation to engage in additional activities consistent with its statutory purposes, including the purchase of additional mortgages and interests in mortgages. Some portion of such proceeds may be used to repay part of FHLMC's borrowings.

The Mortgage Corporation sells mortgages and interests therein on a regular basis and borrows funds from time to time as its business may require. The amount, nature and cost of such sales or financing arrangements are dependent upon a number of factors, including the volume of mortgages purchased by it, general market conditions and the availability of funds.

PC SALES PROGRAMS

The Mortgage Corporation continuously offers PCs. As more fully described on pages 23-24, PCs may be offered pursuant to any of the following mandatory or optional delivery sales programs. The Mortgage Corporation reserves the right to vary at any time both the terms and availability of these programs.

Type of Delivery Contract	Number of Days From Trade Date to Settlement Date	Fee Paid by The Mortgage Corporation
Mandatory	7-29	None
Mandatory	30-59	None
Mandatory	60-89	None
Mandatory	90-119	None
Mandatory	120-150	None
Optional (delivery in whole or part at the option of the Mortgage Corporation)	140+	up to .625%
Optional (delivery in whole or part at the option of the Mortgage Corporation)	270+	up to 1.000%

No fees are presently paid by the Corporation to purchasers in connection with mandatory delivery contracts. Fees paid to purchasers on optional delivery contracts are based on the principal balance of the PC as of the trade date, *i.e.*, the date on which FHLMC accepts an offer to purchase PCs, multiplied by the applicable fee expressed as a percentage. Fees will be paid within five business days of receipt by the Mortgage Corporation of an executed confirmation of the transaction. The Mortgage Corporation reserves the right to discontinue at any time the payment of fees. See "Fees", page 24.

PRICE AND YIELD INFORMATION

The price at which PCs are offered may be at a discount, at par or at a premium, depending upon current market conditions and the Certificate Rate of the PC. All yields to investors are quoted by the Mortgage Corporation based upon an assumed 30 year maturity and an assumed 12 year prepayment. See "Maturity and Average Weighted Life", pages 30-31. The yield quoted includes the increase in yield resulting from the payment of any fee payable to the PC purchaser. More detailed information concerning the price and yield of PCs is set forth on page 25.

Daily price and yield information can be obtained from the Mortgage Corporation (outside Washington, D.C. metropolitan area telephone 800-424-5401; within Washington, D.C. metropolitan area telephone 789-4800).

FEDERAL HOME LOAN MORTGAGE CORPORATION

STATEMENTS OF INCOME AND RETAINED EARNINGS

The following statements of income and retained earnings of the Federal Home Loan Mortgage Corporation for each of the five years in the period ended December 31, 1979, have been examined by Arthur Andersen & Co., independent public accountants, whose report thereon is included elsewhere herein. These statements should be read in conjunction with the financial statements and related notes appearing elsewhere in this Offering Circular.

	Year Ended December 31,				
	1979	1978	1977	1976	1975
			(000 omitted)		
Income:					
Interest and discount on mortgage loans, net of servicing fees	$324,271	$235,393	$288,673	$369,928	$397,526
Management and guarantee fee	17,631	13,595	8,956	3,271	3,285
Interest on temporary cash investments	42,660	44,693	13,338	66,657	41,053
Other income	1,771	1,341	442	3,054	2,948
Total income	386,333	295,022	311,409	442,910	444,812
Expenses:					
Interest on borrowings and related costs	311,565	242,478	270,784	419,058	407,745
Provision (credit) for losses	19,724	12,874	8,218	(995)	11,386
Administrative	19,434	14,279	11,744	10,686	10,173
Total expenses	350,723	269,631	290,746	428,749	429,304
Net income	35,610	25,391	20,663	14,161	15,508
Retained earnings, beginning of year	27,030	76,639	55,976	41,815	26,307
Transfer to capital in excess of par value	(25,000)	(75,000)	—	—	—
Retained earnings, end of year	$ 37,640	$ 27,030	$ 76,639	$ 55,976	$ 41,815

The Notes to Financial Statements on pages 38 through 44 are an integral part of these statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE STATEMENTS OF INCOME

The Mortgage Corporation's net income for 1979 was $35,610,000, as compared to $25,391,000 in 1978. Net income increased primarily because of the improved spread on the Corporation's total investment portfolio, including temporary cash investments, during the year and the growth in the size of the total portfolio of mortgages, including loans sold under the PC and GMC programs, from $15.108 billion at December 31, 1978, to $19.368 billion at December 31, 1979. High money market interest rates throughout 1979 had a particularly favorable effect on net income for the year. During 1979, the average yield on temporary cash investments was substantially higher than the yield achieved during 1978. An improvement in earnings on temporary cash investments was achieved without a corresponding increase in the cost of financing because a significant portion of funds invested during 1979 was provided by principal and interest collections held for future disbursement to PC and GMC investors. See "Management's Discussion of Yields, Financing and Risks", pages 14-15, and "Management's Discussion of the Spread on the FHLMC Mortgage Portfolio", pages 15-16.

Net income for 1978 was $25,391,000 compared to $20,663,000 in 1977. This increase in earnings was directly attributable to the increase in the size of the mortgage portfolio, including loans sold under the PC and GMC programs, from $10.032 billion at December 31, 1977 to $15.108 billion at December 31, 1978. Earnings increased notwithstanding a decline in the composite spread on the total mortgage portfolio and an increase in the rate of amortization of purchase and sales discount. Total income and total expenses, including interest income and expense, decreased for the period due to reduction in the size of the Corporation's retained portfolio of mortgages and a commensurate reduction in the average size of its related outstanding borrowings.

Net income for 1977 was $20,663,000 as compared to $14,161,000 in 1976. The Corporation substantially improved the positive spread on its portfolio of mortgages and temporary cash investments, principally due to a decrease in the level of low yielding temporary cash investments which had been made in anticipation of the maturation of borrowings in 1976 and early 1977. (Net income for 1976 was favored by the downward adjustment of the Portfolio Valuation Allowance account as discussed below.) Total income and total expenses for 1977 were lower due to a reduction in the size of the Mortgage Corporation's retained portfolio of mortgages and other investments and a commensurate reduction in the size of its related borrowings. Total sales of mortgages and interests in mortgages for 1977 were $4.665 billion, as compared to $4.124 billion purchased. The funds for the Corporation's purchases of mortgages and interests in mortgages were provided predominantly by the proceeds of PC and GMC sales.

The Corporation retired $2.1 billion of long term debt during 1977, as compared to $1.1 billion retired during 1976. Of the total long term debt retired during 1977, $1.2 billion represented the Advances for Special U.S. Treasury Program, the final payment of which was made on February 25, 1977. The debt retirements were funded by PC and GMC sales and borrowings of $537 million from the Federal Home Loan Bank in the form of a pass-through of consolidated obligations.

Net income for 1976 was $14,161,000 compared to $15,508,000 in 1975. The Portfolio Valuation Allowance was adjusted downward during 1976, reflecting the overall reduction in the level of risk inherent in the Corporation's mortgage loan portfolio. This appears as a credit of $995,000 to the Provision for Losses and compares to a provision of $11,386,000 in 1975. During 1976 the spread increased between the interest the Mortgage Corporation earned on all mortgages and the interest paid on related borrowings; however, the rate of return on temporary cash investments declined. This decline of the rate of return, together with an increased level of temporary cash investments accumulated in anticipation of maturation of borrowings, produced a negative spread between the interest earned on such temporary cash investments and the related cost of borrowings. These two offsetting factors, namely, reduction of the Portfolio Valuation Allowance and the negative spread on temporary cash investments, resulted in a slight decrease in net income in 1976, as compared to 1975.

THE MORTGAGE CORPORATION—HISTORY AND BUSINESS

The Board of Directors of the Mortgage Corporation is composed of the three members of the Federal Home Loan Bank Board, whose Chairman is the Chairman of the Board of the Mortgage Corporation. See "Management", pages 21-22. The Members of the Federal Home Loan Bank Board are appointed by the President of the United States, with the advice and consent of the Senate, for four-year terms.

The capital stock of the Mortgage Corporation consists solely of non-voting common stock held by the twelve Federal Home Loan Banks. 100,000 shares, par value $1,000 each, have been issued for a total purchase price of $100 million, the maximum amount which the Federal Home Loan Banks were required to purchase pursuant to the FHLMC Act. FHLMC may declare dividends on its common stock although it has not done so to date. The sole restriction on the Corporation's authority to declare dividends relates to dividends declared on common stock which is then subject to an outstanding retirement call. Stock may be retired by FHLMC at its issue price if such retirement will not reduce its reserves and surplus to less than $100 million. The Board of Directors of the Corporation is currently considering the payment of dividends on its capital stock. It is anticipated that any dividends paid or payable during 1980 will not, in the aggregate, exceed $50 million. The Board of Directors of the Corporation also is currently considering offering subordinated capital debentures for sale to its shareholders, the Federal Home Loan Banks. It is anticipated that any such debentures offered during 1980 will not, in the aggregate, exceed $50 million.

The principal activity of the Mortgage Corporation currently consists of the purchase of residential conventional mortgages or interests in such mortgages and the resale of the mortgages or interests so purchased. (A conventional mortgage is a mortgage which does not have the benefit of any guarantee or insurance by, and is not an obligation of, the United States or any state, or any agency or instrumentality of either.) These purchase and sale programs are described below under "Purchase Programs" and "Sales Programs".

Purchase Programs

The Mortgage Corporation purchases first lien conventional mortgages ("whole loans") and participation interests in such mortgages ("participations") on a continuous basis. The participations purchased have varied from 50% to 95% on single-family loans, and from 50% to 85% on multi-family loans. Set forth below is information concerning the volume of such activities, as well as the volume of the FHA/VA purchase programs. Conventional whole loans and participations are combined in "Conventional mortgages" and "Forward programs". Mortgages purchased under the joint United States Treasury—Federal Home Loan Bank System program and the GNMA agency program, described below under "Other Activities", are excluded.

	Year Ended December 31,				
	1979	1978	1977	1976	1975
			(000 omitted)		
Commitments and Contracts:					
FHA/VA	$ 1,000	$ 30,560	$ 29,464	$ 17,651	$122,398
Conventional mortgages	4,831,469	6,507,959	4,756,039	1,358,154	858,649
Forward programs (A)	708,704	972,485	715,805	102,175	—
Total	$5,541,173	$7,511,004	$5,501,308	$1,477,980	$981,047
Purchases:					
FHA/VA	$ —	$ 40,495	$ 19,795	$ 21,243	$119,792
Conventional mortgages	5,715,953	6,483,428	4,104,269	1,107,630	716,294
Total	$5,715,953	$6,523,923	$4,124,064	$1,128,873	$836,086

(A) Mortgage commitments under the forward programs are for commitment periods of six or eight months, and delivery is at the option of the seller. Delivery is mandatory under all other programs and must occur within 60 days of the contract date.

Set forth below is a description of certain aspects of FHLMC's purchase programs for conventional residential mortgages and interests in such mortgages.

1. *Statutory restrictions.* All whole loans or participations purchased by FHLMC must meet certain standards set forth in the FHLMC Act. FHLMC is confined to purchasing, so far as practicable, mortgages which it deems to be of such quality, type and class as to meet generally the purchase standards imposed by private institutional mortgage investors. FHLMC may purchase only such obligations which are secured by first mortgages the outstanding principal balance of which at the time of purchase does not exceed 80% of the value of the real property securing the mortgage unless: (1) the seller retains a participation interest in the mortgage of not less than 10% of the mortgage; or (2) the seller agrees, for such period and under such circumstances as FHLMC may prescribe, to repurchase or replace the mortgage obligations upon demand by FHLMC in the event that the mortgage is in default; or (3) the portion of the unpaid principal balance of the mortgage obligation which is in excess of 80% is insured by a qualified mortgage insurer as determined by FHLMC. At present, FHLMC purchases conventional mortgages with a loan-to-value ratio exceeding 80% only if the principal amount of the indebtedness in excess of 75% of the appraised value of the mortgaged property is insured by a qualified mortgage insurer.

The Mortgage Corporation may purchase a conventional mortgage which was originated more than one year prior to the purchase date only if the seller is currently engaged in mortgage lending or investment activities and if, as a result of such purchase, the cumulative aggregate principal balance of all conventional mortgages purchased by FHLMC which were originated more than one year prior to purchase does not exceed 20% of the cumulative aggregate principal balance of all conventional mortgages purchased by FHLMC. As of December 31, 1979, FHLMC had purchased $820 million aggregate principal amount of mortgages more than one year old which represents approximately 3.6% of all conventional mortgages purchased by FHLMC.

Additionally, FHLMC is required to establish limitations governing the maximum principal obligation of conventional mortgages which it purchases. At present, the limitations established by FHLMC for single family mortgages are $75,000 for mortgages having loan-to-value ratios greater than 90% but not in excess of 95% and $93,750 for mortgages not exceeding a 90% loan-to-value ratio. These limitations are increased by 50% for mortgages on properties located in Alaska, Hawaii and Guam. The limitations for two family dwellings are $75,000 for mortgages having loan-to-value ratios greater than 90% but not in excess of 95% and $120,000 for mortgages having loan-to-value ratios not in excess of 90%. For three and four family dwellings with loan-to-value ratios not in excess of 90%, FHLMC has established limitations of $145,000 and $175,000, respectively. These limitations are increased by 25% for mortgages on properties located in Alaska, Hawaii and Guam. FHLMC's present limitations on the principal obligation of conventional mortgages purchased by it for multi-family structures range from $24,375 to $54,697 per unit. In addition, FHLMC presently imposes an original loan amount limitation of $7,500,000 in connection with multi-family mortgages.

Recent amendments to the FHLMC Act, effective December 20, 1979, permit FHLMC to purchase cooperative loans, *i.e.*, loans secured by the stock or membership certificate issued by a cooperative housing corporation as defined in section 216 of the Internal Revenue Code; however, FHLMC has not developed a purchase program for such loans and will not purchase cooperative loans until such program is developed.

2. *Eligible sellers.* FHLMC may purchase mortgages from any Federal Home Loan Bank, the Federal Savings and Loan Insurance Corporation, a member of any Federal Home Loan Bank, any other financial institution the deposits or accounts of which are insured by an agency of the United States, certain financial institutions the deposits or accounts of which are insured under state law (chiefly certain Massachusetts institutions), and any mortgagee approved by the Secretary of Housing and Urban Development for participation in any mortgage insurance program under the National Housing Act. FHLMC may establish conditions under which different classes of sellers would be considered eligible to sell mortgages to FHLMC and may also impose fees upon those sellers.

FHLMC purchases mortgages from Federal Home Loan Bank members whose mortgage origination and servicing experience is adequate and satisfactory. Approximately 76% of all active sellers from whom mortgages have been acquired by FHLMC have been Federal Home Loan Bank members. In 1979, approximately 83% of the dollar amount of mortgages purchased by FHLMC were purchased from these members. In the case of savings banks, commercial banks and other federally or state insured financial institutions, FHLMC, on an individual institution basis, determines whether such institutions will be approved as eligible seller/servicers. FHLMC, for these purposes, evaluates the depth of the mortgage origination and servicing experience of such sellers. FHLMC has also established eligibility requirements for HUD-approved mortgagees, including financial standards, such as net worth and liquidity tests, and standards concerning facilities, origination and servicing experience, and reporting. Each HUD-approved mortgagee desiring to become eligible to sell mortgages to FHLMC must make application to FHLMC.

3. *Warranties of sellers.* A seller of whole loans or participations to FHLMC under any of the FHLMC purchase programs is required to give certain warranties to FHLMC for the benefit of FHLMC and purchasers from FHLMC. The warranties cover such matters as validity of the mortgage as a first lien, proper recordation of the mortgage, compliance by the seller with the requirements of all state and federal laws including those relating to settlement procedures, truth-in-lending and usury, absence of default of principal or interest payments on the mortgage, sale to FHLMC free of all liens and encumbrances prior to the first lien of the mortgage, and validity of title, hazard and private mortgage insurance policies. Sellers also warrant that the mortgage complies with all the terms and conditions of the FHLMC purchase program pursuant to which the mortgage is being purchased and with such requirements as are generally imposed by private institutional mortgage investors in the area in which the mortgaged property is located.

4. *Qualified mortgage insurers.* FHLMC purchases conventional home (1-4 family) mortgages with a loan-to-value ratio exceeding 80% if the principal amount of the indebtedness in excess of 75% of the appraised value of the mortgaged property is insured by a qualified mortgage insurer. Pursuant to the FHLMC Act, FHLMC has established minimum requirements which a mortgage insurer must meet in order to be approved as a qualified mortgage insurer under the various purchase programs. As of December 31, 1979, FHLMC had approved 20 mortgage insurers as insurers whose insurance was eligible under FHLMC purchase programs. Mortgages with principal balances aggregating approximately 52% of the principal balance of all mortgages purchased by FHLMC, for the five year period ending December 31, 1979, had, at the time of purchase, some portion of their principal balance insured by a qualified mortgage insurer. Under certain circumstances, a servicer may, but is not required to, cancel mortgage insurance applicable to a particular mortgage if the loan-to-value ratio of that mortgage has been reduced to 80% or less.

5. *Credit, appraisal, and underwriting guidelines.* Each whole loan or participation purchased by FHLMC must be in conformity with the credit, appraisal, and underwriting guidelines established by FHLMC. These guidelines are designed to evaluate the credit standing of the mortgagor and the value of the real property securing the mortgage and are administered by FHLMC on the basis of procedures which FHLMC believes are adequate to determine that the mortgages meet FHLMC credit, appraisal, and underwriting guidelines. During 1975, 1976, 1977, 1978, and 1979, approximately 9.2%, 7.7%, 9.0%, 7.8% and 7.3%, respectively, of the conventional whole loans or participations offered for sale to FHLMC have been either withdrawn or rejected for failure to meet the guidelines and requirements of the FHLMC purchase program under which the whole loan or participation was to be purchased.

6. *Purchase prices.* FHLMC purchases all participations at their face amount (par) to yield a specified interest rate. Sellers are required as part of their servicing of the underlying mortgages to remit to FHLMC sufficient interest payments to yield the specified rate. To the extent that the stated interest rate on the mortgages exceeds the yield specified by FHLMC, sellers retain the excess interest. To the extent that the stated interest rate is less than the yield specified, sellers make up the difference from interest payments attributable to their retained interest in the mortgage. FHLMC will not purchase a participation which would require more than 100% of the income from the seller's retained interest to be paid to FHLMC.

All whole loans purchased by FHLMC are purchased at a specified percentage of their outstanding principal balances, adjusted for accrued or prepaid interest, which, when applied to the stated interest rate of the mortgage, results in the yield (expressed as a percentage) established by FHLMC. The yield so established includes a minimum ⅜% servicing fee retained by the seller/servicer of the whole loan. However, no purchase is made at greater than 100% of the outstanding principal balance. The applicable percentage yield is established based upon the outstanding principal balance and an assumed term and a prepayment period as determined by FHLMC.

7. *Servicing.* Sellers of whole loans or participations to FHLMC agree, subject to FHLMC's general supervision, to perform diligently all services and duties customary to the servicing of mortgages. FHLMC discharges its supervisory responsibility by monitoring servicers' performance on a reporting and exception basis. The duties performed by servicers include collection and remittance of principal and interest payments, administration of escrow accounts, collection of insurance claims and, if necessary, foreclosure. Subject to FHLMC's approval, sellers may contract to have servicing performed by other eligible sellers or in certain instances by servicing agents which are not eligible to sell mortgages to FHLMC. Such use of servicing agents does not, however, relieve the seller of its obligations to FHLMC.

FHLMC supervises the servicing of the mortgages in its mortgage portfolio (including those mortgages which it has sold but as to which FHLMC has guaranteed payment of principal and interest) in a manner consistent with prudent servicing standards. FHLMC has developed detailed servicing policies and procedures as an aid to the efficient and uniform servicing of mortgages in its mortgage portfolio. These policies and procedures are set forth in the FHLMC Servicers' Guide, and relate to a considerable range of matters, including assumption of a mortgage by a new borrower, liquidating plans to correct delinquencies, and foreclosures. All of FHLMC's servicing policies and procedures are subject to change at any time and in FHLMC's sole discretion so long as the policies and procedures as modified continue to be prudent. Such changes may occur formally, *i.e.,* by amendment of the FHLMC Servicers' Guide, or informally in connection with the servicing of a particular mortgage.

Set forth below is a brief description of certain aspects of FHLMC's current servicing policies and procedures concerning assumptions, liquidating plans, and foreclosures. This description is not intended to be complete, and is qualified in its entirety by the FHLMC Servicers' Guide (as amended from time to time), a copy of which may be obtained from FHLMC. Further, in view of the highly individualized nature of many servicing situations, informal adaptation of the policies and procedures in the FHLMC Servicers' Guide to fit particular situations can be expected to occur with some frequency.

As set forth in its Servicers' Guide, FHLMC's assumption policy includes a credit review of the assuming borrower by either FHLMC or the servicer. Mortgage assumptions frequently involve a change in the mortgage interest rate in jurisdictions where such changes are legal. However, FHLMC does not permit interest rate or payment term modifications in connection with assumptions of mortgages which it has purchased. If the assuming borrower and the servicer agree on an interest rate increase, FHLMC requires such mortgage to be repurchased by the servicer. The proceeds of any such repurchase are passed through to PC holders as a prepayment of principal. See "Interest and Principal Payments", pages 28-29.

A borrower who has made a partial prepayment of principal is permitted by the FHLMC Servicers' Guide to reduce subsequent monthly payments of principal and interest provided that payment on the mortgage is current and that the reduction will not result in an extension of the term of the mortgage or a change in the interest rate.

The FHLMC Servicers' Guide requires servicers to make a corrective recommendation to FHLMC with respect to any mortgage delinquent for more than 60 days. FHLMC believes that effective servicing should involve individual knowledge of the borrower, the location and type of property securing the mortgage, and the extent of any delinquency, and expects such recommendations to reflect familiarity with such matters. Based on such knowledge, FHLMC encourages the use of written liquidating plans and other measures (*e.g.,* forbearance and/or modification of mortgage loan terms) to resolve any delinquencies which may occur in connection with the mortgages in FHLMC's portfolio. While FHLMC does not insist upon use of particular servicing measures, liquidating plans executed by the borrower and the servicer are a common servicing technique. When liquidating plans are employed, FHLMC's general policy is that mortgages subject to such plans should be amortizing on a current basis within one year of the commencement of the plan.

The FHLMC Servicers' Guide also sets forth policies and procedures for instituting and monitoring foreclosure proceedings, including demand upon the mortgagor (borrower) for accelerated payment of principal—the typical initial step in the foreclosure process. Because many state foreclosure laws are complex and time consuming, FHLMC prefers to accept a voluntary deed in lieu of foreclosure in those jurisdictions in which this practice is authorized. The length of both the foreclosure process and the deed in lieu of foreclosure process varies significantly from state to state. Further, many state laws provide mortgagors with an equity of redemption following foreclosure, and the foreclosure process typically is not final until the expiration of any such right. However, payment pursuant to FHLMC's guarantee of collection of principal is made no later than one year following demand for acceleration upon the mortgagor. See "Guarantees", pages 29-30.

8. *Amortization of principal.* Substantially all of the mortgages purchased by FHLMC require monthly amortization of principal in increasing amounts over the life of the mortgage. FHLMC has purchased an insignificant principal amount of flexible payment mortgages, as to which amortization of principal is not required during an initial period (not to exceed five years) of the term of the mortgage.

9. *Variations in programs.* Consistent with the standards imposed by the FHLMC Act, the various FHLMC purchase programs have differed with regard to such matters as the percent retained by sellers (in participation purchase programs), permissible loan-to-value ratios, maximum unpaid principal amounts for individual mortgages, and the particular requirements of FHLMC's credit, appraisal and underwriting guidelines. FHLMC believes that these variations have had no material impact upon the quality of the whole loans or participations purchased in the various programs.

10. *Home Improvement and Energy Conservation Loans.* Under the FHLMC Act, FHLMC may purchase home improvement and energy conservation loans. Home improvement loans are loans secured by improved residential real property. Under the FHLMC Act, these loans need not be secured by first liens and are limited in principal amount to the maximum principal amount of such loans which can be made by Federal savings and loan associations. Energy conservation loans are loans made for the purpose of financing residential energy conservation improvements or residential solar energy systems. Under the FHLMC Act, these loans may be secured or unsecured and are not subject to any specific principal amount limitations.

FHLMC has not purchased any home improvement or energy conservation loans to date but has substantially completed the development of standards under which it will purchase secured home improvement loans, including secured energy conservation loans. It is anticipated that a pilot program to purchase a limited amount of these loans will be instituted in mid-1980. No assessment can be made at this time as to the proportion of FHLMC's future purchase activity which may consist of these loans. FHLMC has not to date begun the development of a program for the purchase of unsecured energy conservation loans.

Sales Programs

As of December 31, 1979 and December 31, 1978, FHLMC had sold or had contracted to sell $17.255 billion and $13.377 billion, respectively, original principal balance of Mortgage Participation Certificates ("PCs") substantially similar to the PCs offered hereby. As of December 31, 1979 and December 31, 1978, the unpaid balances of outstanding PCs sold were approximately $12.922 billion and $10.152 billion, respectively.

As of December 31, 1979 and December 31, 1978, FHLMC had sold $2.950 billion and $2.200 billion, respectively, initial principal amount of Guaranteed Mortgage Certificates ("GMCs"). FHLMC warrants return on the GMCs at the rate stated thereon and warrants that payments of principal will be sufficient to return to GMC holders minimum annual principal reduction payments as scheduled. GMCs represent undivided interests in specified conventional whole loans and participations previously purchased by FHLMC. As of December 31, 1979, and December 31, 1978, the unpaid balances of outstanding GMCs were approximately $2.394 billion and $1.865 billion, respectively.

At December 31, 1979, and December 31, 1978, FHLMC had accumulated a reserve of $50,000,000 and $33,500,000, respectively, for uninsured principal losses on its total conventional mortgage portfolio, including mortgages sold under the PC and GMC sales programs.

Set forth below is information concerning the volume of PC and GMC activity.

	Year Ended December 31,				
	1979	1978	1977	1976	1975
			(000 omitted)		
Contracts:					
PCs					
Mandatory programs	$3,303,200	$4,937,800	$3,990,400	$1,121,000	$ 450,300
Optional programs	575,100	692,600	844,000	335,200	75,800
GMCs	750,000	700,000	600,000	400,000	500,000
Total	$4,628,300	$6,330,400	$5,434,400	$1,856,200	$1,026,100
Settlements:					
PCs	$3,795,630	$5,711,768	$4,057,421	$ 960,126	$ 450,359
GMCs	750,000	700,000	600,000	400,000	500,000
Total	$4,545,630	$6,411,768	$4,657,421	$1,360,126	$ 950,359

Note—Delivery periods for the PC mandatory delivery programs range from 7 to 150 days. Contracts for PCs under which delivery is at FHLMC's option have had settlements ranging from minimums of 120 days to minimums of 270 days from the trade date.

Other Activities

In 1974-1975, pursuant to a joint United States Department of the Treasury-Federal Home Loan Bank System program, FHLMC acquired $1.575 billion aggregate original principal balance of conventional single family residential mortgages. These mortgages were purchased pursuant to standards and requirements in all substantial respects the same as those used by FHLMC in its various conventional mortgage purchase programs. This program was financed by loans from the Treasury to the Bank System, which in turn advanced such funds to FHLMC as were necessary to acquire the mortgages purchased pursuant to the program. FHLMC's loan from the Bank System was secured by the mortgages purchased. The program provided in effect that FHLMC's borrowing costs would not exceed its return on the mortgages, and both the loan to FHLMC and the loan to the Bank System provided for repayment in semiannual installments in amounts equal to the principal collections on the related mortgage loans purchased. During 1976 and 1977, the outstanding principal balance of these advances was retired, with the final payment made on February 25, 1977. The mortgages were subsequently sold through FHLMC's PC and GMC sales programs.

The Government National Mortgage Association ("GNMA") has contracted with FHLMC for FHLMC to purchase and service, as GNMA's agent, up to $3.491 billion aggregate principal balance of conventional single family residential mortgages. As of December 31, 1979, FHLMC, as GNMA's agent, had purchased $2.822 billion principal balance of these mortgages, and commitments totaling $669 million had been cancelled or expired. As of December 31, 1979, $2.759 billion of these mortgages had been sold, and principal reductions and loans paid in full totaled $32 million, with FHLMC servicing the remaining $31 million of these mortgages as agent for GNMA. These purchases are for GNMA's account and are, therefore, excluded from FHLMC's balance sheet. FHLMC receives fees for the administration of the program as agent for GNMA. These fees are intended to offset FHLMC's expenses in connection with the program.

Management's Discussion of Yields, Financing and Risks

The profit or loss generated by the Corporation is substantially governed by the size of its total investment portfolio, which consists of mortgages retained in inventory, mortgages sold under the PC and GMC sales programs, and temporary cash investments, and by the spread between the effective interest income rates on such portfolio and related funding rates.

The size of the Corporation's total investment portfolio is affected by the amount of its mortgage purchases, the amount of principal payments received periodically on mortgages retained in inventory or sold under the PC and GMC sales programs, and the amount of temporary cash investments necessary to support the Corporation's mortgage purchase and sale activities.

The spread is affected by the funding methods chosen by the Corporation to support its mortgage purchase activities, including the proportion of the total investment portfolio financed by short-term debt, long-term debt and PC or GMC sales, as well as by their relationship to the maturity composition of the Corporation's total investment portfolio. The spread is also affected by both the amount and timing of principal payments received by the Corporation as those payments relate to discount amortization on the Corporation's total mortgage portfolio including mortgages sold under the PC and GMC sales programs. If mortgages repay more or less rapidly than anticipated (see "Maturity and Average Weighted Life", pages 30-31), the Corporation's spread on mortgages sold at a discount under the PC and GMC sales programs would be reduced or increased. See "Mortgage Purchase and Sales Discount" and "Mortgage Loan Sales and Related Matters" in Notes to Financial Statements, pages 38-39. Finally, the spread can be affected by the amount of mortgage portfolio principal and interest collections received by the Corporation in combination with the interest rates at which these funds can be invested pending monthly disbursement to PC holders and semiannual or annual disbursement to GMC holders.

In its early years, the Mortgage Corporation financed its mortgage purchases primarily by the issuance of debt. Because the borrowings required to finance a mortgage portfolio may mature more or less rapidly than the portfolio itself, this financing method carries with it both refinancing and reinvestment risks. In order to reduce these risks, beginning in January, 1976, FHLMC implemented a policy of funding mortgage purchases through the sale of PCs and GMCs rather than the issuance of debt. The following table reflects the funding strategy for the Corporation's mortgage portfolio, including for this purpose the retained portfolio as well as loans sold under PC and GMC sales programs, and shows the percentages of the portfolio funded by PC sales, GMC sales, and debt at the end of each of the last five years.

As of December 31,	PCs	GMCs	Debt
1979	66.72%	12.36%	20.92%
1978	67.20%	12.34%	20.46%
1977	53.91%	13.52%	32.57%
1976	32.09%	14.61%	53.30%
1975	22.50%	9.85%	67.65%

The effective interest rates which must be paid to PC and GMC holders are substantially determined by general capital market interest rates, while the effective interest income on mortgages purchased by the Corporation is substantially determined by general mortgage market interest rates. During periods of significant inflation or credit shortage, general capital market interest rates may rise more rapidly than mortgage market interest rates. Under these conditions, the Corporation's continued funding of mortgage purchases by PC and GMC sales or by debt could decrease the weighted average spread on the Corporation's mortgage portfolio. In addition, under such market conditions, if the Corporation chose to finance mortgage purchases through the issuance of debt, the refinancing and reinvestment risks to the Corporation could increase.

The Corporation guarantees that holders of GMCs will receive an annual return of principal in accordance with a specified schedule of minimum annual principal reductions. When mortgages sold under the Corporation's GMC sales program repay in any particular year less rapidly than contemplated by the minimum annual schedule, the Corporation must finance the difference between principal payments received by the Corporation and scheduled amounts which must be paid to GMC holders. If that amount is financed at rates which are unfavorable when compared to the related GMC Certificate Rates, the spread on the Corporation's total investment portfolio could be adversely affected.

Management's Discussion of the Spread on the FHLMC Mortgage Portfolio

FHLMC committed to purchase $5.541 and $7.511 billion of mortgages during the year ended December 31, 1979, and December 31, 1978, respectively, while committing to sell $4.628 and $6.330 billion, respectively, of PCs and GMCs. The mortgage purchase commitments accepted during 1979 and 1978 had a weighted average effective income rate of 11.43% and 9.90%, respectively*. The weighted average effective cost of PCs and GMCs committed to be sold in 1979 and 1978 was 10.93% and 9.65%, respectively*. As of December 31, 1979, FHLMC had outstanding commitments to purchase $796.5 million of mortgages with a weighted average effective income rate of 13.04% and outstanding commitments to sell $553.4 million of mortgages with a weighted average effective cost of 11.91%*. See "Commitments" in Notes to Financial Statements, page 41.

In order to provide increased flexibility for its PC and GMC sales programs, in 1979 the Corporation began to increase its unsold mortgage portfolio. The growth of the unsold mortgage portfolio, coupled with the refinancing of maturing long-term debt of $326 million, resulted in the issuance of $650 million of long-term debt securities to the Federal Home Loan Banks in 1979 with an average effective cost of 9.58%. In addition, the Corporation funded mortgage purchases with short-term reverse repurchase agreements with the expectation of refinancing the purchases at more favorable rates in the future. At December 31, 1979, the average effective cost of the Corporation's reverse repurchase agreements was 14.22%.

The Effective Income and Financing Rates table on page 17 reflects the spreads achieved on the portion of the mortgage portfolio financed with long-term securities as well as the portion financed on a short-term basis. The spread on the portfolio financed on a long-term basis increased from 27 basis points in 1978 to 29 basis points in 1979.

The Corporation's composite spread, *i.e.*, the net weighted average spread on the total portfolio funded both short-term and long-term, declined from 28 basis points at December 31, 1978 to 20 basis points at December 31, 1979. This decline is attributable to the increase in the dollar amount of mortgages financed short-term and the abnormally high short-term interest rates. This increased level of short-term financing reflects management's strategy, discussed above, of financing mortgage purchases currently on a short-term basis with the intention of refinancing them at more favorable rates in the future. If the Corporation were unable to refinance these purchases at more favorable rates, the composite spread on the Corporation's total mortgage portfolio, including PC and GMC sales, could be adversely affected.

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* The weighted average effective income rates and the weighted average effective costs are on a semiannual basis and have been adjusted for discounts and fees. Such income rates and costs have been computed according to the level yield method based on management's estimate of mortgage repayments which incorporates historical experience. The effective costs have been adjusted for the effect of management's estimate of the return on the reinvestment of portfolio collections pending disbursement to PC and GMC holders. See "Certificate Rate" in Notes to Effective Income and Financing Rates table, page 18. If actual mortgage repayment or reinvestment rates vary from these assumptions, the average effective cost will also vary. See "Maturity and Average Weighted Life", pages 30-31.

The Mortgage Corporation generally follows a risk averse policy in the formation of PC sales groups. As a result, PC groups are usually formed using the lowest yielding unsold mortgages in FHLMC's portfolio. Accordingly, mortgages placed in PC groups may not be those most recently purchased by the Corporation. This policy is designed to assure that, if general capital market interest rates rise, FHLMC will have available for sale more readily marketable higher yielding mortgages. The risk averse policy contributed to the decline in the spread on PCs outstanding from December 31, 1975, through December 31, 1979, but caused an offsetting increase in the spread on the Corporation's unsold portfolio.

FHLMC Mortgage Portfolio

Summarized below is certain statistical information on FHLMC's mortgage portfolio including, for this purpose, mortgages sold under the PC and GMC programs. The spread on the yields shown below is not necessarily indicative of the long-term relationships which may prevail. (Note: Information relating to years prior to 1979 has been restated to be on a basis consistent with that of 1979.)

Effective Income and Financing Rates

	December 31, 1979		December 31, 1978		December 31, 1977		December 31, 1976		December 31, 1975	
	Principal (000 omitted)	Yield (%)	Principal (000 omitted)	Yield (%)	Principal (000 omitted)	Yield (%)	Principal (000 omitted)	Yield (%)	Principal (000 omitted)	Yield (%)
Portfolio financed/sold through securities maturing after one year:										
Retained mortgage loans:	$ 3,177,556		$ 2,739,239		$ 2,626,217		$2,501,074		$3,359,952	
Effective interest income		10.07		9.20		8.56		8.45		8.42
Effective borrowing cost		8.45		7.96		7.85		8.01		7.89
Net spread		1.62		1.24		.71		.44		.53
Mortgage Participation Certificates:	$12,921,979		$10,152,259		$ 5,408,323		$1,900,136		$1,142,524	
Effective interest income		9.46		8.99		8.63		8.46		8.28
Certificate rate		9.04		8.53		8.10		8.04		7.85
Gross interest margin		.42		.46		.53		.42		.43
Discount amortization expense		.44		.46		.37		.13		—
Net interest margin		(.02)		.00		.16		.29		.43
Guaranteed Mortgage Certificates:	$ 2,394,000		$ 1,864,500		$ 1,356,400		$ 865,200		$ 500,000	
Effective interest income		9.72		9.12		8.76		8.78		8.64
Certificate rate		9.35		8.68		8.37		8.51		8.48
Gross interest margin		.37		.44		.39		.27		.16
Discount amortization expense		.17		.18		.07		.04		.04
Net interest margin		.20		.26		.32		.23		.12
Weighted average yields on retained mortgage loans, Mortgage Participation Certificates and Guaranteed Mortgage Certificates:	$18,493,535		$14,755,998		$ 9,390,940		$5,266,410		$5,002,476	
Effective interest income		9.60		9.05		8.63		8.51		8.41
Effective certificate rate and borrowing cost		9.31		8.78		8.29		8.16		7.94
Net spread—securities maturing after one year		.29		.27		.34		.35		.47
Portfolio financed by debt maturing within one year:										
Retained mortgage loans:	$ 874,065		$ 351,705		$ 640,752		$ 655,233		$ 74,489	
Effective interest income		10.07		9.20		8.56		8.45		8.42
Effective borrowing cost		11.92		8.04		8.12		7.55		8.08
Net spread—securities maturing within one year		(1.85)		1.16		.44		.90		.34
Total portfolio/Composite spread	$19,367,600	.20	$15,107,703	.28	$10,031,692	.34	$5,921,643	.41	$5,076,965	.46

Notes to Effective Income and Financing Rates table—

Principal—Guaranteed Mortgage Certificates. The principal amount includes principal and interest collections on GMCs held by FHLMC pending disbursement to GMC holders.

Effective Interest Income. The effective interest income rate is the weighted average contract rate of the applicable mortgages on a semiannual basis adjusted for the effect of discount amortization and servicing fees, where applicable.

Effective Borrowing Cost. The effective borrowing cost of debt maturing after one year and debt maturing within one year is the weighted average of the allocable portion of the Corporation's debt financing and capital debentures, adjusted for discounts and concessions. All effective borrowing costs are presented on a semiannual basis. See "Notes and Bonds Payable" and "Subordinated Capital Debentures" in Notes to Financial Statements, pages 42 and 43.

Certificate Rate. The PC and GMC certificate rates are the weighted average of such rates on a semiannual basis. The PC certificate rate has been adjusted downward to reflect the Corporation's estimated return on mortgage collections between the time of its receipt of those funds and their disbursement to PC holders. The GMC certificate rate has been adjusted upward to reflect the difference between the estimated rate earned on the investment of GMC collections held pending disbursement to GMC holders and the rate paid on the GMC mortgages.

For a discussion of certain accounting practices which impact effective interest income, effective borrowing cost, certificate rate, and gross interest margin on PC and GMC sales, see "Mortgage Purchase and Sales Discount", "Amortization of Debt Expense" and "Mortgage Loan Sales and Related Matters" in Notes to Financial Statements, pages 38 and 39.

Notes and Bonds Payable, Capital Debentures and Related Maturities

FHLMC's unsold mortgage portfolio consists principally of mortgages with original maturities of thirty years on which principal is amortized monthly in increasing amounts over the life of the mortgage. Due to prepayments, the average mortgage is discharged prior to its stated maturity. The borrowings, including Notes and Bonds Payable and Capital Debentures, required to finance this unsold portfolio may mature more or less rapidly than the portfolio itself. If FHLMC were to experience less than anticipated principal payments on its unsold mortgage portfolio, it could be required to sell portfolio mortgages or to obtain additional borrowings at rates which could be unfavorable. On the other hand, if FHLMC were to experience greater than anticipated principal payments (including prepayments) on unsold mortgages, it could be required to invest in mortgages or other interest bearing investments which could have yields less favorable than required to pay the interest upon related borrowings.

The tables below set forth the maturities of FHLMC's Notes and Bonds Payable and Capital Debentures as of December 31, 1979.

Notes and Bonds Payable

Maturity	Amounts (000 omitted)	Maturity	Amounts (000 omitted)
1980	$ 953,283	1984	$ 315,817
1981	$ 375,544	1985-1989	$ 977,323
1982	$ 205,620	1990-1994	$ 472,500
1983	$ 215,727	1995-1997	$ 465,025

Capital Debentures

Maturity	Amounts (000 omitted)
1988	$ 150,000

See "Notes and Bonds Payable" and "Subordinated Capital Debentures" in Notes to Financial Statements, pages 42 and 43.

Geographic Distribution of Mortgage Portfolio

The following table sets forth the general geographic location of the properties underlying the mortgage portfolio of the Mortgage Corporation at December 31, 1979, 1978 and 1977 (including those mortgages which the Mortgage Corporation has sold but as to which the Mortgage Corporation has guaranteed payment of principal and interest).

	Unpaid Principal Balance (000 omitted)									
	December 31,									
	1979						1978		1977	
Geographic Area Designation	FHA/VA	Percentage of FHA/VA	Conventional Loans	Percentage of Conventional Total	Total	Percentage of Total	Total	Percentage of Total	Total	Percentage of Total
Boston	$ 2,291	.20%	$ 112,974	.63%	$ 115,265	.60%	$ 83,424	.56%	$ 88,994	.90%
New York	14,932	1.27	251,924	1.39	266,856	1.39	160,269	1.07	124,916	1.26
Pittsburgh	5,333	.46	134,973	.75	140,306	.73	153,419	1.02	146,641	1.48
Atlanta	144,789	12.36	2,474,064	13.70	2,618,853	13.62	2,139,830	14.30	1,761,764	17.81
Indianapolis	46,322	3.95	657,635	3.64	703,957	3.66	533,719	3.57	378,705	3.83
Chicago	90,814	7.75	891,496	4.94	982,310	5.11	729,318	4.87	425,177	4.30
Des Moines	66,417	5.67	292,351	1.62	358,768	1.87	324,309	2.17	232,916	2.36
Little Rock	156,387	13.35	1,362,454	7.54	1,518,841	7.90	1,444,185	9.65	973,250	9.84
Denver	104,810	8.95	1,393,941	7.72	1,498,751	7.79	1,324,637	8.85	842,055	8.51
Los Angeles	433,664	37.02	8,579,212	47.50	9,012,876	46.86	6,426,771	42.94	3,847,204	38.90
Seattle	105,671	9.02	1,909,260	10.57	2,014,931	10.47	1,646,696	11.00	1,068,657	10.81
Total	$1,171,430	100.00%	$18,060,284	100.00%	$19,231,714	100.00%	$14,966,577	100.00%	$9,890,279	100.00%

States included under geographic area designations:

BOSTON
Connecticut
Maine
Massachusetts
New Hampshire
Rhode Island
Vermont

NEW YORK
New Jersey
New York
Puerto Rico
Virgin Islands

PITTSBURGH
Delaware
Pennsylvania
West Virginia

ATLANTA
Alabama
District of Columbia
Florida
Georgia
Kentucky
Maryland
North Carolina
South Carolina
Tennessee
Virginia

INDIANAPOLIS
Indiana
Michigan

CHICAGO
Illinois
Ohio
Wisconsin

DES MOINES
Iowa
Minnesota
Missouri
North Dakota
South Dakota

LITTLE ROCK
Arkansas
Louisiana
Mississippi
New Mexico
Texas

DENVER
Colorado
Kansas
Nebraska
Oklahoma

LOS ANGELES
Arizona
California
Nevada

SEATTLE
Alaska
The Northern Mariana Islands, including Guam
Hawaii
Idaho
Montana
Oregon
Utah
Washington
Wyoming

Delinquencies, Defaults and Foreclosures

Set forth below is certain information concerning FHLMC's default, delinquency and foreclosure experience with its mortgage portfolio, including those mortgages which FHLMC has sold but as to which FHLMC has guaranteed payment of principal and interest. Defaults, delinquencies and foreclosures on mortgages are in some measure related to general social and economic conditions, particularly the unemployment rate. Historically, delinquencies, defaults and foreclosures do not reach their peak until sometime after maximum unemployment rates occur in an economic cycle. A peak in unemployment rates was reached in the second quarter of 1975. For the last half of 1975 and throughout 1976, while less than the peak, unemployment rates remained relatively high. From the beginning of 1977 through 1979, the unemployment rate declined gradually. However, if economic activity declines during 1980, there may be an increase in the unemployment rate which may in turn increase the number of defaults, delinquencies and foreclosures.

Conventional Mortgages (a)

	Number of Delinquent Payments			Foreclosures approved and in process
As of December 31,	One	Two	Three or More	
1979	11,116 (2.29%)	2,053 (0.42%)	916 (0.19%)	577 (0.12%)
1978	7,973 (2.02%)	1,343 (0.34%)	489 (0.12%)	358 (0.09%)
1977	5,132 (1.84%)	794 (0.28%)	354 (0.13%)	222 (0.08%)
1976	3,600 (1.83%)	656 (0.33%)	267 (0.14%)	181 (0.09%)
1975	3,014 (1.67%)	621 (0.34%)	330 (0.18%)	184 (0.10%)

(a) The columns show aggregate numbers of mortgages in each category and the percentage that these numbers represent of FHLMC's conventional mortgage portfolio.

FHA/VA Mortgages (b)

	Number of Delinquent Payments			Foreclosures approved and in process
As of December 31,	One	Two	Three or More	
1979	3,430 (5.68%)	755 (1.25%)	298 (0.49%)	147 (0.24%)
1978	3,750 (5.63%)	821 (1.23%)	353 (0.53%)	175 (0.26%)
1977	4,161 (5.66%)	900 (1.22%)	382 (0.52%)	280 (0.32%)
1976	4,507 (5.39%)	972 (1.16%)	483 (0.58%)	396 (0.47%)
1975	4,557 (4.91%)	1,121 (1.21%)	527 (0.57%)	550 (0.59%)

(b) The columns show aggregate numbers of mortgages in each category and the percentage that these numbers represent of FHLMC's FHA/VA mortgage portfolio.

Mortgages placed in foreclosure do not necessarily result in a loss to the holder of the mortgage. It has been FHLMC's experience that mortgages placed in foreclosure are frequently reinstated to a current position or paid in full prior to completion of foreclosure proceedings. Further, the completion of foreclosure proceedings and resultant sale of the mortgaged property does not necessarily result in any loss to the mortgage holder, since the amount realized upon ultimate disposition of a property and/or recoveries under applicable mortgage insurance policies may be sufficient to pay all principal, interest and foreclosure expenses.

With respect to foreclosures resulting in a third party's acquisition of the real property securing the mortgage, FHLMC has received foreclosure sale proceeds at least equal to the unpaid principal and accrued interest owing on the mortgage, but FHLMC has not in all circumstances recovered all expenses incident to the foreclosure. In the aggregate, these unrecovered expenses are insignificant in amount and are therefore not included in the foreclosure loss data or the table below.

With respect to foreclosures resulting in FHLMC's acquisition of the real property securing the mortgage, FHLMC has, from commencement of operations in 1970 through December 31, 1979, experienced losses (net of gains) of $516,930 on conventional home (1-4 family) mortgages and $4,065,000 on conventional multi-family mortgages. During this period, there were 1,024 foreclosures of conventional home mortgages and eight foreclosures of conventional multi-family mortgages, with unpaid principal balances of $25,207,564 and $8,447,000, respectively, which resulted in FHLMC's acquisition of the real property securing the mortgage.

The table below sets forth losses (net of gains) for each of the five years ended December 31, 1979 with respect to property acquired by FHLMC at foreclosure.

For the Period Ended December 31,	Single-Family	Multi-Family	Total
1979	$190,579	$ —	$190,579
1978	187,316	—	187,316
1977	65,703	—	65,703
1976	51,400	3,011,600	3,063,000
1975	13,544	—	13,544

As of December 31, 1979, FHLMC had $50,000,000 reserved for uninsured principal losses on its total conventional mortgage portfolio including mortgages sold under PC and GMC sales programs.

MANAGEMENT

The directors and principal officers of the Mortgage Corporation are as follows:

Name	Age	Year of Affiliation	Position
Jay Janis	48	1979	Chairman of Board of Directors
Andrew A. DiPrete	50	1979	Director
John H. Dalton	39	1980	Director
Philip R. Brinkerhoff	37	1973	President
Richard A. Mackey	37	1971	Executive Vice President—Chief Administrative Officer
William R. Thomas, Jr.	51	1970	Executive Vice President—Chief Operating Officer
Michael C. Rush	36	1978	Executive Vice President—Chief Financial Officer
Henry L. Judy	40	1975	Senior Vice President and General Counsel
Jerry Barrentine	46	1973	Vice President and Treasurer
Mary Bruce Batte	34	1978	Vice President—Congressional and Governmental Relations
Alan J. Blocher	42	1973	Vice President—Mortgage Programs and Services
William H. Boyle	37	1979	Vice President—Corporate Planning and Development
Edward S. Elles, Jr.	33	1975	Vice President—Financial Planning and Analysis
Russell E. Gray, Jr.	34	1978	Vice President—Human Resources
Richard Hadik	43	1975	Vice President—Systems
Donald G. Hill	50	1975	Vice President—Communications
Leady W. Seale, Jr.	57	1972	Vice President—Appraisal and Underwriting

Mr. Janis is Chairman and Messrs. DiPrete and Dalton are members of the Federal Home Loan Bank Board. Their terms expire in 1981, 1983 and 1982, respectively. Between March, 1977, and the time of his appointment as Chairman of the Federal Home Loan Bank Board in July, 1979, Mr. Janis served as Under Secretary of the U.S. Department of Housing and Urban Development. Between 1976 and his appointments as Under Secretary, Mr. Janis was Senior Vice President for Management and Business Affairs at the University of Massachusetts. Prior to June, 1979, Mr. DiPrete was a partner in the Providence, Rhode Island law firm of Tillinghast, Collins & Graham. Between March, 1979, and December, 1979, Mr. Dalton was National Treasurer of the Carter/Mondale Presidential Campaign. He served as President of the Government National Mortgage Association of the U.S. Department of Housing and Urban Development from April, 1977, until March, 1979, and prior to that was an account executive with the investment banking firm of Goldman, Sachs and Company in Dallas, Texas.

Philip R. Brinkerhoff has been President since September, 1977. He was Executive Vice President of FHLMC from April, 1975, and Vice President and General Counsel from June, 1973. Prior to his affiliation with FHLMC, he was an attorney with Streich, Land, Weeks, Cardon & French, Phoenix, Arizona. Richard A. Mackey has been Executive Vice President—Chief Administrative Officer of FHLMC since September, 1977, and was Vice President—Systems of FHLMC from June, 1974. Prior to his affiliation with FHLMC, he was a Systems Analyst for Tate Technologies, Inc. William R. Thomas, Jr. has been Executive Vice President—Chief Operating Officer of FHLMC since October, 1977. He was a Senior Regional Vice President from July, 1975, and was a Regional Vice President from February, 1971. Prior to his affiliation with FHLMC, he was a Regional Director of Development for Mortgage Guaranty Insurance Corporation. Michael C. Rush has been Executive Vice President—Chief Financial Officer since March, 1980, and was Vice President—Marketing of FHLMC from January, 1978. Prior to his affiliation with FHLMC, he was Executive Vice President of the Boston Company Advisors, Inc., Boston, Massachusetts.

Henry L. Judy has been Senior Vice President and General Counsel of FHLMC since June, 1979, and was Vice President—General Counsel from June, 1975. Prior to his affiliation with FHLMC, he was Deputy General Counsel of the Federal Home Loan Bank Board. Jerry Barrentine has been Vice President and Treasurer of FHLMC since October, 1973, and was Assistant Treasurer from January, 1973. Prior to his affiliation with FHLMC, he was a Manager with Peat, Marwick, Mitchell & Co. Mary Bruce Batte has been Vice President—Congressional and Governmental Relations since June, 1979, and was Director of Congressional Relations from June, 1978. Prior to her affiliation with FHLMC and since September, 1977, she was Special Assistant to the Deputy Assistant Secretary for Direct and Insured Loans, U.S. Department of Housing and Urban Development. Between November, 1973, and September, 1977, she was Assistant Managing Editor of the Housing and Development Reporter. Alan J. Blocher has been Vice President—Mortgage Programs and Services since May, 1977, prior to which he was Director of Servicing for FHLMC. Prior to his affiliation with FHLMC, Mr. Blocher was a Loan Servicing Officer for Dime Savings Bank. William H. Boyle has been Vice President—Corporate Planning and Development since July, 1979. Prior to his affiliation with FHLMC, he was a management consultant with Touche Ross & Co. Edward S. Elles, Jr. has been Vice President—Financial Planning and Analysis since June, 1977, and was a Financial Analyst from February, 1975. Prior to his affiliation with FHLMC, he was a Senior Accountant with Arthur Andersen & Co. Russell E. Gray, Jr. has been Vice President—Human Resources since June, 1979, and was Director of Personnel from September, 1978. Prior to his affiliation with FHLMC, he was Personnel Manager, Eastern Division, The Hartford Insurance Group. Richard Hadik has been Vice President—Systems since October, 1977, and was Director—Systems Development from February, 1975. Prior to his affiliation with FHLMC, he was a Senior Associate—Vice President for Computer Performance Associates, Inc. Donald G. Hill has been Vice President—Communications since June, 1979, and was Director of Corporate Relations from December, 1975. Prior to his affiliation with FHLMC, he was Washington Bureau Chief, Landmark Newspapers. Leady. W. Seale, Jr. has been Vice President—Appraisal and Underwriting since September, 1975 and has been affiliated with FHLMC since October, 1972. Prior to his affiliation with FHLMC, he was Chief Appraiser and Assistant Vice President of the Mortgage Loan and Real Estate Division, Equitable Life Insurance Company, Washington, D.C.

As of December 31, 1979, FHLMC had 425 employees.

DESCRIPTION OF MORTGAGE PARTICIPATION CERTIFICATES

The Mortgage Participation Certificates offered hereby represent undivided interests in specified conventional mortgages ("whole loans") and/or participation interests therein ("participations") underwritten and owned by the Mortgage Corporation. A conventional mortgage is a mortgage which does not have the benefit of any guarantee or insurance by, and is not an obligation of, the United States or any state, or any agency or instrumentality of either.

The Mortgage Corporation periodically forms groups of whole loans and/or participations in connection with its continuing PC sales programs. A particular PC group may also include an undivided interest in the whole loans and/or participations comprising other PC groups ("residual participations"). The aggregate of whole loans, participations and/or residual participations included in a PC group is referred to herein as the "Mortgages". PC groups are formed as the volume of the Mortgage Corporation's sales of PCs may require. The Mortgage Corporation in its sole discretion determines which PC will be delivered to a purchaser in the event that more than one PC group is available for delivery. Each group of whole loans, participations and/or residual participations is identified in the records maintained by the Mortgage Corporation, and such records also identify the Mortgages pertaining to each PC group.

The PCs are governed by the terms of the FHLMC Mortgage Participation Certificate Agreement, Series 700 (March, 1980), which is included in this Offering Circular as Exhibit A and to which reference is made for a complete description of the purchaser's rights and the Mortgage Corporation's obligations with respect to the PCs.

PCs are issued in fully registered form only, in original unpaid principal balances of $100,000, $200,000, $500,000, $1,000,000 and $5,000,000. As used herein, the term "unpaid principal balance of a PC" refers to the PC holder's pro rata share of the unpaid principal balance of the Mortgages represented by that PC after any adjustments to the size of the PC group prior to the first remittance date have been made. See "The Mortgages", pages 26-27.

PCs are designed to qualify for federal income tax treatment accorded certain investments in obligations secured by real property. See "Tax Status", pages 32-33.

PC Sales Programs

The Mortgage Corporation currently offers PCs pursuant to one or more of the mandatory and optional delivery sales programs described below. The Mortgage Corporation reserves the right to vary at any time both the terms and the availability of these programs.

Mandatory Delivery Contracts. Purchasers may currently contract for mandatory delivery of PCs under any of five programs:

(1) Purchasers agree with the Mortgage Corporation upon a settlement date not less than seven (7) nor more than twenty-nine (29) days from the trade date.

(2) Purchasers agree with the Mortgage Corporation upon a settlement date not less than thirty (30) nor more than fifty-nine (59) days from the trade date.

(3) Purchasers agree with the Mortgage Corporation upon a settlement date not less than sixty (60) nor more than eighty-nine (89) days from the trade date.

(4) Purchasers agree with the Mortgage Corporation upon a settlement date not less than ninety (90) nor more than one hundred nineteen (119) days from the trade date.

(5) Purchasers agree with the Mortgage Corporation upon a settlement date not less than one hundred twenty (120) nor more than one hundred fifty (150) days from the trade date.

Optional Delivery Contracts. Purchasers may contract for optional delivery of PCs under any of the optional programs which may, from time to time, be offered by the Mortgage Corporation. Under an optional delivery contract the Mortgage Corporation may, at its option, complete the sale of PCs by delivering either the entire principal amount subject to the contract, or any portion thereof, on the settlement date agreed upon with the purchaser. In the event that a purchase will be consummated, notice will be mailed to the purchaser at least five business days before the settlement date. Such notice will specify the principal amount of PCs to be delivered and the amount due at settlement. Currently, purchasers may contract for optional delivery under either of two programs:

(1) Purchasers agree with the Mortgage Corporation upon a settlement date not less than one hundred forty (140) days from the trade date. The Mortgage Corporation will pay the purchaser a fee of not more than ⅝ of 1%.

(2) Purchasers agree with the Mortgage Corporation upon a settlement date not less than two hundred seventy (270) days from the trade date. The Mortgage Corporation will pay the purchaser a fee of not more than 1.0%.

All offers to purchase PCs are subject to acceptance by the Mortgage Corporation. See "Ordering and Settlement", pages 25-26. For purposes of calculating the date of settlement for mandatory and optional delivery contracts, the trade date is the date upon which the Mortgage Corporation accepts an offer to purchase PCs. Settlements for purchases of PCs may be held on any business day mutually agreed upon by the purchaser and the Mortgage Corporation within the range of settlement dates applicable to any particular sales program. The settlement date is fixed on the trade date. Neither a mandatory delivery contract nor an optional delivery contract may be assigned or transferred by a purchaser without the prior written consent of the Mortgage Corporation.

Fees. No fees are currently paid by the Mortgage Corporation in connection with its mandatory delivery contracts. As described above, fees vary under optional delivery programs. The specific amount of the fee will be stated in the confirmation of the order mailed to the purchaser. See "Ordering and Settlement", pages 25-26. The fees payable by the Mortgage Corporation for optional delivery contracts are determined by multiplying the principal balance of the PC as of the trade date by the applicable fee expressed as a percentage. For example, if the fee for an optional delivery program were ⅝ of 1%, and if the principal balance of the PC committed to be purchased were $100,000, the fee would be $625.00. Any fee due the purchaser on an optional delivery contract will be mailed by the Mortgage Corporation to the purchaser within five business days following receipt of a confirmation duly executed by the purchaser. The Mortgage Corporation may reduce, eliminate or reinstate at any time the fees paid in connection with any of its programs.

Federal Income Tax Consequences of Fees. A fee received by a prospective purchaser under an optional delivery program is not income for federal income tax purposes at the time of receipt. In the case of an optional delivery program, if the Mortgage Corporation elects to complete the sale by delivering the entire principal balance of the PC subject to the contract, the fee will be an offset against the selling price in determining the aggregate cost basis of the PC holder in his undivided interests in the Mortgages. If the Mortgage Corporation does not exercise, in whole or in part, its election to complete the sale under an optional delivery program, the fee will constitute income upon the termination of the option, which income may be ordinary income or may be characterized as short-term capital gain under Section 1234(b) of the Internal Revenue Code of 1954, as amended, and may not be qualifying income for purposes of the 75% of gross income test of Treasury Regulation §301.7701-13A(c)(3)(i) classifying an organization as a "domestic building and loan association." If the Mortgage Corporation elects to complete the sale under an optional delivery program by delivering less than the entire principal balance of the PC subject to the contract, the offset against the selling price, as described above, may be limited to that portion of the fee which is allocable to the principal balance of the PC delivered, and the remaining portion of the fee would constitute income or short-term capital gain as described above.

Deposits. If the purchaser's ability to fulfill his obligations pursuant to either the mandatory or optional delivery programs is not known to the Mortgage Corporation, the Mortgage Corporation may require a good faith deposit of up to 5% of the unpaid principal balance of the PC on the trade date. Such deposit must be received within five business days of the trade date. See "Ordering and Settlement", below. The Mortgage Corporation will not mail a confirmation of the transaction to the purchaser until it receives the required deposit. The amount of the deposit will be credited against the amount due from the purchaser at settlement or, in the case of an optional delivery program, will be returned to the purchaser if, and at the time that, the Mortgage Corporation elects not to complete the sale.

Special Circumstances. Under certain circumstances, the Mortgage Corporation is willing to entertain requests for modification of certain of the terms of the above programs to meet the specific needs of purchasers.

Price and Yield Information

The Certificate Rate shown on the face of PCs normally varies by increments of one-quarter of one percent. The price at which PCs are offered by the Mortgage Corporation may be at a discount, at par, or at a premium depending upon current market conditions and the Certificate Rate of the PC. The net price of a PC, after subtracting any fees which are paid by the Mortgage Corporation, may vary from program to program. The yield quoted by the Mortgage Corporation includes the increase in yield resulting from the payment of any fee to the PC purchaser.

The yields quoted by the Mortgage Corporation at various Certificate Rates and price levels are based upon a thirty year maturity, twelve year prepayment assumption. See "Maturity and Average Weighted Life", pages 30-31. Yields also are quoted based on the assumption that there will be a 75 day delay in the receipt by a PC holder of the first remittance check. See "Interest and Principal Payments", pages 28-29. Yield tables for PCs are available from Financial Publishing Co. in Boston, Massachusetts, and show yields at various Certificate Rates and price levels and under various payment assumptions.

Price and yield quotations are available from the Mortgage Corporation (outside Washington D.C. metropolitan area telephone 800-424-5401; within Washington D.C. metropolitan area telephone 789-4800).

Distribution Arrangements

PCs can be purchased from the Mortgage Corporation or from a selected group of securities dealers. The Mortgage Corporation presently allows a sales concession to such dealers in an amount no greater than .250% of the purchase price of the PCs sold to such dealers. If a PC is purchased from a dealer, such dealer is required to confirm sales to purchasers, to notify purchasers of settlement dates and amounts, to forward any optional fees, and to otherwise communicate and deal with purchasers within the time limits applicable to sales of PCs directly effected by the Mortgage Corporation. See "Ordering and Settlement", below.

Ordering and Settlement

PCs are available only in face amounts of $100,000, $200,000, $500,000, $1,000,000 and $5,000,000. The face amount of a PC represents the unpaid principal balance of that PC during the month in which the applicable PC group is formed. However, the unpaid principal balance of a PC as of the trade date may be less than the face amount of the PC certificate as a result of principal payments on the Mortgages made between the date of formation of the PC group and the trade date. Likewise, the unpaid principal balance of a PC at settlement may be less than the principal balance contracted for as a result of principal payments on the Mortgages made between the trade date and the settlement date. Interest and principal payments made with respect to the Mortgages between the trade date and the settlement date are for the account of and are retained by the Mortgage Corporation. The purchase amount of a PC to be paid at settlement will be based on the group factor for the month of settlement. See "Group Factors", pages 27-28. In addition, the purchase amount of a PC to be paid at settlement may be more or less than the unpaid principal balance of the PC on the settlement date due to a premium or discount.

At the time an offer to purchase is made, a purchaser will be asked which particular delivery program is desired, the principal balance of PCs to be purchased, the settlement date proposed and, in the case of a purchase made directly from the Mortgage Corporation, the denominations in which certificates should be issued and the purchaser's federal taxpayer identification number. Offers to purchase PCs will be considered firm offers by the Mortgage Corporation on the day on which the offer is received. The offer will generally be accepted or rejected by telephone on the business day following the day on which the offer is received. The date of acceptance of any offer is the trade date.

Within three business days of the acceptance of an offer to purchase a PC, a confirmation of the order will be mailed to the purchaser. The purchaser should execute and return the confirmation to the Mortgage Corporation immediately.

Notification of the exact amount due from the purchaser at settlement will be mailed at least 5 business days prior to settlement for all programs other than when settlement is scheduled for not more than 10 days from the trade date. In the latter case, notification of the exact amount due at settlement will be mailed with the confirmation of the purchaser's order. PCs are not mailed or otherwise delivered to purchasers until the Mortgage Corporation has received the purchase amount for the PCs.

The Mortgages

Each PC represents an undivided interest in a group of Mortgages identified on records maintained by the Mortgage Corporation. The group of Mortgages has an original aggregate unpaid principal balance which is normally at least $100 million and normally consists of at least 2,000 residential mortgages. At least 95% of the aggregate principal balance of the Mortgages will consist of home mortgage loans (1-4 family) and not more than 5% will consist of multi-family loans. Not more than 2.5% of the home mortgage loans comprising the Mortgages will be flexible payment mortgages. Interest remittable on the Mortgages to the Mortgage Corporation will, except as described below, be equal to or greater than the interest remittable to PC holders at the Certificate Rate applicable to the PC. Under certain market conditions, the interest remittable to the Mortgage Corporation on certain groups of whole loans, participations or residual participations included in the Mortgages may be less than the Certificate Rate applicable to the PC. In that event, the Mortgage Corporation will retain a sufficient ownership interest in such groups so that the interest payments attributable to FHLMC's retained ownership in each whole loan or participation in such groups will be sufficient to pay to PC holders any difference between the interest remittable to the Mortgage Corporation on PC holders' undivided interests in each such whole loan or participation and the Certificate Rate applicable to the PC.

The Mortgage Corporation may identify the whole loans, participations, and residual participations which will comprise a PC group up to the day prior to the date that the first remittance of principal and interest is payable to PC holders. See "Interest and Principal Payments", pages 28-29. The Mortgages which comprise a PC group may be changed prior to the first remittance to adjust the size of the PC group to match the estimated principal balances used in forming the group or the market demand at a particular Certificate Rate. Each PC holder in a particular PC group owns an undivided interest in the Mortgages which comprise the PC group after such changes have been made. The Mortgages are not changed thereafter, except by reason of normal prepayments and liquidations or as a result of a material breach of warranty by a seller/servicer or a defect in documentation. The Mortgage Corporation may require a seller/servicer to repurchase any whole loan or participation as to which a material breach of warranty or defect in documentation has occurred or, within two years of the date the Corporation purchased such whole loan or participation, the Corporation may require the seller/servicer to substitute another whole loan or participation of comparable unpaid principal balance.

The Mortgages are first liens which have been purchased by the Mortgage Corporation pursuant to its various conventional mortgage purchase programs and accordingly are, with the probable exception of geographic distribution, of the same general type, quality and characteristics as described under "Purchase Programs", pages 8-12. A particular PC is likely to represent undivided interests in Mortgages which have a geographic distribution which is different than, and a degree of geographic concentration which is greater than, the Mortgage Corporation's mortgage portfolio as described under "Geographic Distribution of Mortgage Portfolio", page 19. Due to the composition of the unsold portion of the Mortgage Corporation's mortgage portfolio at any particular time (and subject to the Mortgage Corporation's risk averse policy, see "Management's Discussion of the Spread on the FHLMC Mortgage Portfolio", pages 15-16), a particular PC may represent undivided interests in Mortgages which are serviced by seller/servicers located in a single Geographic Area Designation or in a single state. See "Geographic Distribution of Mortgage Portfolio", page 19.

It is the Mortgage Corporation's experience to date that it purchases mortgages in significantly heavier volumes from areas of the United States that are mortgage capital deficit areas. The extent to which the Corporation purchases mortgages in any particular capital deficit area is affected by the size of the deficit in that area, the extent to which mortgage originators in the area determine to rely on secondary mortgage market financing and their choice of sources of that financing, and the yields at which particular mortgage originators offer to sell mortgages to the Corporation as compared to other yields offered to the Corporation. The area of geographic concentration may change as national or regional economic developments cause changes in areas of capital deficit and surplus. In addition, the Mortgage Corporation's purchases of mortgages in specific states have been constrained from time to time as a result of legal impediments to the purchase and sale of mortgages including, for example, statutory usury limitations and statutory prohibitions of credit review of mortgage assumptors. Such restrictions operate to prevent purchases in a particular locality for greater or lesser periods of time and, as a consequence, the geographic concentration in the Mortgages represented by the PCs may increase. Accordingly, purchasers of PCs normally should expect a significant degree of geographic concentration in the Mortgages represented by PCs. At the present time, the Mortgage Corporation's purchases are increasingly concentrated in the states covered by the Los Angeles Geographic Area Designation. See "Geographic Distribution of Mortgage Portfolio", page 19.

The Mortgages are comprised of participations, residual participations and/or whole loans. In the case of whole loans, the original mortgage notes are endorsed to and held by the Mortgage Corporation. Where local law or practice requires, assignments of the original mortgages are recorded in the Mortgage Corporation's name. The participations are evidenced by participation certificates conveyed by the sellers of the participations to the Mortgage Corporation and represent undivided interests in conventional mortgages. The participation certificates are held by the Mortgage Corporation, but the original mortgage notes and original mortgages with respect to participations are held by the sellers, and the original mortgages are recorded in the names of the sellers. The residual participations are evidenced by the Mortgage Corporation's internal accounting entries which indicate that more than one PC group owns a percentage of undivided ownership in certain whole loans and/or participation certificates. The sellers of whole loans and participation certificates to the Mortgage Corporation have agreed, subject to the Mortgage Corporation's general supervision, to perform diligently all services and duties customary to the servicing of mortgages. See "Servicing", pages 11-12.

Group Factors

As permitted by the FHLMC Mortgage Participation Certificate Agreement (the "PC Agreement"), the Mortgage Corporation's remittances to PC holders of principal and interest received by it on the Mortgages with respect to each PC group are based on monthly estimates of the amount of principal payments on these Mortgages to be received from seller/servicers, determined by the use of a "group factor." The group factor procedure was developed by the Mortgage Corporation to facilitate secondary market trading of PCs.

The group factor is a seven digit decimal which the Mortgage Corporation uses to calculate the amount which the Mortgage Corporation estimates will be the unpaid principal balance of the Mortgages as of the end of any given month with respect to each PC group. The group factor for each PC group for a given month is published on or about the 25th day of the preceding month. The amount which the Mortgage Corporation estimates will be a holder's pro rata share of the unpaid principal balance of the Mortgages for a given month can be determined by multiplying the face amount, *i.e.*, the original unpaid principal balance, of the PC certificate by the group factor for that month.

The group factor estimate is based upon historical repayment experience of a PC group, adjusted for seasonal variations, and the Corporation's assessment of the current economic environment. Any difference between the amount of principal paid to a PC holder for a particular month based upon the group factor for that month and the amount of principal actually received by the Corporation with respect to the Mortgages for that month, as determined by the Corporation during the month following the month of the group factor, will be accounted for by adjustment to subsequent group factors and, as a result, to subsequent principal payments made to the PC holder. The use of the group factor does not affect the Mortgage Corporation's guarantees of timely payment of interest at the applicable Certificate Rate and collection of all principal on the Mortgages, as provided in the PC Agreement.

Interest and Principal Payments

The Mortgage Corporation normally mails to each registered holder of PCs one check per month regardless of the number of PCs held or when such PCs were purchased. PCs duly presented for registration of ownership on or before the last business day of a month are registered effective as of the first day of that month. See "Transfers and Exchanges", pages 31-32. The first remittance check to a registered holder of a PC will normally be posted five business days prior to the fifteenth day of the second month following the month in which the purchaser became a registered holder of the PC on the records of the Mortgage Corporation. Thereafter, checks will be posted monthly to the registered holder, and this normally will be done five business days prior to the fifteenth day of each month. Record ownership as of the last day of the month of purchase entitles a PC holder to interest from the first day of the month in which settlement for the PC purchase is made; accordingly, the first PC remittance check will include interest for the entire month. However, the amount of interest attributable to the portion of the month prior to the settlement must be paid by the purchaser to the Mortgage Corporation at settlement.

Principal payments, interest at the Certificate Rate and prepayment fees (if any) attributable to each PC are itemized on a statement accompanying the monthly remittance check. Checks will be mailed to the addresses of the registered holders entitled thereto as the same shall appear in the register of holders of PCs. In order to take into account the impact upon the rate of return on a PC caused by the above described delay in the receipt by a holder of a PC of remittance checks, the yield quoted by the Mortgage Corporation includes an appropriate adjustment for such delay.

PC holders are entitled to receive their pro rata share of the interest received by the Mortgage Corporation on the Mortgages to the extent of the Certificate Rate on the unpaid principal balance of the Mortgages. For purposes of computing remittances of interest, the Mortgages are deemed to have scheduled payment dates on the first day of a calendar month, and all principal payments which occur during a given FHLMC monthly accounting period are deemed to be made on the first day of the calendar month in which such monthly accounting period ends. FHLMC employs a fiscal month for accounting for receipt of payments with respect to the Mortgages. Under the group factor procedure, interest to the extent of the Certificate Rate is remitted based on the unpaid principal balance of the Mortgages as determined by the group factor published by the Mortgage Corporation for the second month prior to the month in which such remittance to PC holders is made.

Interest received with respect to the Mortgages in excess of the Certificate Rate will be retained by the Mortgage Corporation as compensation for its guarantee and as a management fee. Interest at the Certificate Rate is computed on the basis of a 360 day year, each month being assumed to have 30 days. A partial month's interest retained by the Mortgage Corporation or passed through to PC holders with respect to full and certain partial prepayments of principal in accordance with the preceding paragraph adjusts the Mortgage Corporation's guarantee and management fee.

PC holders are also entitled to receive their pro rata share of any prepayment fees collected by the Mortgage Corporation with respect to both single family and multi-family mortgages. Any such prepayment fees represent additional income to holders over and above interest at the Certificate Rate. However, with respect to single family mortgages purchased after December 31, 1979, the Mortgage Corporation, as a matter of policy, will no longer permit the collection of prepayment fees.

Holders of PCs are also entitled to receive their pro rata share of all principal payments on the Mortgages received by the Mortgage Corporation, including monthly amortization payments, full and partial prepayments of principal and principal received by virtue of condemnation, insurance, or foreclosure. Principal payments are remitted to PC holders by the Mortgage Corporation in an amount based on the difference between the group factor for the month prior to the month in which remittance is made to PC holders and the group factor for the second month prior to the month in which remittance is made to PC holders. To the extent principal amounts received by the Mortgage Corporation differ from principal amounts remitted in accordance with the group factor, the Mortgage Corporation corrects the determination of subsequent group factors as described under "Group Factors", pages 27-28.

The PC Agreement provides that the Mortgage Corporation shall remit to each registered holder of a PC his pro rata share of principal payments on the Mortgages, including full and partial prepayments, and condemnation, insurance, and foreclosure proceeds, interest to the extent of the Certificate Rate, and any other sums such as prepayment fees, within 60 days of the date on which such payments are received by the Mortgage Corporation. Under the group factor procedure and as permitted by the PC Agreement, the correction of principal amounts described in the foregoing paragraph may occur more than 60 days after the related principal amounts are received by the Mortgage Corporation. Late payment fees are retained by the seller/servicers and are not passed through to the Mortgage Corporation or to the holders of PCs.

The Mortgage Corporation normally receives from servicers the principal and interest payments made with respect to the Mortgages not later than the first Thursday of the month following the month in which the payments were made but does not, as described above, remit such payments to PC holders until the fifteenth day of the month following the month of mortgagor payment. Pending remittance to holders, the Corporation may invest these funds for its own risk and benefit.

With respect to any undivided interests in the Mortgages which the Mortgage Corporation acquires or retains in the form of a PC, the Mortgage Corporation shall share pro rata with the holders of all other PCs which represent those Mortgages.

Guarantees

The Mortgage Corporation guarantees to each registered holder of a PC the timely payment of interest by each mortgagor at the applicable Certificate Rate on the registered holder's pro rata share of the unpaid principal balance outstanding on the Mortgages, as determined by the applicable group factor. The Mortgage Corporation also guarantees to each registered holder of a PC collection (by such holder) of all principal on the Mortgages, without any offset or deduction, to the extent of such holder's pro rata share thereof. Pursuant to these guarantees, the Mortgage Corporation indemnifies holders of PCs against any diminution in principal by reason of charges for property repairs, maintenance and foreclosure.

The Mortgage Corporation may remit the amount due on account of its guarantee of collection of principal at any time after default on an underlying mortgage, but not later than the later of (i) thirty days following foreclosure sale, (ii) thirty days following payment of the claim by any mortgage insurer, or (iii) thirty days following the expiration of any right of redemption, but in any event no later than one year after demand has been made upon the mortgagor for accelerated payment of principal. In taking actions regarding the collection of principal after default on underlying mortgages, including the timing of making demands upon mortgagors for accelerated payment of principal, the Mortgage Corporation will exercise its servicing judgment with respect to the Mortgages in the same manner as for unsold mortgages in its own portfolio. For further information concerning the Mortgage Corporation's servicing policies, see "Servicing", pages 11-12.

The Mortgage Corporation is subrogated to all the rights, interests, remedies, powers and privileges of each holder of a PC on which guarantee payments have been made by the Mortgage Corporation in respect of principal and/or interest.

The PCs are not guaranteed by the United States or by any Federal Home Loan Bank and do not constitute a debt or obligation of the United States or any Federal Home Loan Bank.

Remedies

An Event of Default is defined in the PC Agreement as (i) being in default for more than 30 days in the payment of any interest or principal payable under the Agreement, (ii) any failure in the performance of any other covenant in the Agreement for 60 days after notice given by the holders of not less than 25% in aggregate unpaid principal balance of the PCs in any given PC group, or (iii) certain events of bankruptcy or reorganization involving the Mortgage Corporation or its property. Upon the happening of an Event of Default, the holders of a majority in aggregate unpaid principal balance of the PCs in any given PC group may remove the Mortgage Corporation and nominate a successor to the Corporation under the PC Agreement. The removal of FHLMC is subject to certain rights of FHLMC and holders of PCs to petition a court for the appointment of a successor. Any such successor may take such action with respect to the Mortgages as may be reasonable and appropriate in the circumstances. Prior to any such designation of a successor to FHLMC, the holders of a majority in aggregate unpaid principal balance of the PCs in any given PC group may waive any past Event of Default.

No PC holder has any right to institute any action or proceeding at law or in equity or in bankruptcy or otherwise, with respect to the Agreement, the PCs or the Mortgages, unless such holder shall have given notice to FHLMC of default and the continuance thereof and unless the holders of not less than a majority in aggregate unpaid principal balance of the PCs in any given PC group shall have made written request upon FHLMC 60 days prior thereto to institute such action or proceedings and shall have offered to FHLMC reasonable indemnity and FHLMC has failed to institute any such action or proceedings. However, the right of any PC holder to receive payment of interest and principal due in respect of his PC on or after the respective due date of such payment, or to institute suit for the enforcement of any such payment on or after such respective date, cannot be impaired or affected without the consent of such holder.

Maturity and Average Weighted Life

The PCs represent undivided interests in the Mortgages which have a maximum maturity of thirty years, subject to extension by virtue of forbearance. The average weighted life of an investment is dependent upon the amount of principal returned periodically. It is a common industry assumption for groups of Federal Housing Administration insured single family mortgages that mortgagors' amortization payments and anticipated prepayments will result in an average weighted life for such mortgages of approximately twelve years. This twelve year average weighted life forms the basis for the twelve year prepayment assumption upon which the Mortgage Corporation bases its yield quotations with respect to PCs. The twelve year prepayment assumption is based on the premise that only normal amortization will occur in a group of mortgages until the end of the twelfth year at which time all mortgages included in the group are assumed to prepay. Although the twelve year prepayment assumption is used in generally accepted yield tables and is the common industry norm for quoting yields, the actual yield associated with a PC purchased at a given price will be determined by the actual timing of mortgage repayments.

General economic conditions, mortgage market interest rates and other factors influence prepayments and/or forbearance with respect to the Mortgages. See "PC Principal Payment Experience", page 31. In addition, due to the Mortgage Corporation's risk averse policy or to the inclusion of residual participations, mortgages placed in a particular PC group may not be the ones most recently purchased by the Mortgage Corporation. See "Management's Discussion of the Spread on the FHLMC Mortgage Portfolio", pages 15-16. Since the actual life of the Mortgages is influenced by such factors, the actual repayment pattern of the mortgages included in a PC group is likely to be different than the mortgage repayment pattern associated with the twelve year prepayment assumption described above. The limited experience of the

Mortgage Corporation indicates that the repayment patterns of mortgages included in PC groups will produce an average weighted life that is less than the average weighted life of the twelve year prepayment assumption. Internal FHLMC decisions are currently based on the assumption that the repayment patterns of mortgages included in PC groups will produce an average weighted life of between 6 and 8 years. See "PC Principal Payment Experience", below. The Mortgage Corporation anticipates that holders of PCs will receive principal payments in excess of scheduled amortization payments applicable to the Mortgages, but that final payment of all principal may not be received until the maturity of the PC. The maturity of an investment is the point at which the last payment is due to the PC holder.

PC Principal Payment Experience

The table attached as Exhibit B to this Offering Circular sets forth with respect to ninety-six groups of whole loans, participations and/or residual participations represented by PCs the cumulative percentage of the original principal balances which have been paid to PC holders at the end of various yearly intervals. The table includes all PCs, consisting of interests in conventional mortages, sold by the Mortgage Corporation from December 1, 1972 which have had at least one year of payment experience based upon the group factors applicable through April 30, 1980. Neither the groups of whole loans, participations and/or residual participations listed in the table nor those represented by the PCs offered hereby have identical characteristics with regard to geographic distribution and home/multi-family mortgage mix. See "The Mortgages", pages 26-27. In addition, the average age of the mortgages comprising the Mortgage Corporation's unsold mortgage portfolio has differed during the history of its PC sales program, and the age mix of the groups of whole loans, participations and/or residual participations listed in the table are likely to differ from one another and from the PCs offered hereby.

Given the relatively short history of the PC sales programs, the Mortgage Corporation has formed no definitive view with regard to the factors which account for the variations in payment experience shown in the table attached as Exhibit B. Prepayment of PCs may be influenced by factors such as the relationship between the current mortgage market interest rate and the mortgagor's contract interest rate, the age and geographic location of the Mortgages, population mobility and other general social and demographic factors, general economic conditions, the level of new housing starts, and inflation in housing prices compelling buyers of homes to obtain new mortgages rather than assume existing mortgages. The number of foreclosures in a PC group and servicing decisions may also have an impact upon the principal payment history of particular PC groups. For a description of the Mortgage Corporation's servicing policies, see "Servicing", pages 11-12. The Mortgage Corporation believes that its historical data with regard to principal payment experience are insufficient to enable it to make any representations as to the percentage of the original principal balance of the PCs offered hereby which will have been paid to holders at any particular point in time. The Mortgages applicable to any particular PC may experience a rate of principal payment which is greater than or less than the range shown in the table at Exhibit B.

Transfers and Exchanges

Mortgage Participation Certificates are sold in fully registered form only and are freely transferable. The Mortgage Corporation reserves the right to designate its agent for purposes of transfer and to change that designation at any time. Any sale or transfer of a PC must be evidenced by completion of the form of transfer on the reverse side of the PC or the Form of Detached Assignment of FHLMC PCs (FHLMC Form 548), which may be obtained from the Mortgage Corporation, from any dealer in PCs or from the transfer agent for PCs. A charge may be made for any exchange or transfer of a PC. A charge will be made for any tax or other governmental charge imposed in connection with an exchange or transfer of a PC. *Form PD 1832 may not be used to effect transfers.* Notice with respect to a transfer shall be sent or delivered to the transfer agent at the address stated below or to such other agent as is subsequently designated by FHLMC for receipt of transfers of PCs:

Manufacturers Hanover Trust Company
Corporate Trust Department, 10th Floor
4 New York Plaza
New York, N.Y. 10015

The Mortgage Corporation maintains a register of the holders of PCs. A holder who acquires a PC from another holder acquires such PC subject to all the terms and conditions of the PC Agreement. Accordingly, any such subsequent holder will receive the first remittance of principal and interest payments with respect to the Mortgages on or before the fifteenth day of the second month following the month in which a purchaser becomes a registered holder. Thereafter, a holder will receive, on or before the fifteenth day of each month, monthly remittances with respect to the Mortgages. The Mortgage Corporation makes payments of principal, interest and any other payments with respect to a PC only to the registered holder of a PC, as his name and address appear on the PC register. Transfer of PCs duly presented for registration of transfer on or before the last business day of each month are registered effective as of the opening of business on the first day of that month.

Secondary Market

Certain securities dealers make a market in PCs. The Mortgage Corporation may also repurchase PCs. Information concerning the repurchase of PCs by the Mortgage Corporation is available from the Mortgage Corporation (telephone 800-424-5401 outside Washington, D.C. metropolitan area; telephone 789-4800 within Washington, D.C. metropolitan area). There may be a spread between the Mortgage Corporation's bid price for the repurchase of PCs and its offering price for currently issued PCs as well as a differential between the Mortgage Corporation's bid price for the repurchase of PCs and bid prices of securities dealers making a market in PCs. Prospective PC purchasers and PC holders wishing to obtain more attractive prices may desire to contact securities dealers selling and making a market in PCs.

Tax Status

The income derived from the PCs does not have any exemption, as such, under the Internal Revenue Code of 1954, as amended (the "Code"). The PCs are subject to federal estate and gift taxes. The FHLMC Act does not contain any specific exemption with respect to taxes now or which may hereafter be imposed on the principal of or interest on the PCs by any state, or any of the possessions of the United States, or by any local taxing authority. It is suggested that purchasers residing in states or localities which impose intangible property or income taxes consult their own tax advisors as to the status of the PCs and the income thereon.

The Mortgage Corporation furnishes each PC holder with annual information for federal income tax purposes which itemizes with respect to each PC held the total amount of interest paid by mortgagors, seller/servicers' fees (if any), the Mortgage Corporation's guarantee and management fees (if any), and the total amount of interest at the Certificate Rate and prepayment fees (if any) received by that holder for the calendar year.

PCs have the following characteristics for federal income tax purposes:

(A) A PC held by a "domestic building and loan association" within the meaning of Section 7701(a) (19) of the Code represents "loans secured by an interest in real property" within the meaning of Section 7701(a) (19) (C) (v) of the Code. A PC also represents "qualifying real property loans" within the meaning of Section 593(d) of the Code with respect to certain thrift institutions.

(B) The qualification of an employees' pension or profit-sharing trust under Section 401 of the Code and its exemption under Section 501(a) will not be adversely affected by the purchase of PCs, provided that the purchase meets the investment requisites applicable to such trust.

(C) Interest income on the PCs is "interest on obligations secured by mortgages on real property" as that phrase is used in Section 856(c) (3) (B) of the Code; ownership of a PC by a real estate investment trust is ownership of "real estate assets" as that phrase is used in Section 856(c) (5) (A) of the Code.

(D) With respect to each mortgage, the amount by which interest at the Certificate Rate plus the Mortgage Corporation's management and guarantee fee (if any) exceeds interest at the coupon rate of the mortgage will be characterized as "discount".

(E) With respect to each mortgage, the amount by which interest at the Certificate Rate plus the Mortgage Corporation's management and guarantee fee (if any) is exceeded by interest at the coupon rate of the mortgage will be characterized as "premium".

With respect to certain federal income tax aspects of fees received by purchasers in connection with optional delivery programs, see "Federal Income Tax Consequences of Fees", pages 24-25.

Legality of Investments

National banks may deal in, underwrite and purchase PCs for their own account without regard to the limitations generally applicable to investment securities. PCs are lawful investments for and may be accepted as collateral security for all fiduciary, trust and public funds, the investment or deposits of which are under the authority and control of the United States.

Under section 306(e) of the FHLMC Act, PCs are lawful investments for any person, trust, partnership, corporation or business entity created pursuant to or existing under state law to the same extent as the investor is authorized to invest in obligations issued by or guaranteed as to principal and interest by the United States. States may limit this investment authority by the enactment of a statute which specifically names the Mortgage Corporation and which limits the investment authority granted by section 306(e).

Additional information with respect to legality of investment can be obtained from the Mortgage Corporation.

Regulatory Constraints

Certain regulatory agencies have adopted rules applicable to PCs. Financial institutions subject to the jurisdiction of any of these agencies should review these materials prior to purchasing PCs.

The Comptroller of the Currency has issued a banking circular, Banking Circular No. 79 (2nd Rev.), which sets forth specific guidelines applicable to the purchase by national banks of PCs pursuant to mandatory delivery contracts specifying delivery in more than 30 days and pursuant to optional delivery contracts. The Board of Governors of the Federal Reserve System and the Federal Deposit Insurance Corporation have also adopted policy statements substantially identical to Banking Circular No. 79 (2nd Rev.).

Certain rules adopted by the Federal Home Loan Bank Board place percentage of asset limitations upon the level of commitments to purchase PCs and other securities for mandatory or optional delivery which can be assumed by institutions the deposits or accounts of which are insured by the Federal Savings and Loan Insurance Corporation. These rules also establish recordkeeping and accounting requirements for mandatory and optional delivery contracts.

Certain rules adopted by the National Credit Union Administration prohibit federal credit unions from purchasing PCs and other securities for delivery at the option of the seller and from purchasing PCs or other securities for mandatory delivery where the settlement date is more than 120 days from the trade date. A federal credit union may purchase PCs or other securities for mandatory delivery where the settlement date is between 31 and 120 days from the trade date if the credit union has prepared written cash flow projections evidencing its ability to purchase the PC or other security.

Collateral for Advances

PCs are eligible as collateral for advances for periods not exceeding 90 days to member banks by Federal Reserve Banks and are eligible as collateral for advances from the Federal Home Loan Banks of up to 65% of their unpaid principal balance for advances exceeding one year and 80% for advances one year or less.

Reverse Repurchase Agreements

The Mortgage Corporation has been advised that certain financial institutions have indicated that they are willing to enter into reverse repurchase agreements for PCs. A reverse repurchase agreement consists of a financial institution buying a PC from a current holder with a simultaneous agreement from the holder to repurchase the PC on a specific date, normally within 30 days. The effect is to provide PC holders with access to short-term funds, possibly at relatively favorable rates. A reverse repurchase agreement is solely between the holder and the institution, and the Mortgage Corporation is not obligated in any way to either party. There is no assurance that any financial institutions will continue to be willing to enter into reverse repurchase agreements for PCs.

FHLBB Regulatory Matters

Pursuant to FHLBB Memorandum R-29a, the Federal Home Loan Bank Board has taken the position that PCs are to be reported in the asset classification "Mortgages, participations, or mortgage-backed securities insured or guaranteed by an agency or instrumentality of the U.S." For this purpose, the Mortgage Corporation is considered an instrumentality of the United States.

The Director of the Office of Examinations and Supervision of the Federal Home Loan Bank Board has informed the Mortgage Corporation that PCs current with respect to guaranteed principal and interest payments are not "scheduled items" for institutions the deposit or accounts of which are insured by the Federal Savings and Loan Insurance Corporation, notwithstanding the performance of any underlying loan.

Pursuant to a letter ruling of the Federal Home Loan Bank Board, for federally chartered savings and loan associations, PCs are exempt from all percent of assets lending limitations.

A Supervisory Memorandum of the Federal Home Loan Bank Board Office of Examinations and Supervision states that discounts or premiums in connection with the purchase of PCs should be amortized in the same manner as permitted for mortgage loans. Amortization may be by any "approved method" as that term is defined in 12 C.F.R. § 563.23-1.

The Federal Home Loan Bank Board has taken the position that PCs constitute "home mortgage loans" for the purpose of computing a Federal Home Loan Bank member's stock requirement under section 6(c)(4) of the Federal Home Loan Bank Act.

Fees received by PC purchasers the deposits or accounts of which are insured by the Federal Savings and Loan Insurance Corporation shall be recorded according to generally accepted accounting principles for loan commitment fees. The Federal Home Loan Bank Board requires that, if the commitment period is 30 days or less, the fee shall be deferred over at least ten years.

Accounting Matters

A sale of PCs is treated by the Mortgage Corporation as a sale of assets and accordingly does not affect the Mortgage Corporation's capitalization. However, the Mortgage Corporation provides for losses as a consequence of its guarantees of principal and interest.

FEDERAL SECURITIES LAWS

The PCs offered hereby may be offered and sold without registration under the Securities Act of 1933, and constitute "exempt securities" within the meaning of the Securities Exchange Act of 1934.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors of Federal Home Loan Mortgage Corporation:

We have examined the balance sheets of Federal Home Loan Mortgage Corporation (a Federally chartered corporation exempt from income taxes) as of December 31, 1979, and 1978, and the related statements of income and retained earnings and changes in financial position for each of the five years in the period ended December 31, 1979. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of Federal Home Loan Mortgage Corporation as of December 31, 1979, and 1978, and the results of its operations and the changes in its financial position for each of the five years in the period ended December 31, 1979, all in conformity with generally accepted accounting principles applied on a consistent basis during the periods.

Arthur Andersen & Co.

1666 K Street, N.W.,
Washington, D. C.,
February 8, 1980.

FINANCIAL STATEMENTS

FEDERAL HOME LOAN MORTGAGE CORPORATION

BALANCE SHEETS

ASSETS

	December 31, 1979	December 31, 1978
	(000 omitted)	
Mortgage loans, at unpaid principal balances:		
Insured by Federal Housing Administration (FHA) or guaranteed by Veterans Administration (VA)	$1,159,021	$1,298,895
Participation in conventional mortgages	2,539,131	1,599,713
Conventional mortgages	353,469	192,336
	4,051,621	3,090,944
Less—Unamortized mortgage purchase discount	48,504	53,105
—Portfolio valuation allowance	9,000	9,000
Total mortgage loans	3,994,117	3,028,839
Cash and temporary cash investments	233,255	334,675
Accrued interest receivable	36,940	26,576
Accounts receivable and other assets	137,534	67,650
Claims against FHA and VA, net of allowance for losses of $100,000	379	1,012
Real estate owned, at the lower of cost or estimated realizable value	2,948	2,673
Unamortized mortgage sales discount and debt expense	242,893	235,701
	$4,648,066	$3,697,126

LIABILITIES AND STOCKHOLDERS' EQUITY

	1979	1978
Notes and bonds payable:		
Due within one year	$ 953,283	$ 476,347
Due after one year	3,027,556	2,589,239
	3,980,839	3,065,586
Other liabilities:		
Accrued interest	59,373	43,657
Accounts payable and other accrued expenses	1,663	2,461
Principal and interest due to Mortgage Participation Certificate investors	168,551	199,892
	4,210,426	3,311,596
Reserve for uninsured principal losses	50,000	33,500
Contingencies:		
Mortgage Participation and Guaranteed Mortgage Certificates	15,315,979	12,016,759
Less—Underlying mortgage loans sold	15,315,979	12,016,759
	—	—
Subordinated Capital Debentures at 9.375%	150,000	150,000
Stockholders' equity:		
Common stock, nonvoting, $1,000 par value; no maximum authorization; 100,000 shares issued and outstanding	100,000	100,000
Capital in excess of par value	100,000	75,000
Retained earnings	37,640	27,030
	237,640	202,030
	$4,648,066	$3,697,126

The accompanying notes are an integral part of these balance sheets.

FEDERAL HOME LOAN MORTGAGE CORPORATION

STATEMENTS OF CHANGES IN FINANCIAL POSITION

	Year ended December 31,				
	1979	1978	1977	1976	1975
			(000 omitted)		
Funds Provided:					
Net income	$ 35,610	$ 25,391	$ 20,663	$ 14,161	$ 15,508
Charges (credits) to income not affecting funds:					
Amortization of mortgage purchase discount	(8,103)	(9,021)	(6,265)	(7,501)	(7,668)
Amortization of mortgage sales discount and debt expense	31,889	22,350	5,663	2,353	1,643
Provision (credit) for losses	19,724	12,874	8,218	(995)	11,386
Funds provided from operations	79,120	51,594	28,279	8,018	20,869
Mortgage loan principal repayments	234,631	291,130	446,279	456,469	290,538
Proceeds from issuance of notes and bonds, net of debt expense	648,723	448,855	537,269	—	211,023
Proceeds from advances for Special U. S. Treasury Program	—	—	—	—	879,500
Increase (decrease) in short-term notes	591,910	20,551	131,360	—	(147,600)
Mortgage loans sold:					
Mortgage Participation Certificates, net of repurchases	3,747,943	5,585,393	3,966,627	937,297	452,111
Guaranteed Mortgage Certificates	744,000	693,850	594,300	398,200	497,250
FHA/VA	—	—	7,064	35,425	66,939
Decrease (increase) in cash and temporary cash investments	101,596	(213,661)	462,800	394,635	(599,780)
Total funds provided	$6,147,923	$6,877,712	$6,173,978	$2,230,044	$1,670,850
Funds Applied:					
Mortgage loans purchased, net of discount:					
Regular programs	$5,697,854	$6,510,711	$4,116,007	$1,125,188	$ 828,808
Special U. S. Treasury Program	—	—	—	—	875,672
Notes and bonds retired	326,122	368,006	913,482	698,878	2,023
Repayments of advances for Special U. S. Treasury Program	—	—	1,171,741	387,453	15,306
Other items	123,947	(1,005)	(27,252)	18,525	(50,959)
Total funds applied	$6,147,923	$6,877,712	$6,173,978	$2,230,044	$1,670,850

The accompanying notes are an integral part of these statements.

Summary of Significant Accounting Policies

Accounting for Mortgage Loan Sales

The Federal Home Loan Mortgage Corporation (the "Corporation") sells Mortgage Participation Certificates ("PCs") and Guaranteed Mortgage Certificates ("GMCs"), representing undivided interests in mortgage loans. The issued certificates have been accounted for as a sale of assets, and the mortgage loans sold are accordingly excluded from the Corporation's retained mortgage portfolio. Since the Corporation guarantees the timely payment of interest and the collection of principal on the underlying mortgage loans, PCs and GMCs are reflected in the balance sheets as contingent liabilities.

A separate Trust has been established for each GMC issue. The Corporation, as Trustee, is primarily responsible for forwarding principal collections and interest to GMC investors and for conducting such other investment transactions prescribed in accordance with the terms of each Indenture of Trust.

Recognition of Gain (Loss) on Mortgage Loans

Interest margin, representing the excess of the effective interest income rate to the Corporation over that payable to the investor, is recognized as earned over the life of the related mortgage loans and is reported as management and guarantee fee income in the accompanying financial statements.

The Corporation recognizes losses ("negative interest margin") currently on sales of mortgage loans and on outstanding commitments. The Corporation also provides currently for uninsured principal losses on mortgage loans either retained in portfolio or sold under the PC and GMC programs.

The current recognition of losses attributable to the sale of mortgage loans results in additional management fee over the term of the PCs or GMCs sold. Uninsured principal losses are charged against the appropriate reserve as incurred.

Mortgage Purchase and Sales Discount

Discount on mortgage loans purchased is recorded as income over the life of the related mortgage loans using the level yield method.

Discount on the sale of PCs is amortized over the life of the related underlying mortgage loans, and discount on the sale of GMCs is amortized over the period to the optional repurchase date, both using the level yield method. Amortization of sales discount is recorded as a reduction of management and guarantee fee income in the accompanying financial statements.

Effective January 1, 1978, the Corporation increased the rate of amortization of mortgage purchase and sales discount, based on its revised estimates of the repayment pattern of mortgage loans in the total portfolio, including loans sold under the PC and GMC programs. The Corporation further revised its estimate of the repayment pattern of the total conventional portfolio, effective July 1, 1979. The change in estimate effective July 1, 1979, decreased net income by $2.5 million in 1979, while the change effective January 1, 1978, reduced net income by $5.1 million in 1978.

Amortization of Debt Expense

Debt expense is amortized on a straight line basis over the period during which the related indebtedness is outstanding.

Mortgage Loan Sales and Related Matters

Holders of PCs receive interest monthly at the certificate rate together with their pro rata share of principal payments received by the Corporation. Unpaid balances of the outstanding certificates were approximately $12.9 billion and $10.1 billion at December 31, 1979, and December 31, 1978, respectively. Based on the Corporation's limited experience, management believes the weighted average life of the conventional mortgage loans purchased by the Corporation ranges between 6 and 8 years. At December 31, 1979, the weighted average remaining term to maturity of the related mortgage loans was 28 years. At December 31, 1979, and December 31, 1978, the effective interest income rate to the Corporation over that payable to the PC investor was .42% and .46%, respectively. After giving effect to the amortization of deferred charges, the net interest margin was (.02)% and 0%, respectively. The effective interest income rate to the Corporation and effective rate payable to the investor have been adjusted to semiannual yield equivalent. Additionally, the effective rate payable to investor has been adjusted for the effect of reinvestment of portfolio collections pending disbursement to PC holders.

Holders of GMCs are paid interest semiannually at the certificate rate and are paid annually their pro rata share of principal collected or the specified minimum annual principal reductions, whichever is greater. Any GMC holder may, at his option, require the Corporation to repurchase such certificates on a designated optional repurchase date at the then unpaid principal balance. At December 31, 1979, such optional repurchase dates range from March 15, 1990, to September 15, 2004. At December 31, 1979, and December 31, 1978, outstanding GMCs totaled $2.4 billion and $1.9 billion, respectively, and the effective interest income rate to the Corporation over that payable to the GMC investor was .37% and .44%, respectively. After giving effect to the amortization of deferred charges, the net interest margin was .20% and .26%, respectively. The effective interest income rate to the Corporation has been adjusted to semiannual yield equivalent. Additionally, the effective rate payable to investor has been adjusted for the effect of reinvestment of principal collections held in Trust pending disbursement to GMC holders.

The maximum contingent liability of $15.3 billion and $12.0 billion at December 31, 1979, and December 31, 1978, respectively, plus interest, is offset by a like amount of interest bearing mortgage loans underlying the PCs and GMCs, including principal collections held in the GMC Trusts of $136 million at December 31, 1979, and $146 million at December 31, 1978. In management's opinion the $50 million reserve for uninsured principal losses is adequate to absorb any losses anticipated at December 31, 1979. In addition, a gross interest margin of $336 million, representing the excess of the effective interest income rate over the PC and GMC certificate rate, will become available to absorb future losses, unamortized mortgage sales discounts, and administrative costs attributable to the PCs and GMCs outstanding at December 31, 1979. That amount is an estimate based on assumptions concerning the life of the mortgages and the rates at which principal and interest collections pending disbursement to PC and GMC holders will be reinvested. If actual experience differs from the assumptions, the gross interest margin will also vary.

Reserve for Uninsured Principal Losses

An analysis of the reserve for uninsured principal losses for the year ended December 31, 1979, and December 31, 1978, follows:

	December 31,	
	1979	1978
	(000 omitted)	
Balance, beginning of period	$33,500	$21,000
Provision reflected in current earnings	16,874	12,874
Uninsured principal losses	(374)	(374)
Balance, end of period	$50,000	$33,500

Mortgage Loans

As of December 31, 1979, and December 31, 1978, the effective net yields on retained mortgage loans, adjusted to semiannual yield and adjusted for the effect of discount amortizations, less servicing fees, were as follows:

	December 31,	
	1979	1978
FHA/VA mortgages	8.10%	8.11%
Participation in conventional mortgages	10.85%	9.96%
Conventional mortgages	10.89%	9.89%

Portfolio Valuation Allowance

An analysis of the portfolio valuation allowance for the year ended December 31, 1979, and December 31, 1978, follows:

	December 31,	
	1979	1978
	(000 omitted)	
Balance, beginning of period	$9,000	$9,000
Provision charged to current earnings	2,850	—
Loss on sales of mortgage loans	(2,850)	—
Balance, end of period	$9,000	$9,000

Commitments

Commitments to Purchase

The average effective income rate on commitments to purchase mortgage loans is determined after deducting servicing fees. Delivery of mortgages under the six-month and eight-month forward commitment programs is at the option of the seller. Delivery is mandatory under all other commitment programs and must occur within 60 days of the contract date.

	December 31, 1979		December 31, 1978	
	Average Effective Income Rate*	Amount	Average Effective Income Rate*	Amount
		(000 omitted)		(000 omitted)
FHA/VA mortgages	12.97%	$ 1,000	— %	$ —
Conventional mortgages:				
Home	13.12	436,883	10.43	896,595
Multi-family	12.70	16,369	10.61	27,125
Forward programs	12.97	342,257	10.61	486,608
Commitments to purchase		$796,509		$1,410,328

Commitments to Sell

The Corporation's PCs are continuously offered for sale under both mandatory and optional delivery programs. Delivery periods range from 7 to 150 days under the mandatory program. Offers where delivery is at the Corporation's option normally have settlements between 140 and 270 days from the date of the contract.

	December 31, 1979		December 31, 1978	
	Average Effective Rate Payable To Investor*	Amount	Average Effective Rate Payable To Investor*	Amount
		(000 omitted)		(000 omitted)
Mandatory	12.25%	$212,000	9.95%	$210,600
Optional	11.70	341,400	10.22	281,000
Commitments to sell		$553,400		$491,600

* The average effective income rate and the average effective rate payable to investor are on a semiannual basis and have been adjusted for discounts and fees. Such rates have been computed based on management's estimate of mortgage loan repayments, which incorporates historical experience, using the level yield method. The effective rate payable to investor has been adjusted for the effect of reinvestment of portfolio collections pending disbursement to PC holders. If actual mortgage loan repayments or reinvestment rates vary from the assumptions, the average effective income rate and the average rate payable to investor will also vary.

Notes and Bonds Payable

A summary of notes and bonds payable is as follows:

	Maturity	December 31, 1979 Effective Interest Rate	December 31, 1979 Balance (000 omitted)	December 31, 1978 Effective Interest Rate	December 31, 1978 Balance (000 omitted)
Due within one year:					
Mortgage securities sold under agreements to repurchase		14.22%	$ 567,375	— %	$ —
Advances from Federal Home Loan Bank (pass-through of short-term discount notes)		10.39	109,700	8.71	156,000
Notes payable to GMC Trust		14.54	70,300	—	—
Current portion of long-term debt		5.49	205,908	7.71	320,347
Total due within one year		11.92	953,283	8.04	476,347
Due after one year:					
Bond payable to bank	1986	7.75	16,070	7.75	17,045
Notes to Federal Home Loan Bank (pass-through of Consolidated Federal Home Loan Bank Obligations)	1981	8.69	360,000	8.69	360,000
	1982	8.65	190,000	8.65	190,000
	1983	9.34	200,000	—	—
	1984	8.78	300,000	8.78	300,000
	1985	8.31	640,000	7.84	440,000
	1986	9.93	250,000	—	—
	1983/1993	7.41	400,000	7.41	400,000
	1987/1997	7.91	300,000	7.91	300,000
			2,640,000		1,990,000
Mortgage-Backed Bonds	1980	—	—	5.36	196,208
	1985	5.33	3,461	5.33	3,461
	1983/1995	8.69	98,025	8.69	105,025
	1984/1996	7.84	120,000	7.84	127,500
	1982/1997	7.25	150,000	7.25	150,000
			371,486		582,194
Total due after one year		8.40	3,027,556	7.88	2,589,239
Notes and Bonds Payable		9.24	$3,980,839	7.90	$3,065,586

Note: The effective interest rates above are on a semiannual basis.

Scheduled principal payments for all notes and bonds payable for each of the next five years are as follows:

	(000 omitted)
1980	$953,283
1981	$375,544
1982	$205,620
1983	$215,727
1984	$315,817

Mortgage Securities Sold Under Agreements to Repurchase. Repurchase agreement programs have maturities ranging up to ninety days. The agreements provide for the sale and repurchase of $523 million and $111 million, respectively, of PCs and Government National Mortgage Association (GNMA) guaranteed securities issued by the Corporation. The agreements are accounted for as financing transactions and, accordingly, such mortgages are included in the Corporation's retained mortgage portfolio on the accompanying balance sheet.

Notes Payable to GMC Trust. The notes payable to the GMC Trust are collateralized by $104 million of FHA/VA mortgages included in the Corporation's retained mortgage portfolio.

Bond Payable to Bank. The bond payable to bank is collateralized by a like amount of FHA/VA mortgages and calls for specific annual principal repayments ranging from $975,000 to $1,408,000 over the remaining life of the bond, with the balance due at maturity.

Notes to Federal Home Loan Bank. The Federal Home Loan Banks are required to maintain certain assets equal to their outstanding consolidated obligations. With respect to the $200 million of these notes to a Federal Home Loan Bank maturing in 1983, $400 million maturing in 1985, and $250 million maturing in 1986, the Corporation may be required to pledge a portion of its mortgages retained in portfolio and/or temporary cash investments to collateralize a portion or all of the $850 million obligation for the periods during which the Federal Home Loan Banks do not meet this aforementioned requirement. The 1983/1993 and 1987/1997 notes are redeemable at the Corporation's option commencing 1983 and 1987, respectively, at their face value.

Mortgage-Backed Bonds. The 1982/1997, 1983/1995, and 1984/1996 Mortgage-Backed Bonds are redeemable at the Corporation's option commencing 1982, 1983, and 1984, respectively, at their face value. On the 1983/1995 and 1984/1996 bonds, a sinking fund provides for annual retirements of $7.0 million and $7.5 million of the principal amount of bonds, respectively, which commenced in 1976 and 1977. In addition, the Corporation has a noncumulative option to increase the sinking fund amounts each year by an amount not to exceed the annual retirement amounts. The 1980 bond calls for semiannual principal repayments of $1,115,000 over the remaining life of the bond, with the balance due at maturity. All Mortgage-Backed Bonds are guaranteed as to principal and interest by GNMA. Under the provision of a Trust Indenture with GNMA dated October 26, 1970, and supplements thereto, the Corporation conveyed mortgages to the Trust as security for the Mortgage-Backed Bonds. As of December 31, 1979, and December 31, 1978, Trust assets of approximately $700 million and $800 million, respectively, constituting primarily principal balances of such mortgages, are restricted for the payment of principal and interest on the Mortgage-Backed Bonds and are included in the accompanying balance sheets.

Subordinated Capital Debentures

The Subordinated Capital Debentures, due December 27, 1988, are subordinated to all obligations and liabilities of the Corporation, including obligations of others that the Corporation has guaranteed, whether existing on the date of issuance or thereafter incurred or created.

Recapitalization

The Corporation's Board of Directors authorized a transfer of $75 million on July 27, 1978, effective June 30, 1978, and $25 million on October 25, 1979, effective September 30, 1979, from the Corporation's retained earnings to the Corporation's capital in excess of par value.

Quarterly Results of Operations (Unaudited)

A summary of the unaudited quarterly results of operations of the Corporation is as follows:

	1979 Quarter Ended			
	December 31	September 30	June 30	March 31
	(000 omitted)			
Interest and discount on mortgage loans, net of servicing fees	$ 93,617	$81,937	$75,661	$73,056
Management and guarantee fee	4,909	4,221	3,997	4,504
Other income	12,108	11,912	11,713	8,698
Total income	110,634	98,070	91,371	86,258
Interest on borrowings and related costs	91,684	77,084	74,021	68,776
Other expenses	12,118	9,618	9,086	8,336
Total expenses	103,802	86,702	83,107	77,112
Net income	$ 6,832	$11,368	$ 8,264	$ 9,146

	1978 Quarter Ended			
	December 31	September 30	June 30	March 31
	(000 omitted)			
Interest and discount on mortgage loans, net of servicing fees	$ 62,893	$46,994	$60,433	$65,073
Management and guarantee fee	3,748	3,386	3,504	2,957
Other income	10,095	21,874	8,980	5,085
Total income	76,736	72,254	72,917	73,115
Interest on borrowings and related costs	60,341	60,061	60,134	61,942
Other expenses	8,432	7,053	6,188	5,480
Total expenses	68,773	67,114	66,322	67,422
Net income	$ 7,963	$ 5,140	$ 6,595	$ 5,693

Federal Home Loan Mortgage Corporation

FHLMC MORTGAGE PARTICIPATION CERTIFICATE AGREEMENT
(Guaranteed)

Series 700

AGREEMENT among the Federal Home Loan Mortgage Corporation ("FHLMC") and purchasers ("Holders") of undivided interests in certain mortgages (and/or interests therein) owned by and identified in the records maintained by FHLMC, which undivided interests in mortgages are represented by Mortgage Participation Certificates (the "PCs").

WHEREAS:

(a) FHLMC is a corporation duly organized and existing under and by virtue of the laws of the United States (Title III of the Emergency Home Finance Act of 1970, as amended (the "Act")) and has full corporate power and authority to enter into this Agreement and to undertake the obligations undertaken by it herein; and

(b) Pursuant to Section 305 of the Act, FHLMC owns certain conventional residential mortgages (as defined in Section 302 of the Act), including Whole Loans, Participations and Residual Participations, all of which are identified in the records maintained by FHLMC; and

(c) Pursuant to Section 305 of the Act, FHLMC wishes to create and sell undivided interests in certain Whole Loans, Participations, and Residual Participations acquired as set forth above, and to guarantee timely payment of interest and ultimate collection of principal, for the benefit of Holders; and

(d) FHLMC intends to transfer said undivided interests to Holders by issuance of the PCs.

NOW, THEREFORE, in consideration of the premises and mutual covenants herein contained, the parties hereby agree that the following terms and conditions of this Agreement shall govern the creation by FHLMC of undivided interests in specified Whole Loans, Participations, and Residual Participations and the transfer, sale and assignment of such interests as are represented by the PCs:

ARTICLE I

DEFINITIONS

Whenever used in this Agreement, the following words and phrases shall have the following meanings, unless the context otherwise requires:

Certificate Rate: The annual rate of interest payable to Holders and set forth on the face of a PC. Interest at the Certificate Rate shall be computed on the basis of a 360 day year, each month being assumed to have 30 days.

Group Factor: A seven digit decimal published by FHLMC with respect to a calendar month which, when multiplied by the face amount of the PC which reflects the Holder's pro rata share of the Initial Unpaid Principal Balance of the Mortgages, represents the amount estimated by FHLMC to be the Holder's pro rata share of the aggregate unpaid principal balance of the Mortgages with respect to that calendar month.

Holder: The person in whose name a PC is registered in the register maintained for such purpose described in Section 5.03.

Initial Unpaid Principal Balance: The aggregate unpaid principal balance of the Mortgages as of the last day of the Month of Initial Issue after the identity of all the Mortgages has been finally determined pursuant to Section 2.02.

Month of Initial Issue: The month in which occurs the first settlement of a PC against a PC Group bearing the group number set forth on the face of that PC.

Mortgages: The Whole Loans, Participations, and/or Residual Participations identified in the records maintained by FHLMC as comprising a PC Group.

PC: A Mortgage Participation Certificate executed by FHLMC and issued pursuant to this Agreement, representing undivided interests in the Mortgages identified by the PC Group number on the face of such PC.

PC Group: A discrete group of Whole Loans, Participations and/or Residual Participations identified in the records maintained by FHLMC and bearing a unique group number.

Participation: An undivided interest in one or more conventional residential mortgages purchased and owned by FHLMC and represented by a participation certificate held by FHLMC.

Residual Participation: All or any part of the residual undivided interests in the Mortgages comprising a PC Group resulting by reason of the aggregate face amount of the PCs sold with respect to such PC Group being less than the Initial Unpaid Principal Balance of such Mortgages.

Whole Loan: A conventional residential mortgage purchased and owned by FHLMC and as to which FHLMC holds the mortgage note.

ARTICLE II

CONVEYANCE OF UNDIVIDED INTERESTS IN MORTGAGES

Section 2.01. Issuance of PCs. Issuance of a PC pursuant to this Agreement shall be deemed to occur upon the date of settlement and payment for such PC and shall constitute a sale, assignment, transfer, and conveyance by FHLMC to the Holder of the Holder's pro rata undivided interest in the Mortgages determined in accordance with Section 4.02. FHLMC shall be bound by all of the terms and conditions of this Agreement at such time as a PC is issued to such Holder. Upon settlement of and payment for a PC, a Holder shall, by virtue thereof, acknowledge, accept and agree to be bound by all of the terms and conditions of this Agreement.

Section 2.02. Identity of the Mortgages; Substitution and Repurchase. FHLMC shall have power and authority to determine the amount and identity of the Whole Loans, Participations and/or Residual Participations which comprise the Mortgages up to the day prior to the date the first remittance of principal and interest is payable to Holders pursuant to Section 4.05. Whole Loans, Participations or Residual Participations added to or withdrawn from a PC Group after the Month of Initial Issue shall be added or withdrawn at their unpaid principal balances as of the last day of the Month of Initial Issue. The identity of the Mortgages shall not thereafter be changed; provided, however, that FHLMC may, in the exercise of its judgment in performing its servicing responsibilities pursuant to Section 3.02, agree to a repurchase by the servicer of any Whole Loan or of any Participation included in the Mortgages at its then unpaid principal balance, and, in the case of a material breach of warranty by a seller of any such Whole Loan or Participation, or a material defect in documentation, FHLMC may require such a repurchase or may, within two years of the settlement for the first PC representing an undivided interest in such Whole Loan or Participation, permit a substitution for such Whole Loan or Participation of another Whole Loan or Participation of comparable unpaid principal balance.

Section 2.03. Post-Settlement Purchase Adjustments. FHLMC shall make such post-settlement purchase adjustments with respect to the unpaid principal balances of the Whole Loans and Participations included in the Mortgages as may be necessary to reflect the actual unpaid principal balances of such Whole Loans and Participations as of the date of their purchase by FHLMC. Such adjustments shall not affect the Holder's entitlement to interest at the Certificate Rate and to receipt of the Holder's pro rata share of principal payments made with respect to the Mortgages.

Section 2.04. Custody of Mortgage Documents. FHLMC shall hold and maintain custody of the original mortgage note when Whole Loans are included in the Mortgages and of the original participation certificate executed by the mortgage seller when Participations are included in the Mortgages.

Section 2.05. Retention of Undivided Interest by FHLMC. In the event that the interest to be received by FHLMC on any group of Whole Loans, Participations or Residual Participations included in the Mortgages shall be less than the Certificate Rate, FHLMC shall retain ownership in a sufficient undivided interest in each Whole Loan and in each mortgage underlying a Participation in such group so that the interest payments attributable to FHLMC's retained undivided interest shall be sufficient to remit to Holders pro rata any difference between the interest received by FHLMC with respect to the undivided interests in each such Whole Loan or in each such mortgage underlying a Participation sold to such Holders and interest payable to Holders pro rata at the Certificate Rate with respect to such undivided interests.

Section 2.06. PCs Acquired by FHLMC. PCs acquired by FHLMC from time to time shall have an equal and proportionate benefit to PCs owned by Holders, without preference, priority or distinction. Except as provided in Section 2.05, in the event that FHLMC retains any interest in the Mortgages not represented by a PC, FHLMC and Holders shall share pro rata, without preference, priority or distinction. No Holder shall have any priority over any other Holder.

ARTICLE III

Administration and Servicing of the Mortgages

Section 3.01. FHLMC to Act as Principal Servicer. FHLMC shall service or supervise servicing of the Mortgages, including management of any property acquired through foreclosure or otherwise, for the benefit of Holders and shall have full power and authority to do or cause to be done any and all things in connection with such servicing which it deems necessary or desirable. FHLMC shall act as the representative of Holders in the control, management, and servicing of the Mortgages or property acquired in realization or liquidation of the Mortgages.

Section 3.02. Servicing Responsibilities. FHLMC shall service or supervise servicing of the Mortgages in a manner consistent with and to the extent required by prudent servicing standards. In performing its servicing responsibilities hereunder, FHLMC may employ servicer agents or independent contractors. FHLMC shall be entitled to discharge its responsibility to supervise servicing of the Mortgages by monitoring servicers' performance on a reporting and exception basis. In discharging its responsibility pursuant to this Article III, FHLMC shall not be subject to the control of Holders in any manner whatsoever. Except with regard to its guarantee obligations pursuant to Section 4.09, FHLMC shall have no liability to any Holder other than for any direct damage resulting from FHLMC's failure to exercise that degree of ordinary care which it exercises in the conduct and management of its own affairs. FHLMC shall have no liability of whatever nature for consequential damages.

Section 3.03. Realization Upon Defaulted Mortgages. FHLMC shall foreclose upon or otherwise comparably convert, or cause to be foreclosed upon or comparably converted, the ownership of any real property securing a mortgage included in the Mortgages which comes into and continues in default and as to which no satisfactory arrangements can be made for collection of delinquent payments. In connection with such foreclosure or other conversion, FHLMC shall cause to be followed such practices or procedures as it shall deem necessary or advisable and as shall be normal and usual in general mortgage servicing activities.

Section 3.04. Assumptions. FHLMC shall permit assumption by a new mortgagor of a mortgage included in the Mortgages only if in connection with such assumption no change is made in the rate of interest or the terms of payment applicable to the mortgage.

Section 3.05. Mortgage Insurance. To the extent that a mortgage included in the Mortgages may be insured by a mortgage insurer, such insurer shall have no obligation to recognize or deal with any person with respect to such mortgage, other than FHLMC, with regard to the rights, benefits and obligations of the mortgagee under the respective contracts of insurance relating to each such mortgage insured by such insurer.

ARTICLE IV

Remittances to Holders and Guarantees

Section 4.01. Monthly Accounting Period. For purposes of this Agreement, the payments of principal, interest or any other sums with respect to the Mortgages reported to FHLMC by servicers for a monthly accounting period employed by FHLMC for the purpose of accounting for such payments, shall be deemed to be received within the calendar month within which such monthly accounting period ends, and the last day of such monthly accounting period shall be deemed to correspond to the last day of such calendar month. For purposes of Section 4.04, scheduled payment dates on all mortgages included in the Mortgages shall be deemed to be the first day of the calendar month within which such a monthly accounting period ends, and all scheduled principal payments and full and partial prepayments of principal with respect to the Mortgages made within such a monthly accounting period shall be deemed to be made on the first day of the calendar month within which such monthly accounting period ends.

Section 4.02. Holder's Undivided Interest. A person registered as a Holder of a PC on the last day of a month pursuant to Section 5.03 shall be the owner of a pro rata share of the aggregate unpaid principal balance outstanding on the Mortgages as of such date and shall be entitled to interest at the Certificate Rate on such pro rata undivided interest from the first day of that month. Such pro rata undivided interest in the Mortgages will change if Whole Loans, Participations and/or Residual Participations are added to or removed from the PC Group in accordance with Section 2.02. For purposes of determining a Holder's undivided interest in the Mortgages evidenced by a PC on and after the date the first remittance of principal and interest becomes payable to Holders, the original unpaid principal balance stated on the face of the PC shall be divided by the Initial Unpaid Principal Balance of the Mortgages.

Section 4.03. Pass-Through of Principal. FHLMC shall pass through to each Holder such Holder's pro rata share of principal payments made in respect of the Mortgages, such Holder's pro rata share of any net income, net profits or proceeds of the Mortgages, and such Holder's pro rata share of the net proceeds realized from any property of whatever character received or acquired in substitution or realization thereof, whether through insurance, condemnation, foreclosure, or otherwise; provided, however, that FHLMC's obligations herein shall be subject to FHLMC's rights pursuant to Section 4.10 with respect to payments made pursuant to FHLMC's guarantees. Insurance proceeds, the proceeds of any liquidation of a mortgage included in the Mortgages, and the proceeds of any repurchase of a mortgage included in the Mortgages as described in Section 2.02 shall be treated in the same manner as a full prepayment of principal and shall be passed through to Holders in accordance with this Article IV.

Section 4.04. Pass-Through of Interest. FHLMC shall pass through to each Holder such Holder's pro rata share of the interest paid by mortgagors and passed through to FHLMC by servicers with respect to each Whole Loan and with respect to each mortgage underlying a Participation or Residual Participation included in the Mortgages in an amount sufficient to produce the Certificate Rate, including, if necessary for such purpose, interest received by servicers attributable to their retained undivided interest in any Participation or interest received by FHLMC attributable to its retained undivided interest in accordance with Section 2.05.

Section 4.05. Remittances of Principal and Interest. A Holder shall receive the first remittance of principal and interest payments with respect to the Mortgages on or before the fifteenth day of the second month following the month in which the Holder becomes registered as such pursuant to Section 5.03. Thereafter, a Holder shall receive on or before the fifteenth day of each month remittances with respect to the Mortgages. Subject to Section 4.06, FHLMC shall remit to each Holder such Holder's pro rata share of principal received by FHLMC, including full and partial prepayments and amounts treated as full prepayments pursuant to Section 4.03, interest to the extent of the Certificate Rate, and any other sums, such as prepayment fees and net income or profits, within sixty days of the date on which such payments are received by FHLMC from servicers of the Mortgages. Pending remittance to Holders of funds received by FHLMC from servicers, FHLMC shall be entitled to invest and reinvest such funds for FHLMC's sole risk and benefit.

Section 4.06. Group Factors. Prior to the beginning of each month, FHLMC may publish a Group Factor with respect to the PC Group identified on the face of the Holder's PC. Interest at the Certificate Rate may be remitted by FHLMC on the Holder's pro rata share of the unpaid principal balance of the Mortgages as determined by the Group Factor for the second month prior to the month in which payment to Holders is made. Principal payments may be remitted to Holders by FHLMC in an amount equal to the difference between the Holder's pro rata share of the unpaid principal balance of the Mortgages as determined by the Group Factor for the month prior to the month in which payment is made to Holders and such pro rata share as determined by the Group Factor for the second month prior to the month in which payment is made to Holders. To the extent a given Group Factor does not reflect the monthly principal payments actually received by FHLMC in respect of the Mortgages, FHLMC shall correct any difference as soon as practicable by adjustment of subsequent Group Factors. The Group Factor method of determining principal payments shall not affect FHLMC's guarantee of collection of principal as set forth in Section 4.09.

Section 4.07. Amounts Retained by Servicers. Pursuant to their contractual arrangements with FHLMC, servicers shall be entitled to retain an amount equal to the excess, if any, of interest at the mortgage interest rate on each mortgage serviced by them which is included in the Mortgages and interest at the contractual net yield which they are obligated to remit monthly to FHLMC. Each servicer shall be required to pay all expenses incurred by it in connection with its servicing activities and shall not be entitled to reimbursement therefor, except as provided in Section 4.08. Servicers shall be entitled to retain all incidental fees with respect to the Mortgages other than prepayment fees, if any.

Section 4.08. Amounts Retained by FHLMC. FHLMC shall retain as a management and guarantee fee an amount equal to the excess, if any, of interest payments received by FHLMC from servicers at its contractual net yield on each Whole Loan or Participation included in the Mortgages over the amount of such interest remitted to Holders at the Certificate Rate; provided, however, that when a Group Factor is used to determine the ending monthly unpaid principal balance of a PC with respect to which interest at the Certificate Rate is remitted pursuant to Section 4.06, the amounts retained by FHLMC hereunder shall be automatically adjusted, to the extent the Group Factor does not reflect the monthly principal payments actually received by FHLMC in respect of the Mortgages, by the amount of the difference between (i) interest at the Certificate Rate computed on the unpaid principal balance of the Mortgages for such month based on monthly principal payments actually received by FHLMC and (ii) interest at the Certificate Rate computed on such balance based on monthly principal payments as estimated by the Group Factor. FHLMC shall pay all expenses incurred by it in connection with administration of the PC Group and the Mortgages; provided, however, that any amounts expended by FHLMC or on FHLMC's behalf by servicers for the protection, preservation or maintenance of the Mortgages, or property received in liquidation or realization thereof, shall be deemed expenses to be borne pro rata by FHLMC and the Holders in accordance with their interests in each of the Mortgages. Such expenses borne pro rata by Holders may be paid by FHLMC from remittances otherwise due to Holders. In no event shall the Holder's guarantee of principal or interest at the Certificate Rate as set forth in Section 4.09 be affected by fees deducted by FHLMC or servicers or by amounts expended by FHLMC or servicers for the protection, preservation or maintenance of the Mortgages.

Section 4.09. FHLMC Guarantees. FHLMC hereby guarantees to each Holder of a PC:

(a) Timely payment of interest by each mortgagor at the applicable Certificate Rate on the Holder's pro rata share of the unpaid principal balance outstanding on the Mortgages (or, if FHLMC elects to use the Group Factor method of determining principal payments, the unpaid principal balance outstanding on the Mortgages as determined by the applicable Group Factor).

(b) Collection of principal, without offset or deduction of any fees due FHLMC or servicers hereunder. For purposes of this guarantee, principal balance outstanding shall include the Holder's pro rata share of the unpaid principal, plus the Holder's pro rata share of amounts expended by any servicer of the Mortgages or by FHLMC under Section 4.08. FHLMC shall remit the amount due on account of its guarantee of collection of principal at any time after default on an underlying mortgage, but not later than: (i) thirty (30) days following foreclosure sale, (ii) thirty (30) days following payment of the claims by any mortgage insurer, if applicable, or (iii) thirty (30) days following the expiration of any redemption period, whichever occurs later, but in any event no later than one (1) year after demand upon the mortgagor for accelerated payment of principal.

Section 4.10. FHLMC Subrogation. FHLMC shall be subrogated to all the rights, interests, remedies, powers and privileges of each Holder in respect of any Whole Loans or Participations included in the Mortgages on which guarantee payments have been made by FHLMC of principal and/or interest.

Section 4.11. Termination Upon Final Payment. FHLMC's obligations and responsibilities to a Holder created by this Agreement shall terminate upon: (i) the payment to the Holder of all principal and interest due the Holder pursuant to the Group Factor procedure or by reason of FHLMC's guarantee of collection of principal and payment of interest, or (ii) the payment to the Holder of all amounts held by FHLMC and required to be paid hereunder or required to be paid under FHLMC's guarantee of collection of principal and payment of interest.

Section 4.12. Modification of Final Payment Date. The final payment date specified in a PC may be accelerated by virtue of prepayments of principal or extended by virtue of forbearance affecting any of the Whole Loans, Participations or Residual Participations comprising the Mortgages.

ARTICLE V

THE PCs

Section 5.01. Denominations; Execution. PCs shall be issued in denominations of $100,000, $200,000, $500,000, $1,000,000 and $5,000,000. PCs shall be executed by manual or facsimile signature on behalf of FHLMC by its Chairman of the Board, its President, or one of its Vice Presidents under its seal imprinted thereon and attested by the manual or facsimile signature of its Secretary or one of its Assistant Secretaries. Certificates bearing the manual or facsimile signatures of individuals who were at any time the proper officers of FHLMC shall bind FHLMC, notwithstanding that such individuals or any of them have ceased to hold such offices prior to the date such PCs are issued to Holders.

Section 5.02. Transfer of PCs. Any sale, transfer or other disposition of a PC by a Holder shall be evidenced by completion of the form of transfer on the reverse side of the PC or by completion of such other document as may be provided for this purpose by FHLMC. Holders shall comply with all requirements and limitations promulgated by FHLMC, if any, on the sale, transfer and registration of PCs. Holders shall, in the event of transfer, assign only their entire interest in any PC or only such portion of their interest in a PC as will correspond to any multiple of the minimum denomination in which PCs are issued. For the purpose of permitting proper allocation of payments of principal and interest in the event that a PC is sold, each Holder of a PC expressly consents to the release by FHLMC of such Holder's name and address to any person who has acquired a PC owned by such Holder.

Section 5.03. Register of PCs. FHLMC and/or its designated agent shall maintain a register in which shall be registered the Holders of PCs. A purchaser of a PC from FHLMC is registered as a Holder of the PC effective as of the opening of business on the first day of the month of settlement for that purchase. Transfer of a PC duly presented for registration of transfer on or before the last business day of each month is registered effective as of the opening of business on the first day of that month. A charge may be made for any exchange or transfer. A charge will be made for any tax or other governmental charge imposed in connection with an exchange or transfer of a PC. Notice with respect to a transfer shall be sent or delivered to the transfer agent at the address stated below or to such other agent as is subsequently designated by FHLMC for receipt of transfers of PCs:

Manufacturers Hanover Trust Company
Corporate Trust Department, 10th Floor
4 New York Plaza
New York, N.Y. 10015

Section 5.04. Mutilated or Lost PCs. If any mutilated PC is surrendered to FHLMC or its designated agent, or evidence satisfactory to FHLMC of destruction, loss or theft of any PC is received by FHLMC or its designated agent, together with such security or indemnity as FHLMC may require to hold FHLMC harmless, FHLMC or its designated agent shall execute and deliver, in exchange for or in lieu of such mutilated, destroyed, lost or stolen PC, a new PC of like tenor.

ARTICLE VI

REMEDIES

Section 6.01. Events of Default. "Event of Default" wherever used herein means any one of the following events:

(a) Default in the payment to Holders of interest at the Certificate Rate as and when the same shall become due and payable as herein provided, and continuance of such default for a period of thirty (30) days; or

(b) Default in the payment to Holders of principal as and when the same shall become due and payable as herein provided, and continuance of such default for a period of thirty (30) days; or

(c) Failure on the part of FHLMC to observe or perform any other of the covenants of this Agreement, continued for a period of sixty (60) days after the date on which written notice of such failure, requiring FHLMC to remedy the same, shall have been given to FHLMC by the Holders of not less than 25 percent in aggregate unpaid principal balance of the PCs in any given PC Group; or

(d) A decree or order by a court having jurisdiction in the premises shall have been entered adjudging FHLMC a bankrupt or insolvent, or approving as properly filed a petition seeking reorganization of FHLMC under any applicable bankruptcy or insolvency law, and such decree or order shall have continued undischarged and unstayed for a period of sixty (60) days; or a decree or order of a court having jurisdiction in the premises for the appointment of a receiver or liquidator or trustee or assignee in bankruptcy or insolvency of FHLMC or of its property, or for the winding up or liquidation of its affairs, shall have been entered, and such decree or order shall have continued undischarged and unstayed for a period of sixty (60) days; or

(e) FHLMC shall institute proceedings to be adjudicated a voluntary bankrupt or shall consent to the filing of a bankruptcy proceeding against it, or shall file a petition or answer or consent seeking reorganization or an arrangement under any applicable bankruptcy or insolvency law, or shall consent to the filing of any such petition, or shall consent to the appointment of a receiver or liquidator or trustee or assignee in bankruptcy or insolvency of it or of its property, or shall make an assignment for the benefit of creditors or shall admit in writing its inability to pay its debts generally as they become due.

Section 6.02. Remedies. If an Event of Default occurs and is continuing, then and in each and every such case, the Holders of a majority in aggregate unpaid balance of the PCs in any given PC Group may by written notice to FHLMC remove FHLMC and nominate a successor to FHLMC under this

Agreement, which nominee shall be deemed appointed as successor to FHLMC unless within ten (10) days after such nomination FHLMC objects thereto, in which case FHLMC may petition any court of competent jurisdiction for the appointment of a successor or any Holder who has been a bona fide Holder for at least six (6) months may, on behalf of himself and all other similarly situated, petition any such court for appointment of a successor to FHLMC. Such court may thereupon, after such notice, if any, as it may deem proper and prescribe, appoint a successor to FHLMC. Upon the appointment of any successor pursuant to this Section 6.02, FHLMC shall submit to its successor a complete written report and accounting of the Mortgages and shall take all other steps necessary or desirable to transfer its interest in and administration of this Agreement to the successor. Subject to the Act, such successor may take such action with respect to the Mortgages as may be reasonable and appropriate in the circumstances. Prior to any such designation of a successor, the Holders of a majority in aggregate unpaid principal balance of the PCs in any given PC Group may waive any past default or Event of Default.

Section 6.03. Limitation on Suits by Holders. Except as provided in Section 6.02, no Holder shall have any right to institute any action or proceeding at law or in equity or in bankruptcy or otherwise, upon or under or with respect to this Agreement, the PCs or the Mortgages, or for the appointment of a receiver or trustee, or for any other remedy whatever, unless such Holder previously shall have given to FHLMC written notice of default and of the continuance thereof, as hereinbefore provided, and unless also the Holders of a majority in aggregate unpaid principal balance of the PCs in any given PC Group shall have made written request upon FHLMC to institute such action or proceedings in its own name and shall have offered to FHLMC such reasonable indemnity as it may require against the costs, expenses and liabilities to be incurred therein or thereby, and FHLMC for sixty (60) days after its receipt of such notice, request and offer of indemnity shall have failed to institute any such action or proceedings, and no direction inconsistent with such written request has been given to FHLMC during such sixty (60) day period by the Holders of a majority in aggregate unpaid principal balance of the PCs in any given PC Group, it being understood and intended, and being expressly convenanted by the Holder of every PC in a given PC Group with every other Holder in such PC Group and FHLMC, that no one or more Holders shall have any right in any manner whatever by virtue of or by availing himself of any provision of this Agreement, to affect, disturb or prejudice the rights of any other Holder, or to obtain or seek to obtain priority over or preference to any other such Holder or to enforce any right under this Agreement, except in the manner herein provided and for the ratable and common benefit of all Holders of PCs in any given PC Group. For the protection and enforcement of the provisions of this Section 6.03, each and every Holder and FHLMC shall be entitled to such relief as can be given either at law or in equity. Notwithstanding any other provision in this Agreement, the right of any Holder to receive payment of principal and interest as herein provided, on or after the respective due date of such payment, or to institute suit for the enforcement of any such payment on or after such date, shall not be impaired or affected without the consent of such Holder.

ARTICLE VII

Miscellaneous Provisions

Section 7.01. Annual Statements. FHLMC shall furnish, within a reasonable time after the end of each calendar year, to each Holder of record at any time during such year, information regarding the amount of the Holder's pro rata share of gross interest on the Mortgages, net interest remitted at the Certificate Rate, and such other customary information as FHLMC deems necessary or desirable to enable Holders to prepare their United States income tax returns.

Section 7.02. Limitation on Liability of FHLMC and Others. Neither FHLMC nor any of the directors, officers, employees or agents of FHLMC shall be under any liability to Holders for any action taken by them or by a servicer or for their or any servicer's refraining from the taking of any action in good faith pursuant to this Agreement, or for errors in judgment; provided, however, that this provision shall not protect FHLMC or any such person against any liability which would otherwise be imposed by reason of willful misfeasance, bad faith or gross negligence in the performance of duties or by reason of reckless disregard of obligations and duties hereunder. FHLMC and any director, officer, employee or agent of

FHLMC may rely in good faith on any document of any kind properly executed and submitted by any person respecting any matters arising hereunder. Holders shall jointly and severally indemnify and hold harmless FHLMC and any director, officer, employee or agent of FHLMC against any loss, liability or expense incurred in connection with any legal action relating to this Agreement or the PCs, other than any loss, liability or expense relating to any mortgage included in the Mortgages (other than as otherwise permitted in this Agreement) or incurred by reason of willful misfeasance, bad faith or gross negligence in the performance of duties hereunder or by reason of reckless disregard of obligations and duties hereunder. FHLMC shall not be under any obligation to appear in, prosecute or defend any legal action which is not incidental to its duties to service the mortgages included in the Mortgages in accordance with this Agreement and which in its opinion may involve it in any expense or liability; provided, however, that FHLMC may in its discretion undertake any such action which it may deem necessary or desirable in respect of any mortgage included in the Mortgages, this Agreement, the PCs or the rights and duties of the parties hereto and the interests of the Holders hereunder. In such event, the legal expenses and costs of such action and any liability resulting therefrom shall be expenses for the protection, preservation, and maintenance of the Mortgages borne pro rata by Holders as provided by Section 4.08.

Section 7.03. Limitation on Rights of Holders. The death or incapacity of any Holder shall not operate to terminate this Agreement or any PC Group, nor entitle such Holder's legal representatives or heirs to claim an accounting or to take any action or proceeding in any court for a participation or winding up of any PC Group nor otherwise affect the rights, obligations and liabilities of the parties hereto or any of them.

Section 7.04. Control by Holders. Except as otherwise provided in Article VI, no Holder shall have any right to vote or in any manner otherwise control the operation and management of the Mortgages or any PC Group, or the obligations of the parties hereto, nor shall anything herein set forth, or contained in the terms of the PCs, be construed so as to constitute the Holders from time to time as partners or members of an association; nor shall a Holder be under any liability to any third person by reason of any action taken by the parties to this Agreement pursuant to any provision hereof.

Section 7.05. Amendment. This Agreement may be amended from time to time by FHLMC without the consent of any Holder or Holders, to cure any ambiguity, to correct or supplement any provision herein which may be inconsistent with any other provision herein, or to make any other provisions with respect to matters or questions arising under this Agreement, which shall not be inconsistent with the provisions of this Agreement, provided that such action shall not adversely affect in any material respect the interests of any Holder.

Section 7.06. Registered Holder Treated as Owner. FHLMC or its designated agent may deem and treat the person in whose name a PC shall be registered as the absolute owner of such PC and the undivided interests in the Mortgages represented by such PC for the purpose of receiving payment of or on account of principal or interest and for all other purposes; and FHLMC and its designated agent shall not be affected by any notice to the contrary. All such payments so made to any such person, or upon his order, shall be valid, and, to the extent of the sum or sums so paid, effectual to satisfy and discharge the duty for monies payable by FHLMC upon such PC.

Section 7.07. Executive Order 11063. FHLMC requires compliance by Holders with the provisions of Executive Order 11063 (Equal Opportunity in Housing) and the Civil Rights Acts of 1964 and 1968, as amended from time to time, together with applicable regulations and orders issued thereunder.

Section 7.08. Governing Law. This Agreement and the Holder's and FHLMC's rights and obligations with respect to PCs shall be construed in accordance with and governed by the laws of the United States. Insofar as there may be no applicable precedent, and insofar as to do so would not frustrate the purposes of the Act or any provision of this Agreement or the transactions governed thereby, the local laws of the State of New York shall be deemed reflective of the laws of the United States.

Section 7.09. Payments Due on Non-Business Days. If the date fixed for any payment on any PC shall be a day which in either the City of New York, State of New York, or the District of Columbia is a legal holiday or a day on which banking institutions are authorized by law to close, then payment need not be made on such date, but may be made on the next succeeding day which is not such a holiday or day on which such banking institutions are authorized by law to close, with the same force and effect as though made on the date fixed for such payment, and no interest shall accrue for the period after such date.

Section 7.10. Effect of Section Headings. The Article and Section headings herein are for convenience only and shall not affect the construction of this Agreement.

THIS DOCUMENT IS INCORPORATED BY REFERENCE IN FHLMC MORTGAGE PARTICIPATION CERTIFICATES AND SHALL REQUIRE NO SIGNATURE FOR ITS OPERATION OR EFFECT AMONG FHLMC OR HOLDERS.

(March, 1980)

EXHIBIT B

PC PRINCIPAL PAYMENT EXPERIENCE

Mortgage Yields (a)	Groups (b)	Cumulative Principal Payments						
		1st Year	2nd Year	3rd Year	4th Year	5th Year	6th Year	7th Year
7.53%	17-021 ($ 30.0)(c)	7.45%						
7.66%	17-001 ($175.4)	2.98%	7.25%	15.01%	25.21%	38.04%	46.77%	52.12%
7.77%	16-001 ($113.3)	7.15%	16.43%	22.65%	32.90%	40.88%	48.77%	53.80%
7.78%	16-002 ($ 17.5)	7.99%	17.84%	25.48%	32.68%	40.14%	56.76%	61.07%
7.82%	16-004 ($ 38.3)	5.46%	10.03%	19.67%	31.32%	42.79%	51.00%	
7.86%	16-003 ($101.2)	5.10%	10.98%	18.64%	27.39%	39.05%	46.82%	51.84%
7.91%	16-006 ($ 50.0)	6.38%	12.79%	24.14%	36.76%	45.81%	50.90%	
7.98%	16-005 ($249.7)	6.29%	13.64%	22.86%	34.10%	42.90%	49.42%	
8.01%	16-020 ($ 94.4)	15.09%	27.18%	34.59%				
8.04%	16-014 ($ 99.0)	10.75%	23.37%	31.74%	37.61%			
8.06%	17-007 ($108.6)	13.97%	25.52%	32.60%				
8.44%	16-021 ($111.3)	12.79%	25.26%	34.31%				
8.48%	17-008 ($100.0)	10.93%	23.40%	31.19%				
8.50%	17-003 ($191.8)	10.29%	23.92%	34.12%	40.34%			
8.57%	16-012 ($111.2)	13.83%	28.15%	39.09%	46.38%			
8.63%	16-008 ($118.6)	7.85%	22.18%	33.62%	41.69%			
8.63%	17-009 ($202.0)	17.04%	30.60%	39.08%				
8.64%	16-011 ($100.0)	12.59%	27.03%	39.76%	46.86%			
8.70%	16-009 ($109.3)	8.72%	22.33%	34.44%	43.25%			
8.75%	17-002 ($ 99.8)	10.20%	24.94%	35.50%	42.54%			
8.75%	17-011 ($155.8)	19.10%	31.39%	38.54%				
8.75%	17-012 ($201.9)	15.04%	27.89%	34.69%				
8.75%	17-013 ($203.0)	15.94%	28.63%	37.24%				
8.76%	16-022 ($200.7)	12.52%	23.75%	30.45%				
8.78%	17-010 ($ 20.0)	17.63%	36.46%	42.43%				
8.89%	17-020 ($101.8)	6.52%						
8.90%	16-013 ($ 20.0)(c)	9.66%	26.35%	41.07%	46.44%			
8.91%	16-023 ($201.0)	10.01%	21.84%					
8.91%	16-039 ($163.9)	8.83%	16.45%					
8.94%	16-024 ($257.0)	9.78%	21.51%					
8.94%	16-035 ($100.9)	8.14%	16.99%					
8.95%	16-025 ($107.5)	10.86%	23.14%					
8.95%	16-027 ($100.0)	11.67%	22.98%					
8.98%	16-037 ($101.7)	7.90%	17.19%					
8.98%	17-014 ($204.3)	16.57%	27.48%	34.90%				
8.99%	17-015 ($101.8)	8.46%	18.88%	26.40%				
9.01%	16-031 ($306.9)	9.74%	19.99%					
9.01%	16-036 ($156.2)	10.06%	19.95%					
9.02%	16-026 ($308.0)	13.24%	25.50%					
9.03%	16-032 ($202.7)	9.93%	19.03%					
9.03%	16-034 ($200.6)	7.58%	15.96%					

(a) Weighted average mortgage coupon rate of the whole loans, participations and residual participations in various PC groups computed as of a specific time during the calendar year 1979. The coupon rates on some underlying mortgages may be less than the Certificate Rate. See "Purchase Programs—Purchase Prices", pages 10-11, and "The Mortgages", pages 26-27.

(b) Group number digits (000001) and (000000) omitted; ($-) indicates the initial principal balance of the group in millions.

(c) This group was specially formulated to meet specific purchaser requirements.

		Cumulative Principal Payments						
Mortgage Yields (a)	Groups (b)	1st Year	2nd Year	3rd Year	4th Year	5th Year	6th Year	7th Year
9.04%	16-015 ($133.0)	10.17%	24.96%	35.15%				
9.04%	16-028 ($296.0)	11.23%	22.31%					
9.04%	16-033 ($300.9)	8.74%	18.23%					
9.05%	17-018 ($126.7)	7.67%	15.28%					
9.06%	16-038 ($175.8)	8.87%	17.12%					
9.08%	16-030 ($201.2)	13.37%	24.36%					
9.10%	16-016 ($151.4)	14.39%	29.50%	37.47%				
9.12%	16-029 ($237.8)	12.79%	23.53%					
9.12%	16-041 ($108.4)	8.77%	15.87%					
9.12%	17-016 ($120.5)	12.16%	24.28%					
9.13%	16-040 ($202.4)	9.47%	16.21%					
9.16%	16-042 ($152.9)	8.35%	15.83%					
9.17%	17-017 ($125.0)	11.46%	22.22%					
9.18%	16-019 ($100.6)	16.81%	31.12%	40.17%				
9.19%	16-044 ($103.7)	8.34%						
9.19%	17-019 ($100.0)	9.93%	19.26%					
9.20%	16-043 ($157.3)	9.57%	15.54%					
9.24%	16-045 ($176.7)	7.53%						
9.30%	16-010 ($103.3)	12.27%	29.61%	43.27%	51.60%			
9.30%	17-022 ($102.2)	8.14%	15.87%					
9.35%	16-046 ($204.9)	6.78%						
9.36%	16-017 ($ 11.0)(c)	15.92%	35.19%	46.30%				
9.40%	16-047 ($105.4)	6.22%						
9.46%	16-007 ($112.8)	13.32%	29.93%	44.51%	54.77%	60.28%		
9.46%	16-048 ($232.4)	5.73%						
9.46%	17-006 ($102.2)	15.87%	28.96%	39.05%				
9.47%	16-049 ($103.9)	5.01%						
9.47%	16-050 ($136.3)	6.14%						
9.50%	16-051 ($104.6)	4.60%						
9.50%	16-053 ($102.5)	5.77%						
9.56%	16-052 ($107.5)	5.66%						
9.60%	16-055 ($171.8)	5.44%						
9.63%	17-004 ($ 4.0)(c)	14.80%	29.88%	44.74%				
9.68%	16-054 ($188.6)	4.98%						
9.70%	16-057 ($106.2)	4.94%						
9.71%	16-059 ($107.6)	5.04%						
9.80%	16-056 ($256.2)	5.21%						
9.80%	16-058 ($273.0)	5.05%						
9.81%	16-061 ($107.3)	3.29%						
9.83%	16-063 ($287.0)	4.67%						
9.83%	16-066 ($132.0)	5.03%						
9.84%	16-070 ($105.4)	4.52%						
9.85%	16-060 ($102.7)	4.37%						
9.85%	16-062 ($160.4)	4.85%						
9.86%	16-064 ($182.5)	4.54%						
9.86%	16-065 ($102.6)	4.99%						
9.86%	16-073 ($109.6)	5.18%						
9.87%	16-072 ($216.2)	5.77%						
9.88%	16-075 ($128.2)	5.27%						
9.89%	16-067 ($104.2)	4.21%						
9.90%	16-068 ($108.5)	5.66%						
9.91%	16-076 ($123.0)	4.95%						
9.93%	16-069 ($106.9)	4.93%						
9.94%	16-071 ($ 60.8)	8.07%						
9.96%	16-074 ($275.9)	5.31%						

(a) Weighted average mortgage coupon rate of the whole loans, participations and residual participations in various PC groups computed as of a specific time during the calendar year 1979. The coupon rates on some underlying mortgages may be less than the Certificate Rate. See "Purchase Programs—Purchase Prices", pages 10-11, and "The Mortgages", pages 26-27.

(b) Group number digits (000001) and (000000) omitted; ($-) indicates the initial principal balance of the group in millions.

(c) This group was specially formulated to meet specific purchaser requirements.